Registered number
10167668

Achilles Therapeutics UK Limited
(Formerly Achilles Therapeutics Limited)

Annual Report and Consolidated Financial Statements

For the year ended
31 December 2020

210530-0081

Achilles Therapeutics UK Limited
Annual report and consolidated financial statements
Contents

Achilles Therapeutics UK Limited
Company Information

Directors
Iraj Ali
Carsten Boess (resigned 11 January 2021)
Robert Coutts (appointed 11 January 2021)
Derek DiRocco (resigned 11 January 2021)
Michael Giordano (resigned 11 January 2021)
Edwin Moses (resigned 11 January 2021)
Martin Murphy (resigned 11 January 2021)
Karl Peggs (resigned 22 December 2020)
Rogier Rooswinkel (resigned 11 January 2021)

Secretary
Oakwood Corporate Secretary Limited
3rd Floor 1 Ashley Road
Altrincham
Cheshire
WA14 2DT

Auditor
KPMG LLP
2 Forbury Place
33 Forbury Road
Reading
RG1 3AD

Bankers
Barclays Bank PLC
Octagon House
Gadbrook Park
Northwich
Cheshire
CW9 7RB

Solicitors
Goodwin Procter UK LLP
100 Cheapside
London
EC2V 6DY

Registered office
245 Hammersmith Road
London
W6 8PW

Registered number
10167668

Achilles Therapeutics UK Limited, "the Company" and formerly Achilles Therapeutics Limited, was incorporated on 6 May 2016. Achilles Therapeutics US, Inc. was incorporated as a wholly owned subsidiary of the Company on 29 May 2020. These Companies form the Achilles Therapeutics Limited Group, "Achilles" or the "Group". The Directors present their Strategic Report on the affairs of the Group and Parent Company, together with the consolidated financial statements for the year ended 31 December 2020. The comparative figures relate to the three months ended 31 December 2019 due to a change in the accounting year end date in the prior period.

Principal activities

The Group is a clinical stage immuno-oncology biopharmaceutical group developing T-cell therapies to treat multiple types of solid tumours. Achilles is focused on advancing cancer therapies through its pioneering work in the field of tumour evolution and the belief that clonal neoantigens represent the most specific class of cancer cell targets. Achilles's platform enables it to identify mutations formed early in the development of a cancer that give rise to antigens that are expressed by all of a patient's cancer cells but are absent from healthy tissue. This novel class of solid tumour targets is referred to as clonal neoantigens. To identify clonal neoantigens in a patient, Achilles has developed a proprietary bioinformatic platform called PELEUS. This platform employs sophisticated statistical algorithms trained on the unique tumour genetic data derived from Achilles's exclusive license to data from the TRACERx study, which aims to analyse tumour samples from more than 840 non-small cell lung cancer, or NSCLC, patients. Once Achilles has identified the clonal neoantigens its proprietary manufacturing process, VELOS, uses the patient's T-cells and blood-derived dendritic cells to create a Clonal Neoantigen Targeting T-cell therapy, or cNeT, that specifically targets multiple clonal neoantigens to eradicate the tumour. Achilles is currently conducting two open-label Phase I/IIa trials to evaluate its cNeT product candidate, ATL001, in advanced NSCLC and metastatic or recurrent melanoma and expects to report initial data from these trials in the second half of 2022. It is also using its Material Acquisition Platform, or MAP, network, which consists of a network of participating medical facilities, to collect tissue samples from other tumour types, such as head and neck squamous cell carcinoma, or HNSCC, renal cell carcinoma, or RCC, triple negative breast cancer, or TNBC, and bladder cancer, to develop its PELEUS platform to identify clonal neoantigens in these tumour types. Achilles expects to file investigational new drug applications, or INDs, for its earlier stage programs in the second half of 2021, followed by another IND in the second half of 2023. It is expected that these INDs will be for the HNSCC and RCC programs, with HNSCC expected to be the lead program.

Achilles's goal is to become a fully integrated biopharmaceutical group focussed on the development, manufacture and commercialisation of precision clonal neoantigen targeting therapies for multiple solid tumour types. To achieve this, it is pursuing the following strategies:

- Generate proof-of-concept clinical data for its cNeT approach in two lead solid tumour indications;
- expand the cNeT platform into multiple additional solid tumours and earlier lines of therapy;
- continuously develop and innovate the cNeT platform;
- build a scalable, automated manufacturing process;
- and opportunistically collaborate with strategic partners to realise the full potential of its technology.

Since inception in 2016, Achilles has devoted substantially all of its resources to conducting research activities and clinical trials, organising and staffing the Group, business planning, raising capital and establishing its intellectual property portfolio. It has initially focussed on two solid tumour types: advanced NSCLC and metastatic or recurrent melanoma as well as expanding into a range of indications. Achilles does not have any products for sale and has not generated any revenue from product sales. To date, Achilles has principally raised capital through the issuance and sale of its convertible Preferred Shares to outside investors.

General Business Review

Achilles is part of the Achilles Group of Companies including Achilles Therapeutics plc (formerly Achilles TX Limited) and Achilles Therapeutics Holdings Limited. Achilles Therapeutics US, Inc. is a direct subsidiary of Achilles Therapeutics UK Limited for the financial year ended 31 December 2020, together forming the Achilles Therapeutics Limited Group.

During the period the Achilles Group of Companies initiated the process of a corporate reorganisation. The steps that were completed during the year ended 31 December 2020 are as follows:

- the incorporation of Achilles Therapeutics US, Inc. as a wholly owned subsidiary of the Company on 29 May 2020;
- the incorporation of Achilles Therapeutics plc on 18 November 2020, and subsequent incorporation of Achilles Therapeutics Holdings Limited as a wholly owned subsidiary of that entity on 20 November 2020;
- and a share for share exchange agreement between the shareholders of the Company and Achilles Therapeutics plc, pursuant to which Achilles Therapeutics plc become the ultimate parent of the Achilles Group of Companies.

Details of the steps completed in 2021 prior to the signing of the financial statements are disclosed at note 21 in the Notes to the financial statements.

During the period Achilles continued investing in the research and development of these T-cell based therapies advancing the Group's clinical programme in NSCLC and melanoma. On 5 February 2021 it was announced that an Independent Data and Safety Monitoring Committee, or IDSMC, had completed its first review of the ongoing, first-inhuman Phase I/IIa CHIRON (NSCLC) and THETIS (metastatic or recurrent melanoma) trials and recommended that both clinical trials continue as planned. Based on these observations, Achilles plans to increase cNeT doses in the next series of monotherapy patients.

As the Group is in a research and development phase, it does not capitalise these costs and has reported a loss for the financial year ended 31 December 2020 totalling £26.1M. The loss for the period ended December 2019 was £3.3M.

The team that is being built to support this research and development continues to expand, with significant increase in headcount during 2020, and encompasses leading representatives from the fields of scientific research, translational development, specialist GMP manufacturing, clinical operations and business development.

Key Performance Indicators

The Directors and Management regularly review the Group's total liquidity position and gross monthly cash burn as part of the management of overall liquidity, financial flexibility and capital structure. Total liquidity is the total Cash at bank and gross monthly cash burn rate is defined as cash-flows before financing income. At 31 December 2020 the total liquidity position was £130.3M (Dec 2019: £73.5M) and the average monthly cash burn was £2.7M (Dec 2019: £1.5M).

Principal Risks and Uncertainties

The Group's ability to implement its business strategy is subject to numerous material and other risks. These risks include, among others:

- the Group has incurred significant losses since inception, and expects to incur losses over the next several years and may not be able to achieve or sustain revenues or profitability in the future;
- the Group is early in its business development efforts. The business is dependent on the successful development of ATL001 and future product candidates. If Achilles is unable to advance its current programs, additional follow-on indications for ATL001 or any future product candidates into and through clinical trials, obtain marketing approval and ultimately commercialise some, any or all of the product candidates it develops, or experience significant delays in doing so, the business will be materially harmed;
- clinical development involves a lengthy and expensive process with an uncertain outcome, and results of earlier studies and trials may not be predictive of future clinical trial results. There may be substantial delays in clinical trials, and the Group may not be able to conduct or complete clinical trials in the expected timelines, if at all. If its research activities and clinical trials are not sufficient to support regulatory development and approval of some, all or any of its programs for ATL001 or any future product candidates, Achilles may incur additional costs or experience delays in completing, or ultimately be unable to complete, the development of such program or product candidate;
- the Group is highly dependent on the success of its product candidate, ATL001, which was developed based on its PELEUS platform and utilising the VELOS manufacturing process. All future product candidates are based, or will be based, on the same technologies and the failure of ATL001 may adversely affect their development;

- ATL001 or any of our future product candidates may cause undesirable side effects or have other properties that could halt their clinical development, prevent their regulatory approval, require expansion of the trial size, limit their commercial potential, or result in significant negative consequences;
- the Group's approach to the identification and manufacture of product candidates represents a novel approach to cancer treatment, which creates significant challenges. Generation of any cell therapy, including the Group's cNeT, to specifically target the mutations of an individual patient requires several weeks, in part reflecting the need to generate patient-specific genomic data and perform the bioinformatic analyses prior to initiation to manufacture. During the period from procurement of tumour and blood to completion of manufacturing, patients continue to receive standard of care therapies. In cases where disease progression is rapid, clinical deterioration of a patient's condition during the manufacturing period may mean that the patient is no longer able to receive the Group's cNeT;
- the Group has no experience manufacturing ATL001 at commercial scale. Manufacturing and administering ATL001 is complex and there may be difficulties in production. If such difficulties are encountered, the Group's ability to provide supply of its cNeT for clinical trials or for commercial purposes could be delayed or stopped;
- the Group faces substantial competition, which may result in others discovering, developing or commercialising products before or more successfully than we do;
- if the Group fails to comply with its current or future obligation in any agreements under which it may license intellectual property rights from third parties or otherwise experience disruptions to business relationships with future licensors, it could lose license rights that are important to the business;
- and if the Group is unable to obtain and maintain sufficient patent and other intellectual property protection for ATL001 and any future product candidates and technologies, competitors could develop and commercialise products and technologies similar or equivalent to its own, and Achilles may not be able to compete effectively in the market or successfully commercialise any product candidates it develops.

Brexit Risk

On June 23, 2016, the United Kingdom held a referendum in which the majority of voters approved an exit from the EU, or Brexit. After nearly three years of negotiation and political and economic uncertainty, the United Kingdom's withdrawal from the EU became effective on January 31, 2020. There was a transitional period, during which EU laws continued to apply in the UK, however this ended on December 31, 2020. The UK and EU have signed an EU-UK Trade and Cooperation Agreement, which became provisionally applicable on January 1, 2021 and will become formerly applicable once ratified by both the UK and the EU. This agreement provides details on how some aspects of the UK and EU's relationship regarding medicinal procedures will operate, particularly in relation to Good Manufacturing Practice, however there are still some uncertainties.

Since a significant proportion of the regulatory framework in the United Kingdom applicable to the Group's business and its product candidates is derived from EU directives and regulations, Brexit could materially impact the regulatory regime with respect to the development and manufacturing of product candidates in the United Kingdom or the EU, as there is now potential for the UK regulations on medicinal products to diverge from the EU regulations. Following the Brexit transition period a separate process for authorisation of drug products, including product candidates for clinical trials, will be required in the United Kingdom. The Medicines and Healthcare products Regulatory Agency, or MHRA, the UK medicines and medical devices regulator, has published a series of guidance notes on how the process for authorisation of medicines will now work, however exactly what implications this will have in practice remain unclear. For example, this transition may result in delays in importation and export of clinical trial products, and disruption of the supply chain for clinical trial product and final authorised formulations.

The Group intends to continue to manufacture its cNeT product candidates at its two United Kingdom manufacturing sites, the Royal Free Hospital and the Cell and Gene Therapy Catapult. Manufacturing product candidates in the United Kingdom could, now the Brexit transition period has expired, affect the clearance or timing of the release of clinical trial materials out of the United Kingdom. Any such delays could result in clinical trial sites outside of the United Kingdom not having sufficient clinical trial materials and could adversely affect the timing and completion of clinical trials.

COVID-19 Risk

The global COVID-19 pandemic continues to rapidly evolve. The extent to which COVID-19 ultimately impacts the business, results of operations and financial condition will depend on future developments, which remain highly uncertain and cannot be predicted with confidence, such as the ultimate geographic spread of the disease, duration of the outbreak, travel restrictions, new information that may emerge concerning the severity of COVID-19 or the effectiveness of actions taken in the United Kingdom and other countries to contain the pandemic or treat its impact, among others.

In addition, recurrences or additional waves of COVID-19 cases could cause other widespread or more severe impacts depending on where infection rates are highest. We cannot presently predict the scope and severity of any potential business shutdowns or disruptions, but if we or any of the third parties with whom we engage, including the suppliers, clinical trial sites, service providers, regulators and other third parties with whom we conduct business, were to experience prolonged business shutdowns or other business disruptions, our ability to conduct our business in the manner and on the timelines presently planned could be materially or negatively impacted, which could have a material adverse impact on our business, results of operations and financial condition.

Financial Risk Management
The Group's finance department has policies and procedures which are reviewed as operations change in size and nature to manage the Group's exposure to credit, foreign exchange and liquidity risk. The Group has no significant off-balance sheet risk or concentration of credit risk, such as foreign exchange contracts, options contracts, or other foreign hedging arrangements, and currently has no ongoing material financing commitments such as lines of credit or guarantees, that are expected to affect liquidity over the next five years, other than our lease obligations and supplier purchase commitments. To meet its obligations to suppliers in Euro and US Dollar the Group holds sufficient reserves in these currencies. Unrealised foreign exchange gains recognised in the statements total £92,099 in the year ended 31 December 2020 (loss of £201,910 for the period ended 31 December 2019).

Events after the reporting period
As discussed above, during the year ended 31 December 2020 the Achilles Group of Companies initiated a corporate reorganisation. Details of the steps completed prior to the signing of the financial statements have been disclosed at note 21. On 1 March 2021 Achilles Therapeutics plc publicly filed its registration statement on Form F-1 relating to a proposed initial public offering, or IPO, and on 30 March 2021 Achilles Therapeutics plc announced the pricing of its IPO in the United States, beginning trading on The Nasdaq Global Select Market on 31 March 2021. The IPO closed on 6 April 2021 with net proceeds of approximately \$160.5m (£115.5m), in exchange for the issuance of 9,750,000 American Depository Shares, representing 9,750,000 Ordinary Shares in Achilles Therapeutics plc.

This report was approved by the Board on 13 May 2021 and signed on its behalf.

Iraj Ali
Director

Achilles Therapeutics UK Limited
Registered number: 10167668
Group Directors' Report

Directors
The following persons served as Directors during the year:

Iraj Ali
Carsten Boess
Derek DiRocco
Michael Giordano
Edwin Moses
Martin Murphy
Karl Peggs
Rogier Rooswinkel

Consolidation
The Group accounts include Achilles Therapeutics UK Limited and its subsidiary undertaking, Achilles Therapeutics US, Inc..

Political Contributions
Neither the Company nor any of its subsidiaries made any political donations or incurred any political expenditure during the year or prior period.

Statement on dividends
The Directors do not recommend the payment of a dividend for the year ended 31 December 2020 or for the period ended 31 December 2019.

Directors' Indemnities
The Company has made qualifying third-party indemnity provisions for the benefit of its Directors which were made during the year through the directors and officers insurance and remain in force at the date of this report.

Disclosure of information to auditor
In the case of each Director in office at the date the Financial Statements is approved:

- So far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- They have taken all 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 Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Going Concern
The Directors have considered the going concern status of the Group and Parent Company. Further details on this can be found at note 2.3 of the accounting policies.

Auditor
Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

Events after the reporting period
The Directors have considered events that occurred after the reporting period and before signing of the financial statements and considered these events not to have a material impact on the understanding of the financial statements for the year ended 31 December 2020. Further detail on events after the reporting period can be found at note 21 in the Notes to the financial statements.

This report was approved by the Board on 13 May 2021 and signed on its behalf.

Iraj Ali
Director

Achilles Therapeutics UK Limited
245 Hammersmith Road
London
W6 8PW

Achilles Therapeutics UK Limited
Registered number: 10167668
Statement of Directors' responsibilities in respect of the annual report and the financial statements

The Directors are responsible for preparing the Strategic Report, the Directors' Report and the Group and Parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the Group and Parent Company financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

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 the Group's 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 judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Independent auditor's report to the members of Achilles Therapeutics UK Limited

Opinion

We have audited the financial statements of Achilles Therapeutics UK Limited ("the company") for the year ended 31 December 2020 which comprise the Consolidated Profit and Loss Account, Consolidated Statement of Comprehensive Loss, Consolidated Balance Sheet, Consolidated Statement of Changes in Equity, Consolidated Cash Flow Statement and Company Balance sheet and Company Statement of Changes in Equity and related notes, including the accounting policies in note 2.

In our opinion 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 2020 and of the group's loss for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under and are independent of the group in accordance with UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the group or the company or to cease their operations, and as they have concluded that the group and the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

In our evaluation of the directors' conclusions, we considered the inherent risks to the group's business model and analysed how those risks might affect the group and company's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified and concur with the directors' assessment that there is not a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the group or the company's ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the group or the company will continue in operation.

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors, the Audit Committee, and inspection of policy documentation as to the Group's high-level policies and procedures to prevent and detect fraud as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board of Director, Audit Committee, Research and Development Committee and Remuneration Committee meeting minutes.

- Considering remuneration incentive schemes and performance targets of key management personnel and directors.
- Using analytical procedures to identify any usual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and taking into account our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls, in particular the risk that Group management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements such as those used in the determination of the fair value of the share based compensation awards. On this audit we do not believe there is a fraud risk related to revenue recognition because the entity is in the pre-commercialisation stage and no revenues are earned from trading.

We did not identify any additional fraud risks.

We also performed procedures including:

- Identifying journal entries to test for all full scope components based on risk criteria and comparing the identified entries to supporting documentation. These included entries posted to certain accounts or pairings of non-related accounts and review of the specific preparers and reviewers of journal entries.
- Evaluating the business purpose of significant unusual transactions.
- Assessing significant accounting estimates for bias.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, and through discussion with the directors and other management (as required by auditing standards), and from inspection of the Group's regulatory and legal correspondence and discussed with the directors the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Group's license to operate.

We identified the following areas as those most likely to have such an effect: health and safety, anti-bribery, employment law, human medicines legislation, regulatory capital and liquidity and certain aspects of company legislation recognising the financial and regulated nature of the Group's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Strategic Report and Directors' Report

The directors are responsible for the Strategic Report and the Directors' Report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the Strategic Report and the Directors' Report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the Strategic Report and the Directors' Report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006, we are required 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 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.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 9, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; 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 they 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

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

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.

W. Smith .

William Smith (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
KPMG LLP
2 Forbury Place
33 Forbury Road
Reading
RG1 3AD

14 May 2021

Achilles Therapeutics UK Limited
Consolidated Profit and Loss Account
for the year ended 31 December 2020

	Note	Year Ended 2020 £	3 Months Ended 2019 £
Other operating income		1,669	183
Operating expenses		(30,896,871)	(4,229,320)
Group operating loss	**4,5,6**	(30,895,202)	(4,229,137)
Interest receivable	**7**	307,929	105,377
Loss before taxation		(30,587,273)	(4,123,760)
Tax on loss	**8**	4,490,688	825,811
Loss for the financial year		(26,096,585)	(3,297,949)

The Company has elected to take exemption under section 408 of the Companies Act 2006 not to present the individual Company profit and loss account. The loss after tax for the individual Company in the period was £26,101,665 (2019: £3,297,949).

The notes on pages 21 to 34 form part of these financial statements.

All amounts relate to continuing operations.

Achilles Therapeutics UK Limited
Consolidated Statement of Comprehensive Loss
for the year ended 31 December 2020

	Year Ended 2020 £	3 Months Ended 2019 £
Loss for the financial year	(26,096,585)	(3,297,949)
Other comprehensive income		
Foreign exchange differences on translation of foreign operations	(11,008)	-
Total comprehensive loss for the year	(26,107,593)	(3,297,949)

The notes on pages 21 to 34 form part of these financial statements.

Achilles Therapeutics UK Limited
Consolidated Balance Sheet
as at 31 December 2020

	Note		Year Ended 2020 £		3 Months Ended 2019 £
Fixed assets					
Intangible assets	9		76,043		11,696
Tangible assets	10		9,717,285		1,203,631
			9,793,328		1,215,327
Current assets					
Debtors (including £2,001,319 (2019: £0) due after more than one year)	12	9,783,040		4,119,668	
Cash at bank and in hand		130,277,673		73,542,676	
		140,060,713		77,662,344	
Creditors: amounts falling due within one year	13	(10,391,307)		(2,532,019)	
Net current assets			129,669,406		75,130,325
Total assets less current liabilities			139,462,734		76,345,652
Provisions for liabilities					
Asset retirement obligation	14	(477,793)		-	
Net assets			138,984,941		76,345,652
Capital and reserves					
Called up share capital	16		1,234		740
Share premium	16		180,570,838		94,681,892
Profit and loss account	16		(44,433,565)		(18,336,980)
Other reserves	16		2,846,434		-
Shareholders' funds			138,984,941		76,345,652

The notes on pages 21 to 34 form part of these financial statements.

The financial statements of Achilles Therapeutics UK Limited (registered number 10167668) were approved by the Board of Directors and authorised for issue on 13 May 2021. They were signed on its behalf by:

Iraj Ali
Director

Achilles Therapeutics UK Limited
Company Balance Sheet
as at 31 December 2020

	Note		Year Ended 2020 £		3 Months Ended 2019 £
Fixed assets					
Intangible assets	9		76,043		11,696
Tangible assets	10		9,717,285		1,203,631
Investments	11		384,689		-
			10,178,017		1,215,327
Current assets					
Debtors (including £2,001,319 (2019: £0) due after more than one year)	12	9,783,040		4,119,668	
Cash at bank and in hand		129,946,872		73,542,676	
		139,729,912		77,662,344	
Creditors: amounts falling due within one year	13	(10,439,267)		(2,532,019)	
Net current assets			129,290,645		75,130,325
Total assets less current liabilities			139,468,662		76,345,652
Provisions for liabilities					
Asset retirement obligation	14	(477,793)		-	
Net assets			138,990,869		76,345,652
Capital and reserves					
Called up share capital	16		1,234		740
Share premium	16		180,570,838		94,681,892
Profit and loss account	16		(44,438,645)		(18,336,980)
Other reserves	16		2,857,442		-
Shareholders' funds			138,990,869		76,345,652

The notes on pages 21 to 34 form part of these financial statements.

The financial statements of Achilles Therapeutics UK Limited (registered number 10167668) were approved by the Board of Directors and authorised for issue on 13 May 2021. They were signed on its behalf by:

Iraj Ali
Director

Achilles Therapeutics UK Limited
Consolidated Statement of Changes in Equity
for the year ended 31 December 2020

	Called up Share capital £	Share premium £	Capital Redemption Reserve £	Share Based Payment Reserve £	Foreign Currency Translation Reserve £	Profit and loss account £	Total equity £
At 1 October 2019	708	94,681,892	-	-	-	(15,039,031)	79,643,569
Comprehensive income for the period							
Loss for the period	-	-	-	-	-	(3,297,949)	(3,297,949)
Total comprehensive income for the period	-	-	-	-	-	(3,297,949)	(3,297,949)
Transactions with owners, recorded directly in equity							
Issue of shares	32	-	-	-	-	-	32
At 31 December 2019	740	94,681,892	-	-	-	(18,336,980)	76,345,652
Comprehensive income for the year							
Loss for the financial year	-	-	-	-	(11,008)	(26,096,585)	(26,107,593)
Total comprehensive income for the year	-	-	-	-	(11,008)	(26,096,585)	(26,107,593)
Transactions with owners, recorded directly in equity							
Issue of shares	509	86,037,284	-	-	-	-	86,037,793
Issuance costs	-	(148,338)	-	-	-	-	(148,338)
Share-based payment expense	-	-	-	2,857,427	-	-	2,857,427
Cancellation of deferred shares	(15)	-	15	-	-	-	-
At 31 December 2020	1,234	180,570,838	15	2,857,427	(11,008)	(44,433,565)	138,984,941

The notes on pages 21 to 34 form part of these financial statements.

Achilles Therapeutics UK Limited
Company Statement of Changes in Equity
for the year ended 31 December 2020

	Called up share capital £	Share premium £	Capital Redemption Reserve £	Share Based Payment Reserve £	Profit and loss account £	Total equity £
At 1 October 2019	708	94,681,892	-	-	(15,039,031)	79,643,569
Comprehensive income for the period						
Loss for the period	-	-	-	-	(3,297,949)	(3,297,949)
Total comprehensive income for the period	-	-	-	-	(3,297,949)	(3,297,949)
Transactions with owners, recorded directly in equity						
Issue of shares	32	-	-	-	-	32
At 31 December 2019	740	94,681,892	-		(18,336,980)	76,345,652
Comprehensive income for the year						
Loss for the financial year	-	-	-	-	(26,101,665)	(26,101,665)
Total comprehensive income for the year	-	-	-	-	(26,101,665)	(26,101,665)
Transactions with owners, recorded directly in equity						
Issue of shares	509	86,037,284	-	-	-	86,037,793
Issuance costs	-	(148,338)	-	-	-	(148,338)
Share-based payment expense	-	-	-	2,854,568	-	2,854,568
Share-based payment expense in subsidiary entity	-	-	-	2,859	-	2,859
Cancellation of deferred shares	(15)	-	15	-	-	-
At 31 December 2020	1,234	180,570,838	15	2,857,427	(44,438,645)	138,990,869

The notes on pages 21 to 34 form part of these financial statements.

Achilles Therapeutics UK Limited
Consolidated cash flow statement
for the year ended 31 December 2020

	Note	Year Ended 2020 £	3 Months Ended 2019 £
Cash flows from operating activities			
Loss for the year		(26,096,585)	(3,297,949)
Adjustments for:			
Depreciation, amortisation and impairment		600,876	76,658
Equity settled share-based payment expenses		2,857,427	-
Foreign exchange (gain)/ loss		(92,099)	201,910
Interest receivable		(307,929)	(105,377)
Taxation		(4,490,688)	(825,811)
		(27,528,998)	(3,950,569)
(Increase)/decrease in trade and other debtors		(4,256,652)	(81,529)
(Decrease)/increase in trade and other creditors		8,029,327	(143,982)
(Decrease)/increase in provisions		477,793	-
		4,250,468	(225,511)
Tax recovered/ (paid)		3,072,707	(37,936)
Net cash from operating activities		(20,205,823)	(4,214,016)
Cash flows from investing activities			
Interest received		319,190	82,749
Acquisition of tangible fixed assets		(9,149,126)	(137,846)
Acquisition of intangible assets		(76,669)	-
Net cash from investing activities		(8,906,605)	(55,097)
Cash flows from financing activities			
Proceeds from the issue of share capital		86,037,756	32
Expenses paid in connection with share issue		(271,423)	-
Net cash from financing activities		85,766,333	32
Net increase/(decrease) in cash and cash equivalents		56,653,905	(4,269,081)
Cash and cash equivalents at start of period		73,542,676	78,013,667
Effect of exchange rate fluctuations on cash held		81,092	(201,910)
Cash and cash equivalents at end of period		130,277,673	73,542,676

The notes on pages 21 to 34 form part of these financial statements.

1 Company information

Achilles Therapeutics UK Limited (formerly Achilles Therapeutics Limited) is a private company limited by shares and is incorporated and registered in England and Wales. The registered number is 10167668 and the registered address is 245 Hammersmith Road, London, W6 8PW. The business of the Company is research and development in the field of biopharmaceuticals.

Achilles Therapeutics UK Limited is part of the Achilles Group of Companies including Achilles Therapeutics plc (formerly Achilles TX Limited), Achilles Therapeutics Holding Limited and Achilles Therapeutics US, Inc.. Achilles Therapeutics US, Inc., incorporated on 29 May 2020, was a direct subsidiary of the Company as at 31 December 2020. These Companies form the Achilles Therapeutics Limited Group, Achilles or the Group.

2 Accounting policies

2.1 Basis of preparation

These financial statements have been prepared in accordance with applicable United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland' ("FRS 102") and the Companies Act 2006. There were no material departures from that standard.

The Company has taken advantage of the exemption of section 408 of the Companies Act from disclosing its individual profit and loss account.

Achilles Therapeutics plc was incorporated on 18 November 2020. Pursuant to section 391 of the Companies Act, the first financial year end for Achilles Therapeutics plc is the year ended 31 December 2021. These financial statements are therefore not consolidated in the financial statements of the ultimate parent company or any other intermediary holding company for the year ended 31 December 2020.

The Group and Parent Company uses sterling as its presentational and functional currency and all values have been rounded to the nearest pound unless otherwise stated.

2.2 Basis of consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiary undertakings. Acquisitions are accounted for under the acquisition method of accounting and the companies acquired or disposed of are included in the consolidated profit and loss account after or up to the date that control passes respectively. All intercompany transactions, balances, income and expenses are eliminated on consolidation.

2.3 Going concern

The financial position of the Group, its cash flows and liquidity position and borrowing facilities are described in the primary statements and notes to these sets of financial statements.

The Group reported Cash in bank and at hand of £130,277,673 and net current assets of £129,669,406 as at 31 December 2020, with a loss for the year the ended 31 December 2020 of £26,096,585. The Group did not generate positive operational cash flow which was largely due to the continuing focus on the research, development, and clinical activities to advance the programmes within the Group's clinical pipeline.

In assessing the going concern assumptions for a period of at least 12 months from the approval of these financial statements, the Board of Directors has undertaken a rigorous assessment of the forecasts, prepared through to the end of 2022, and identified downside risks and mitigating actions. The downside risks include a number of severe but plausible scenarios incorporating underperformance against the business plan, and delays in cash inflows. As part of considering the downside risks, the Board of Directors have considered the impact of the ongoing coronavirus 2019 ("COVID-19") pandemic. Whilst it is difficult to estimate the impact of the COVID-19 pandemic due to the rapidly changing nature of the pandemic, the cash flow forecasts include the Group's current assumptions, taking into account reasonable plausible downsides. The assumptions include no additional receipts from forecasted milestones for the next 12 months, a reduction in related operational costs and lower discretionary capital expenditures. The Directors consider that the Group will have sufficient funds through existing cash in bank and at hand to meet its continued research and development activities and its liabilities as they fall due.

On 30 March 2021 Achilles Therapeutics plc announced the pricing of its IPO in the United States, beginning trading on The Nasdaq Global Select Market on 31 March 2021. The IPO closed on 6 April 2021 with net proceeds of approximately $160.5m (£115.5m), which will be used to continue to fund the research, development, and clinical activities required to advance the programmes within the Group's clinical pipeline.

Consequently, the Directors are confident that the Group and Parent Company will have sufficient funds to continue to meet its liabilities as they fall due for at least twelve months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

2.4 Research and development

Research expenditure is written off to the profit and loss account in the period in which it is incurred, unless it is a capitalisable cost under the guidance of FRS 102. Development expenditure is written off in the same period unless the directors are satisfied as to the technical, commercial and financial viability of individual projects. In this situation, the expenditure is deferred and amortised over the period from which the Company is expected to benefit.

Where expenditure is deemed to meet the requirements for capitalisation under FRS 102, it is capitalised and amortised in accordance with the useful economic life of that asset.

2.5 Intangible assets

Intangible fixed assets are stated at cost less amortisation. Amortisation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset on a straight line basis as follows:

Software	over 3 years

The Company assesses intangibles for impairment whenever events or changes in circumstances indicate that the carrying value of an intangible may not be recoverable. If any such indication of impairment exists, the Company makes an estimate of the recoverable amount. If the recoverable amount is less than the value of the intangible, the intangible is considered to be impaired and is written down to its recoverable amount. An impairment loss is recognised immediately in the profit and loss account.

2.6 Tangible assets

Tangible assets are carried at cost, together with any incidental costs of acquisition, less depreciation. Cost includes the original purchase price of the asset and any costs attributable to bringing the asset to its working condition for its intended use.

Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the cost, less estimated residual value, of each asset evenly over its expected useful life on a straight line basis, as follows:

Office equipment & computers	over 3 years
Leasehold improvements	over the lease term, or to the first break if exercise is uncertain
Fixtures & fittings	over 5 years
Lab equipment	over 5 years

2.7 Foreign currencies

Transactions in foreign currencies (those other than in sterling) are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated into sterling using the exchange rate at the date of the transaction.

All differences are taken to the profit and loss account in the period in which they arise.

The assets and liabilities of overseas subsidiary undertakings are translated at the closing exchange rate. Profit and loss accounts of such undertakings are consolidated at the average rates of exchange during the period. Gains or losses on these transactions are taken to reserves.

2.8 Share Capital

Ordinary Shares and Preferred Shares are classified as equity. Incremental costs directly attributable to the issue of new Ordinary Shares and Preferred Shares are shown in equity as a deduction, net of tax, from the proceeds.

2.9 Investments

The investment in subsidiaries is measured at historic cost less any accumulated impairment losses. The cost is measured as the nominal value of the shares issued for the acquisition.

A provision is made for any impairment in value. When performing this impairment assessment, the Directors consider whether any events or circumstances have occurred which indicate that the carrying value of the investment in the subsidiary may not be recoverable. If such circumstances exist, a full impairment review is undertaken to establish whether the carrying amount exceeds the higher of net realisable value or value in use. If this is the case, an impairment charge is recorded to reduce the carrying value of the related investment.

2.10 Share-Based Payments

Prior to the share for share exchange agreement on 11 December 2020 the financial effects of awards by the Company of share options and other equity-based awards over its equity shares were recognised as an expense in the profit and loss, with a corresponding credit to the Share Compensation Reserve. The financial effect of awards by the Company's subsidiary, Achilles Therapeutics US, Inc., were recognised as a debit to the investment value of the subsidiary entity, with a corresponding credit to the Share Compensation Reserve. The expense associated with the subsidiary's equity-based awards is recognised in profit and loss for the subsidiary undertaking.

Subsequent to the share for share exchange agreement awards are issued in Achilles Therapeutics plc, which records a capital contribution to the subsidiary investment with a corresponding credit to the Share Compensation Reserve for any share-based payments made. The expense associated with the equity-based awards continues to be recognised in profit and loss for the subsidiary undertaking, in this case Achilles Therapeutics UK Limited, with a corresponding capital contribution to the subsidiary's equity. Accounting treatment within the individual subsidiary is consistent with accounting treatment applied prior to the share for share agreement.

The share-based expense for equity awards is based on the grant date fair value of the award, which may include share options and restricted Ordinary Shares. For equity awards that vest based on a service condition, the share-based compensation expense is recognised on a straight-line basis over the requisite service period. The total amount to be expensed over the vesting year is determined by reference to the fair value of the options granted and assumptions about the number of options that are expected to vest. For equity awards with performance conditions, the Company recognises share-based compensation expense using a straight-line basis over the requisite service period when the achievement of a performance-based milestone is probable, based on the relative satisfaction of the performance condition as of the reporting date. The Company uses the fair value of its Ordinary Shares to determine the fair value of employee shares awarded to employees and directors.

There have been no performance conditions attached to the share options granted by the Company to date. The fair value of each share option grant is estimated on the date of grant using the Black-Scholes option pricing model. Assumptions used in the option pricing model include the following:

Expected volatility. As a private company, the Company lacks company-specific historical and implied volatility information for its Ordinary Shares. Therefore, it estimates its expected share volatility based on the historical volatility of publicly traded peer companies and expects to continue to do so until such time as it has adequate historical data regarding the volatility of its own traded share price.

Expected term. The expected term of the Company's share options has been determined utilising the "simplified" method for awards that qualify as "plain-vanilla" options.

Risk-free interest rate. The risk-free interest rate is determined by reference to the U.S. Treasury yield curve in effect at the time of grant of the award for time periods that are approximately equal to the expected term of the award.

Expected dividend. Expected dividend yield of zero is based on the fact that the Company has never paid cash dividends on Ordinary Shares and does not expect to pay any cash dividends in the foreseeable future.

The Company estimated the fair value of its Ordinary Shares with input from an independent third-party valuation specialist firm. The Company's valuations of Ordinary Shares were prepared using either a market approach based on precedent transactions in the Ordinary and Preferred Shares or a market adjusted equity value method to estimate the Company's total equity value, and using an option-pricing backsolve method, or OPM, to allocate the equity value to each class of the Company's securities. In some cases, the Company determined that there were no significant events occurring between a prior valuation date and a subsequent grant. As such, in these cases the Company used the most recent share price valuation as an input to the determination of share-based compensation.

The OPM backsolve method derives an equity value such that the value indicated for Ordinary Shares is consistent with the investment price, and it provides an allocation of this equity value to each of the Company's securities. The OPM treats the various classes of Ordinary Shares and Preferred Shares as call options on the total equity value of a company, with exercise prices based on the value thresholds at which the allocation among the various holders of a company's securities changes. Under this method, each class of Ordinary Shares has value only if the funds available for distribution to shareholders exceeded the value of the preferred share liquidation preferences at the time of the liquidity event. Key inputs into the OPM backsolve calculation included the valuation of equity, probability weighted expected time to liquidity and volatility.

2.11 Taxation

Tax on the profit or loss for the period comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided in full on timing differences, which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements.

Deferred tax assets are recognised only to the extent that it is probably that future taxable profit will be available against which temporary differences can be utilised. Deferred tax assets and liabilities are not discounted.

2.12 *Employee benefits*

Employee benefit costs, notably holiday pay, are charged to the profit and loss on an accruals basis.

2.13 Operating leases

Rentals paid under operating leases are charged to the profit and loss on a straight line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term.

2.14 Pensions

The Company operates a defined contribution pension scheme for its employees. Contributions are charged to the profit and loss account as they become payable in accordance with the rules of the scheme. Amounts not paid are shown as a liability in the balance sheet. The assets of the plan are held separately from the Company in independently administered funds.

2.15 Financial instruments

The Company only enters into basic financial instruments transactions which result in the recognition of financial assets and liabilities like trade and other debtors and creditors.

Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is charged to the profit and loss account.

For financial assets measured at amortised cost, the impairment loss is measured as the difference between an asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

For financial assets measured at cost less impairment, the impairment loss is measured as the difference between an asset's carrying amount and best estimate, which is an approximation of the amount that the Company would receive for the asset if it were to be sold at the balance sheet date.

2.16 Debtors
Short term debtors are measured at transaction price, less any impairment.

2.17 Creditors
Short term trade creditors are measured at transaction price, less any impairment.

2.18 Interest Receivable
Interest receivable is equal to the interest due from but not received from financial institutions as at the financial year end.

2.19 Asset retirement obligation
As part of its property leasing arrangements, the Company has an obligation to return property to its original condition on completion of the lease. Where the Company has conducted significant leasehold improvements it has an obligation to remove these improvements. The present value of the expected cost is capitalised as part of the leasehold improvement asset. The provision is expected to be utilised at the end of the lease.

2.20 Cash and cash equivalents
Cash and cash equivalents comprise cash and short term deposits. The carrying amount of these assets is approximately equal to their fair value. Cash and cash equivalents at the end of the reporting period as shown in the cash flow statement can be reconciled to the related items in the balance sheet position as shown.

3 Critical judgements and key sources of estimation uncertainty in applying the Group's accounting policies
In the application of the Group's accounting policies, which are described above, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgements that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Fair value of share based compensation
The determination of share based compensation expense requires numerous estimates and judgements. The estimated fair value of the share awards has been determined by a Committee of the Board as of the date of each Ordinary Share/ option grant, with input from a third-party expert.

Clinical accruals
Clinical accruals relate to the status of clinical trial activity at hospitals and clinical research organisations and typically there is a significant delay between the expenditure and the receipt of supplier invoices. When estimating accruals for research and development expenses the Company analyses progress of the preclinical activities or clinical trials, including the phase or completion of services performed relative to invoices received and contracted costs.

4 Expenses and auditor's remuneration

	Group		Company	
	Year Ended 2020 £	Period Ended 2019 £	Year Ended 2020 £	Period Ended 2019 £
Included in profit and loss are the following:				
Depreciation of owned fixed assets	588,555	75,037	588,555	75,037
Amortisation of intangibles	12,321	1,621	12,321	1,621
Operating lease rentals - plant and machinery	55,907	1,860	55,907	1,860
Operating lease rentals - land and building	2,283,700	61,310	2,283,700	61,310
Auditor's remuneration for audit services	147,664	9,001	147,664	9,001
Auditor's remuneration in relation to audit related services	97,500	-	97,500	-
Research and development expenditure	20,856,525	2,476,195	20,860,257	2,476,195
Foreign exchange (gain)/ loss	(92,099)	201,910	(92,099)	201,910

5 Staff costs

	Group		Company	
	Year Ended 2020 £	Period Ended 2019 £	Year Ended 2020 £	Period Ended 2019 £
Wages and salaries	8,020,239	1,239,368	7,978,471	1,239,368
Social security costs	947,737	152,222	942,979	152,222
Defined pension contributions	758,300	119,448	758,300	119,448
Other benefits	106,462	10,845	104,809	10,845
	9,832,738	1,521,883	9,784,559	1,521,883

The amount accrued at year end in relation to defined pension contributions was £0 (2019: £0).

The average monthly number of employees during the period was:

	Group	
	2020 Number	2019 Number
Research and development	99	62
Management and administration	19	11
	118	73

6 Director's remuneration

	Group	
	Year Ended 2020 £	Period Ended 2019 £
Directors' remuneration	581,857	131,228
Amounts receivable under long term incentive schemes	1,106,478	-
Company contributions to money purchase pension plans	8,775	1,975
Amounts paid to third parties in respect of directors' services	65,376	16,344
	1,762,486	149,547

The aggregate of remuneration and amounts receivable under long term incentive schemes of the highest paid director was £1,014,688 (2019: £77,572), and company pension contributions of £8,775 (2019: £1,975) were made to a money purchase scheme on their behalf. During the year, the highest paid director received shares under a long-term incentive scheme.

All Directors are paid though Achilles Therapeutics UK Limited payroll as at 31 December 2020 therefore the above figures are reflective of the Group and Company position.

	Group	
	2020 Number	2019 Number
Retirement benefits are accruing to the following number of directors under:		
Money purchase schemes	1	1
Defined benefit schemes	-	-
	1	1
The number of directors who exercised share options was	-	-
The number of directors in respect of whose qualifying services shares were received or receivable under long term incentive schemes was	5	4
	5	4

7 Interest receivable

	Year Ended 2020 £	Period Ended 2019 £
Bank interest	307,929	105,377
	307,929	105,377

8 Taxation

	Year Ended 2020 £	Period Ended 2019 £
Analysis of charge in period		
Current tax:	(4,490,688)	(825,811)
	(4,490,688)	(825,811)

Factors affecting tax charge for period
The differences between the tax assessed for the period and the standard rate of corporation tax are explained as follows:

	Year Ended 2020 £	Period Ended 2019 £
Loss before tax	(30,587,273)	(4,123,760)
Standard rate of corporation tax in the UK	19%	19%
	£	£
Loss on ordinary activities multiplied by the standard rate of corporation tax	(5,811,582)	(783,514)
Effects of:		
Fixed asset differences	-	-
Expenses not deductible for tax purposes	552,017	87
Adjustments to tax charge in respect of previous periods	61,354	-
R&D tax credit	(3,371,310)	(355,336)
Surrender of tax losses for R&D tax credit refund	1,412,674	-
Adjust closing deferred tax to average rate	-	169,174
Adjust opening deferred tax to average rate	-	(136,231)
Remeasurement of deferred tax for changes in tax rates	(172,848)	-
Deferred tax not recognised	2,839,007	280,009
Total current tax recognised in profit and loss account	(4,490,688)	(825,811)

Based on the shareholder structure the Company is considered to qualify for the R&D tax credit for small and medium sized entities for both the current and prior period.

Factors that may affect future tax charges
The Company has a deferred tax asset of £4,417,208 (Dec 2019: £1,469,205) that it has not recognised due to uncertainty over future profits.

In the 3 March 2021 Budget it was announced that the UK corporation tax rate will increase to 25% from 1 April 2023. The announced UK rate change will not have an impact on the deferred tax assets at the current balance sheet date as there is no deferred tax asset that is recognised in respect of accumulated tax losses on the basis that future trading profits are not sufficiently certain until it is substantively enacted.

Unsurrendered UK tax losses can be carried forward indefinitely to be offset against future taxable profits; however, this is restricted to an annual £5 million allowance in each standalone company or group and above this allowance, there will be a 50% restriction in the profits that can be covered by losses bought forward.

9 Intangible fixed assets

	Software £	Total £
Cost		
At 1 January 2020	19,310	19,310
Additions	76,668	76,668
At 31 December 2020	95,978	95,978
Amortisation		
At 1 January 2020	7,614	7,614
Provided during the period	12,321	12,321
At 31 December 2020	19,935	19,935
Carrying Amount		
At 31 December 2019	11,696	11,696
At 31 December 2020	76,043	76,043

No intangible fixed assets are held within Achilles Therapeutics US, Inc. therefore the above figures are reflective of the Group and Company position as at 31 December 2020.

10 Tangible fixed assets

	Assets Under Construction £	Leasehold Improvements £	Office Equipment £	Laboratory Equipment £	Total £
Cost					
At 1 January 2020	-	330,622	330,368	948,291	1,609,281
Additions	934,763	4,767,558	946,692	2,453,196	9,102,209
At 31 December 2020	934,763	5,098,180	1,277,060	3,401,487	10,711,490
Depreciation					
At 1 January 2020	-	13,053	158,585	234,012	405,650
Charge for the period	-	143,138	152,298	293,119	588,555
At 31 December 2020	-	156,191	310,883	527,131	994,205
Carrying Amount					
At 31 December 2019	-	317,569	171,783	714,279	1,203,631
At 31 December 2020	934,763	4,941,989	966,177	2,874,356	9,717,285

No tangible fixed assets are held within Achilles Therapeutics US, Inc. therefore the above figures are reflective of the Group and Company position as at 31 December 2020.

11 Investments

	Group £	Company £
Cost		
At 1 January 2020	-	-
Additions	-	384,689
Disposals	-	-
At 31 December 2020	-	384,689

Subsidiary Undertakings

Company	Shares held Class	% Holding	Principal Activity
Achilles Therapeutics US, Inc.	Ordinary	100	Research and development and corporate services

Company	Registered Office
Achilles Therapeutics US, Inc.	1209 Orange Street, City of Wilmington, County of New Castle, Delaware 19801, USA

On 29 May 2020, the Company incorporated a new private limited company, Achilles Therapeutics US, Inc. as a wholly owned subsidiary of the Company. Achilles Therapeutics US, Inc. had a profit for the year of £5,031 with a corresponding amount recorded in capital and reserves.

The investment in Achilles Therapeutics US, Inc. has been eliminated on consolidation.

12 Debtors

	Group		Company	
	2020	2019	2020	2019
	£	£	£	£
Amounts owed by group undertakings	1,254,076	-	1,254,076	-
Other debtors	2,893,506	319,164	2,893,506	319,164
Prepayments	1,083,506	666,533	1,083,506	666,533
Corporation tax	4,551,952	3,133,971	4,551,952	3,133,971
	9,783,040	4,119,668	9,783,040	4,119,668

Other debtors includes a balance of £2,001,319 (2019: £0) due after more than year.

13 Creditors: amounts falling due within one year

	Group		Company	
	2020	2019	2020	2019
	£	£	£	£
Trade creditors	4,624,194	679,858	4,624,194	679,858
Amounts owed to group undertakings	-	-	56,546	-
Other taxes and social security costs	263,510	175,483	263,510	175,483
Other creditors	50,417	10,748	50,417	10,748
Accruals	5,453,186	1,665,930	5,444,600	1,665,930
	10,391,307	2,532,019	10,439,267	2,532,019

14 Provisions for liabilities

	Asset Retirement Obligation	Total
	£	£
Balance at 1 January 2020	-	-
Provisions made during the year	477,793	477,793
Provisions used during the year	-	-
Balance as at 31 December 2020	477,793	477,793

The asset retirement obligation wholly relates to works incurred at 245 Hammersmith Road (the Group's Head Office). A corresponding asset has been recognised as part of the leasehold improvement asset, to be depreciated over the duration of the lease. The provision is expected to be utilised on completion of the lease.

No provisions for liabilities are held within Achilles Therapeutics US, Inc. therefore the above figures are reflective of the Group and Company position as at 31 December 2020.

15 Share-based payments

Under the Company's shareholder and subscription agreements, the Company is authorised to grant equity awards to individuals including a director of and/ or a person who is employed who directly or indirectly provides consultancy services to the Company, in the form of D, E, F, G, H, I, J, K, L, M and N ordinary shares (collectively referred to as Employee Shares) and share options.

The Company typically grants incentive shares which vest over a four-year service period with 25% of the award vesting on the first anniversary of the vesting commencement date, with the balance vesting monthly over the remaining 36 months.

Unvested Employee Shares are forfeited upon the termination of employment or service relationship in accordance with the Articles of the Company. The forfeited shares are converted into deferred shares, with a repurchase right for a nominal amount in favour of the Company. As of 31 December 2019, the Company had not repurchased any shares. During the year ended 31 December, 2020, the Company repurchased 1,509,384 deferred shares for the consideration of £0.01 for all the deferred shares held by that holder.

Details of the employee shares outstanding during the year are as follows:

	2020		2019	
	Number of unvested Ordinary Shares	Weighted average grant date fair value	Number of unvested Ordinary Shares	Weighted average grant date fair value
Outstanding at beginning of the year	6,840,401	£0.52	3,282,750	£0.00
Granted during the year	9,044,513	£1.62	5,379,259	£0.69
Vested during the year	(2,953,363)	£0.70	(901,174)	£0.00
Deferred during the year	(548,041)	£0.72	(920,434)	£0.21
Outstanding at the end of the year	12,383,510	£1.27	6,840,401	£0.52

Details of the share options outstanding during the year are as follows:

	2020		2019	
	Number of share options	Weighted average exercise price	Number of share options	Weighted average exercise price
Outstanding at beginning of the year	-	-	-	-
Granted during the year	952,550	£1.25	-	-
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	-	-
Outstanding at the end of the year	952,550	£1.25	-	-
Exercisable at the end of the year	94,375	£1.15	-	-

The weighted average grant-date fair value of share options granted during the year ended 31 December 2020 was £0.90 per share. There were no share options granted during the year ended 31 December 2019. The Company estimated the fair value of its Ordinary Shares with input from an independent third-party valuation specialist firm. The Company's valuation of Ordinary Shares were prepared using either a market approach based on precedent transactions in the Ordinary and Preferred Shares or a market adjusted equity value method to estimate the Company's total equity value, and using an option-pricing backsolve method, or OPM, to allocate the equity value of each class of the Company's securities.

To date, the only non-cash share based compensation issued has been in the form of employee shares. The valuation of share based compensation is discussed at Note 2.10.

The Company recognised total share based expenses of £2,857,427 in 2020. The share based expense is based on the grant date fair value of the award, which may include share options and restricted Ordinary Shares. The share based compensation expense for equity awards is recognised on a straight line basis over the requisite service period. The total amount to be expensed over the vesting year is determined by reference to the fair value of the options granted and assumptions about the number of options that are expected to vest.

There have been no performance conditions attached to the share options granted by the Company to date. The fair value of each share option grant is estimated on the date of grant using the Black-Scholes option pricing model.

16 Called up share capital

Called up share capital	Nominal value	2020 Number	2019 Number	2020 £	2019 £
Allotted, called up and fully paid:					
Series A Preferred Shares	£0.00001	28,250,000	28,250,000	282	282
Series B Preferred Shares	£0.00001	52,192,070	34,794,714	522	348
Series C Preferred Shares	£0.00001	24,412,603	-	244	-
B Ordinary shares	£0.00001	2,000,000	2,000,000	20	20
D Ordinary shares	£0.00001	616,940	668,062	6	7
E Ordinary shares	£0.00001	316,786	328,911	3	3
F Ordinary shares	£0.00001	1,295,806	1,391,074	13	14
G Ordinary shares	£0.00001	769,319	823,566	8	8
H Ordinary shares	£0.00001	352,172	384,407	4	4
I Ordinary shares	£0.00001	191,669	215,518	2	2
J Ordinary shares	£0.00001	1,040,559	1,205,049	10	12
L Ordinary shares	£0.00001	4,792,671	3,205,229	48	32
M Ordinary shares	£0.00001	3,218,621	-	32	-
N Ordinary Shares	£0.00001	3,965,182	-	40	-
Deferred Shares	£0.00001	-	802,780	-	8
		123,414,398	74,069,310	1,234	740

During November 2020, the Company achieved its Series B second closing milestone and issued an additional 17,397,356 shares of £0.00001 par value each at a purchase price of £1.916 per share.

During November 2020, the Company issued 24,412,603 shares of Series C of £0.00001 par value each at a purchase price of £2.1589 per share.

On 11 December 2020 the Company repurchased 1,509,384 Deferred Shares for an aggregate purchase price of £0.23 being £0.01 to each holder of Deferred Shares for all of the Deferred Shares held by that holder. These Deferred Shares were subsequently cancelled with the cancelled balance being recognised in the Equity Reserve.

On 11 December 2020, the Company entered into a share for share agreement with the shareholders of Achilles Therapeutics plc, under which Achilles Therapeutics plc acquired 100% of the issued share capital of Achilles Therapeutics UK Limited in exchange for the issue of shares in Achilles Therapeutics plc. Pursuant to the share for share exchange Achilles Therapeutics plc became ultimate parent company to Achilles Therapeutics UK Limited. There was no change in the structure of the Called up share capital of the Company as a result of this transaction.

All share classes rank pari passu in all respects other than in preference on liquidation or return of capital and voting rights: on a liquidation or return of capital, Preferred Shares receive an amount equal to the Preference Amount (as such term is used in the Company's currently in force articles of association), ranking ahead of all other classes of shares, and Series A Preferred, Series B Preferred, Series C Preferred and Ordinary B Shares are the only classes of shares which have voting rights attached. N Ordinary Shares are subject to a hurdle amount of £0.95 per share.

17 Share premium reserve

Share premium is the excess of the consideration paid for the shares over the nominal value net of issue costs. The profit and loss account states all current and prior period retained profits or losses.

18 Operating lease arrangements

At the balance sheet date, the company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2020	2019
	£	£
Not later than one year	3,425,670	44,749
Later than one year and not later than five years	9,721,125	3,776
	13,146,795	48,525

The operating lease payments relate to rent for premises, laboratory equipment and IT equipment. The leases range in length from 6 months to 5 years. During the year £2,339,607 (2019: £63,170) was recognised by the Group as an expense in the profit and loss account in respect of operating leases.

There are no non-cancellable operating leases within Achilles Therapeutics US, Inc. therefore the above figures are reflective of the Group position as at 31 December 2020.

19 Supplier purchase commitments

Supplier purchase commitments at year-end were £1,468,319 (2019: £302,037).

The amounts disclosed reflect commitments for costs associated with certain vendors with which we engaged to provide clinical trial materials and service commitments.

20 Related party transactions

During the year, £230,327 (Dec 2019: £66,457) was charged to the Company by directors in respect of fees and various business expenses recharged. These are costs charged for services rendered at market related costs and are payable on invoicing. At the year end a creditor balance of £5,674 was owing (Dec 2019: £11,920).

During the year, £205,833 (Dec 2019: £60,130) was charged to the Company by founders of the business who have a share interest in the company. These are costs charged for services rendered at market related costs and are payable on invoicing. At the year end a creditor balance of £7,083 was owing (Dec 2019: £10,000) and an accrual of £35,833 (Dec 2019: £37,083) was also included in the financial statements for consulting fees not yet invoiced in relation to costs charged by founders.

As at year end, an amount of £1,254,076 (2019: £0) was owed by Achilles Therapeutics plc in respect of costs incurred by the Company, recharged to that entity. This cost is wholly included in the intercompany receivable balance as at the year end and is payable on invoicing.

21 Events after the reporting period

On 11 January 2021 Carsten Boess, Derek DiRocco, Michael Giordano, Edwin Moses, Martin Murphy, Karl Peggs and Rogier Rooswinkel resigned as directors of the Company.

On 11 January 2021 Robert Coutts was appointed as a director of the Company.

On 11 January 2021 the name of the Company was changed from Achilles Therapeutics Limited to Achilles Therapeutics UK Limited.

In February 2021, the Company renewed six agreements with Stevenage Bioscience Catalyst to lease office and lab suites at Gunnels Wood Road, Stevenage Hertfordshire with a break after 6 months. All six leases will expire on 31 July 2022.

The following events relate to the corporate reorganisation disclosed in the Strategic Report:

On 8 February 2021 the Company undertook a capital reduction by way of solvency statement pursuant to which it cancelled its share premium account, creating additional distributable reserves of £180,570,838. This step was undertaken to create sufficient distributable reserves to allow the distribution of Achilles Therapeutics US, Inc. by way of dividend-in-specie to Achilles Therapeutics Holdings Limited.

On 26 February 2021 Achilles Therapeutics Holdings Limited entered into a share for share exchange agreement with the shareholders of Achilles Therapeutics plc, under which it acquired 100% of the issued share capital of Achilles Therapeutics UK Limited in exchange for the issue of shares in Achilles Therapeutics Holdings Limited. Achilles Therapeutics plc remained the ultimate parent and controlling party of the Company following this transaction.

On 26 February 2021 Achilles Therapeutics US, Inc. was distributed by the Company by way of dividend-in-specie to Achilles Therapeutics Holdings Limited. The investment value in Achilles Therapeutics US, Inc. was £391,802 at the date of the distribution.

On 1 March 2021 Achilles Therapeutics plc publicly filed its registration statement on Form F-1 relating to a proposed initial public offering, or IPO, and on 30 March 2021 Achilles Therapeutics plc announced the pricing of its IPO in the United States, beginning trading on The Nasdaq Global Select Market on 31 March 2021. The IPO closed on 6 April 2021 with net proceeds of approximately $160.5m (£115.5m), in exchange for the issuance of 9,750,000 American Depository Shares, representing 9,750,000 Ordinary Shares in Achilles Therapeutics plc.

22 Ultimate controlling party

Achilles Therapeutics plc, a company incorporated and registered in England and Wales, was the Company's immediate parent undertaking as at 31 December 2020. Following a corporate restructure, Achilles Therapeutics Holdings Limited became the immediate holding company of Achilles Therapeutics UK Limited and Achilles Therapeutics US, Inc. on 26 February 2021.

Achilles Therapeutics plc is the ultimate parent and controlling party of the Achilles Group of Companies. Its registered address is 245 Hammersmith, London, W6 8PW, UK. There is no other immediate or ultimate controlling party.

Pursuant to section 391 of the Companies Act the first financial year end for Achilles Therapeutics plc is the year ended 31 December 2021. The consolidated financial statements of the ultimate parent group are therefore not available to the public for the year ended 31 December 2020.