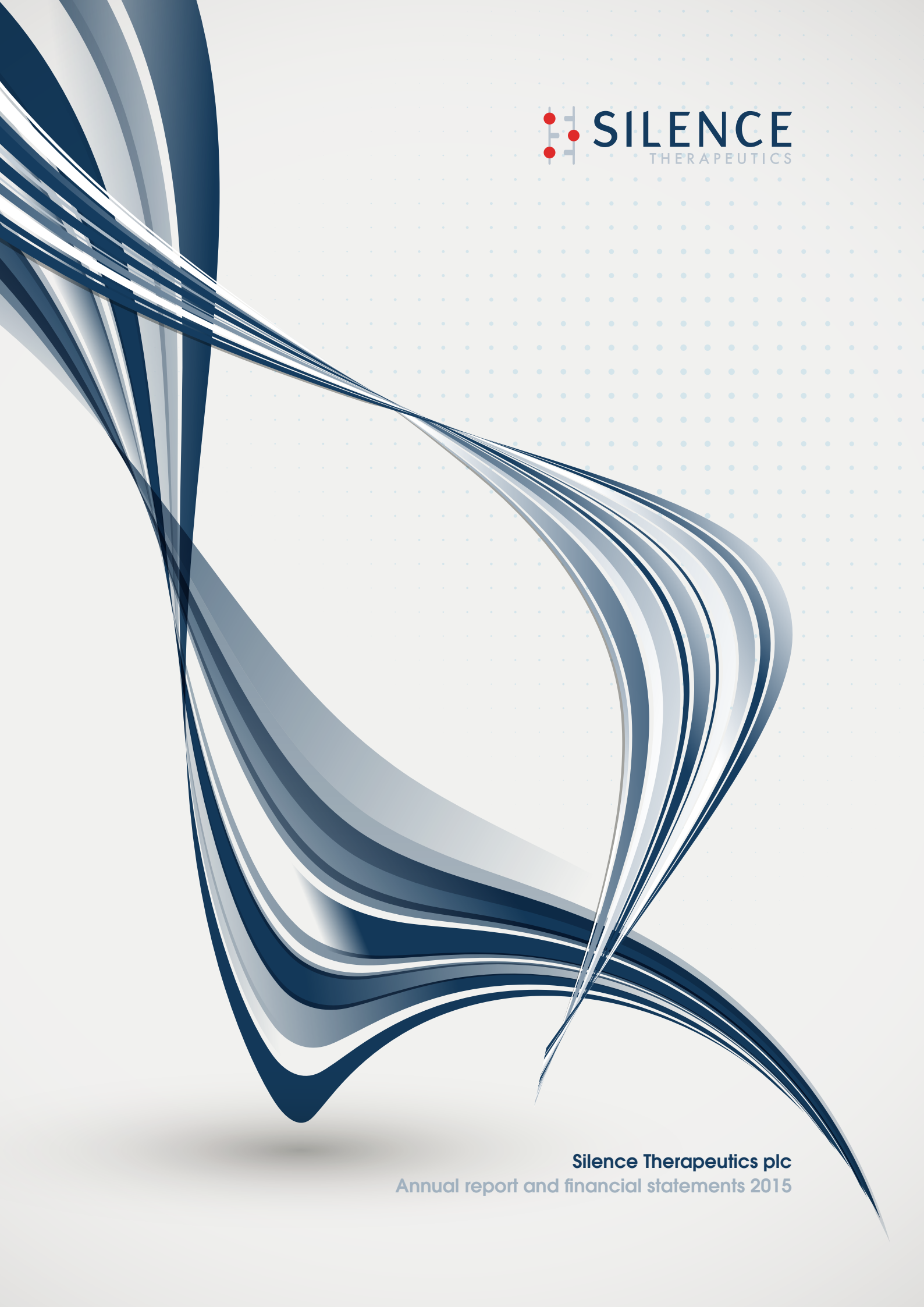


Silence Therapeutics plc

Annual report and financial statements 2015

Silence Therapeutics is a leading RNA technology company.

CONTENTS

Introduction

Our technology harnesses the body's natural mechanisms to create therapeutic effects within its own cells. This technology can selectively silence or replace any gene in the genome, modulating gene expression up as well as down in a variety of organs and cell types.

We have developed proprietary modifications to improve the robustness of RNA sequences, together with advanced liposomal and conjugated chemistries to enhance the delivery of therapeutics. This allows the development of therapeutics for diseases with high unmet medical need.

HIGHLIGHTS

During the year

- In the preliminary analysis of the Phase 2a trial in pancreatic cancer, Atu027 in combination with gemcitabine showed a good safety profile and early signs of efficacy
- US patent granted in December 2015, covering broad modifications of short interfering RNA (siRNA) molecules
- Encouraging proof of concept data obtained in animal models of pulmonary arterial hypertension (PAH) with our lung delivery system DACC targeting a validated gene
- Improved messenger RNA (mRNA) delivery to liver by 20 fold and translation to non-human primates (NHP) achieved
- Equity placing in April 2015 raised net proceeds of £38.9m
- Loss after tax for the period of £6.6m (2014: £11.1m)
- Net cash and cash equivalents of £51.9m at 31 December 2015 (2014: £21.9m)

Post year end events

- Atu027 Phase 2a trial met its primary endpoint. The follow up data showed consistent overall survival (OS) with the progression free survival (PFS) announced in the preliminary report in May 2015 (see separate release)
- Licensee Quark Pharmaceuticals initiated in Phase 3 and Phase 2 trials in delayed graft function (DGF) and acute kidney injury (AKI). First patient dosing confirms their financial commitment to two full trials
- Excellent results in GalNAc conjugated siRNA activity using an in house linker design
- Promising therapeutic benefit obtained in a PAH animal model using DACC to target a novel gene
- The role of PKN3 (Atu027's target gene) in metastasis was validated by an independent publication presenting significant business development opportunities
- Legal opinions support our recently awarded US patent covering nucleotide modifications at the 2' position. AtuRNAi® is now a significant value driver for the Company
- Arbitration proceedings instigated against licensee Quark Pharmaceuticals for a $3m milestone payment
- Continued discussions with US company to negotiate an AtuRNAi® licence for a single product

Chairman's statement

2015 proved to be an eventful year for your Company, in which we have undertaken significant restructuring and strengthening of most aspects of the Company, from the Board downwards.

We have attracted significant levels of new funding, led by Invesco and Woodford, and well-supported by existing investors.

Overview

2015 proved to be an eventful year for your Company, in which we have undertaken significant restructuring and strengthening of most aspects of the Company, from the Board downwards. Most notably, we have attracted significant levels of new funding, led by Invesco and Woodford, and being well-supported by existing investors which, for the first time in the Company's history, has enabled us to put in place longer-term goals and start to build the necessary structure to achieve them. The Phase 1/2a trial of Atu027 in pancreatic cancer has continued to run, with final data becoming available in April 2016. Our IP position was strengthened significantly with the granting of a US patent giving us protection for modifications to RNA over much shorter base lengths than previously; we expect that this development will lead to a significant increase in outlicensing opportunities.

During 2015 we restructured the head office in London, moving into a more modern office and strengthening several key functions, including Finance and Business Development. We undertook a significant review of strategic priorities and research strategy, increasing resources in key areas in the field of conjugation chemistry and mRNA. We continue to recruit experienced scientists in these fields in our Berlin laboratories and we have made significant progress with GalNAc-conjugated delivery of siRNAs. The priority is to apply this to build a broad pipeline, covering delivery to the liver as well as our existing strength of liposomal delivery to the vascular system within organs such as the lung, which is a unique position in the field.

mRNA therapeutics is an extremely promising prospect, which our existing strengths in liposomal delivery make us well-suited to exploit. We are starting to see good progress in research in this field and are hopeful of significant development through 2016.

There were several significant management changes in the period. In July 2015 we announced that our Chief Executive, Ali Mortazavi, was obliged to take a period of compassionate leave and that, in his absence, the Chairman, Dr Alastair Riddell would switch from a Non-Executive to an interim Executive Chairman role. Happily, Ali's family crisis resolved and he returned to the Company in September, at which stage Dr Riddell chose to retire from the Board and I was appointed in his place. Since September, we have been pleased to welcome Alistair Gray to the Board and to Chair the Audit Committee. In January 2016, Dr Simon Sturge retired from the Board following his appointment as Chief Operating Officer of Merck Healthcare, based in Darmstadt, Germany. Ali and I have been working closely together to refine our strategy, determine the short-term goals and to recruit excellent people to drive us to meet both short-term and strategic targets of a balanced product pipeline taking full advantage of our strong technology platform.

On behalf of the Board of the Company, I would like to thank our shareholders for their continued support and input to the development of Silence in 2015 and into the future. As a Board, we are committed to maximising the value of the Company and hence the value to shareholders.

Looking forward

As a Board we are excited about 2016 and beyond, as we look to translate our preclinical excellence today into clinical results and products in the future. We look forward very positively to the development of our pipeline and business, and to translating that into growth in shareholder value.

Dr Stephen Parker
Non-Executive Chairman

29 April 2016

Silence Therapeutics at a glance

The prospects for Silence have never been greater than today. RNA therapeutics has made significant technological strides and is now able to attract enough capital to transition its technology to the clinic.

ABOUT US

Gene silencing

- Patented RNA interference (RNAi) platform, known as AtuRNAi®
- Proprietary modifications to improve the robustness of RNA sequences

Delivery systems

- Deliver both short interfering RNA (siRNA) and messenger RNA (mRNA)
- Strong potential with other payloads including microRNA and gene editing tools such as CRISPR/CAS9

Research and development

- Building a Technology Strategy Board to help achieve gold standard drug development
- Collaborations with world leading research institutions to develop most promising drug candidates
- Internal algorithm for cost effective preclinical drug development with clear go/no-go milestones

Gene replacement

- New mRNA technology replaces gene expression where it is missing
- mRNA delivery produces therapeutic levels of protein in preclinical *in vivo* animal models
- Potential to be used in genetic deficiencies, vaccines and infectious diseases

Clinical stage

- Completed Phase 2a study in metastatic pancreatic cancer using Atu027 in combination with gemcitabine
- Safety and tolerability of AtuRNAi® well established with over 400 patients dosed so far
- Licensee Quark Pharmaceuticals Inc. begins Phase 3 study in delayed graft function (634 patients) and Phase 2 in acute kidney injury (340 patients)

Cash resources

- £51.9m cash and cash equivalents at 31 December 2015 (2014: £21.9m)

Our business

OUR GENETIC TOOLKIT

Silence Therapeutics has a genetic toolkit with our own therapeutic payloads to modulate gene expression up as well as down in preclinical *in vivo* models, and unique delivery systems for a variety of organs and cell types.

Our technology

We have developed proprietary modifications to improve the robustness of RNA sequences, together with advanced liposomal chemistries to enhance the delivery of therapeutic RNA molecules. Our technology can selectively silence or replace the expression of virtually any gene in the genome, modulating expression up as well as down in a variety of organs and cell types, *in vivo*.

This allows the development of therapeutics for diseases with high unmet clinical need. Silence's technology is currently in the clinic in a Phase 2a pancreatic cancer trial.

RNA interference

RNA is one of the two types of nucleic acids found in all cells – the other being DNA. RNA is the messenger that takes a copy of the genetic information stored in DNA within a cell's nucleus and translates it into instructions for the manufacture of proteins in that cell.

RNAi is a method of regulating or 'silencing' gene expression. This technology can be engineered to selectively silence potentially any gene in the genome, preventing the overexpression of that gene and reducing the production of disease-causing proteins.

Our patented RNAi platform is known as AtuRNAi®. It is based on specific, proprietary siRNA modules, stabilisation technology and exclusive tailored features. siRNA requires delivery systems in order to enable it to enter into target cells within the body. Silence has delivery systems targeting the liver and the endothelium.

Messenger RNA

Messenger RNA (mRNA) delivery can stimulate production of target proteins in conditions where they are low or missing.

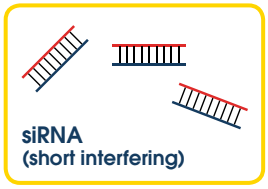
This way, improved gene expression is achieved without having to make permanent changes to the genome, reducing safety concerns. It has potential uses in genetic deficiencies, vaccines and infectious diseases.

We have demonstrated our ability to deliver functional mRNA *in vivo* and are actively exploring new opportunities in this space.

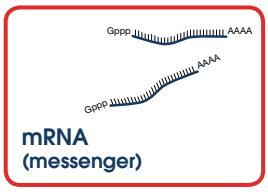
We have an international network of leading research collaborators, who are central to developing our technology and programmes.

Payload	+	Delivery system	+	Translation	=	Development programme

Payload



siRNA
(short interfering)



mRNA
(messenger)

Gene editing payloads
(CRIPSR/Cas9, ZFN)

Delivery system

Translation

SILENCE THERAPEUTICS

Imperial College London

University of Oxford

Universität Rostock

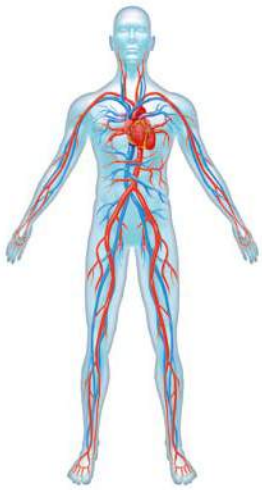
MHH Medizinische Hochschule Hannover

IDIBAPS

CHARITÉ

JGU Johannes Gutenberg Universität Mainz

Development programme



Chief Executive's review

2015 was a difficult year for the biotechnology sector globally but a significant one for Silence Therapeutics.

In a turbulent year for drug development globally, good progress has been made in new delivery systems.

2015 was a challenging year for the biotechnology sector globally but a significant one for Silence Therapeutics. Modulating gene expression on and off *in vivo* remains a difficult technical challenge. However, for the first time in its history, the Company has both a combination of world leading technologies and the balance sheet to create a unique and truly world class biopharma company.

We believe we are making material improvements in new delivery systems as seen in the progress we have made in GalNAc siRNA conjugates. The ability to mediate RNAi in the liver subcutaneously as opposed to an invasive intravenous injection opens up entirely new indications which were not accessible to a liposomal system.

In addition to progress in delivery, our proprietary siRNA chemistry AtuRNAi® has been strengthened with the granting of a new US patent. Although parts of our patent estate start to expire in 2023, the importance of our chemical modification technology is being realised as siRNA pipelines are maturing. We now expect to be able to capitalise on our intellectual property which was first filed in 2003.

With the commencement of the Quark trials, the approach from a potential licensee and the significant broadening of the AtuRNAi® patent estate, we are of the belief that these opportunities alone could be very significant relative to the current size of the Company.

Overview

In a turbulent year for drug development globally, good progress has been made in new delivery systems. In addition, we have successfully completed our Atu027 Phase 2a pancreatic cancer trial, meeting its primary endpoint. Despite good technological advancements, senior hires and execution of the research plan could have been more efficient. We are committed to hiring highly motivated and capable leaders across the organisation and are aggressively addressing this issue in 2016.

Atu027

The preliminary results of the Atu027-I-02 Phase 2a study did not identify any safety issues with the combination of Atu027 with gemcitabine in pancreatic cancer. In addition, patients exposed to a 33% higher dose of Atu027 (arm 2) presented a longer median duration of progression free survival (PFS): 5.33 months compared to 1.81 months for those on the lower Atu027 exposure regimen (arm 1). A post-hoc analysis of patients with metastatic pancreatic cancer showed a median PFS of 1.61 for arm 1 vs. 2.89 months for arm 2 (p=0.0247) which is statistically significant.

We are committed to hiring highly motivated and capable leaders across the organisation and are aggressively addressing this issue in 2016.

The current analysis, including the follow up data, showed that subjects in the higher dosed arm (arm 2) of the study had a median overall survival (OS) of 7.79 months compared to 5.62 months for the lower dose (arm 1, p=0.61), with 35% of patients being censored. For the metastatic group only, the median OS in the higher dosed group was 6.74 months compared to 3.29 (p=0.6) for the lower dose group, with 26% of patients being censored.

Separately, the importance of PKN3 in metastatic progression was validated during the period by a third party in a peer reviewed publication. Further Atu027 preclinical work to optimise effective PKN3 targeting is planned and we believe that this validation of our target could lead to business development opportunities.

Patent award

In December 2015, the Company was granted a new US patent (9,222,092). This addition to the Company's existing patent portfolio considerably strengthens its position with far broader claims that cover several nucleotide modifications at the 2' position and require shorter modified stretches than claimed in our previous patents. Further claims yet are being sought.

Since the granting of this patent and separately to the above licensing discussions, the Company has received advice from three separate law firms indicating that the issued claims potentially capture other development stage siRNA candidates.

We have invited and hereby invite any companies that are developing modified siRNA candidates that fall within the claims of our patents to enter into licensing negotiations with us.

GalNAc conjugation

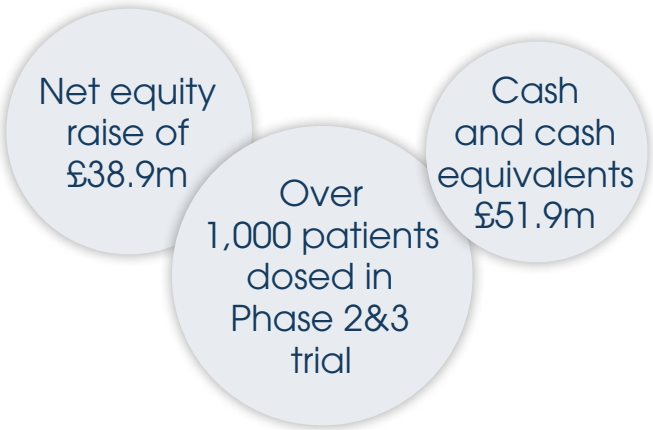
During the period, Silence has increased investment in conjugation chemistry. In particular, substantial progress has been made in GalNAc conjugated siRNA for liver delivery. GalNAc conjugation allows receptor-mediated siRNA delivery to hepatocytes using less complex technology than liposomal nanoparticles, which has the important advantage of being administered subcutaneously rather than intravenously. This difference opens up new therapeutic areas.

We have obtained encouraging functional data using our own linker design to bind the targeting ligand (GalNAc) to the siRNA cargo: 80% knockdown was achieved in mRNA levels of a tool target with a 1mg/kg dose. Approximately 50% mRNA knockdown was observed 28 days after a single dose of 2mg/kg. We believe that the potency observed is competitive relative to our peers.

In light of this development, those 'multiple shots at goal' projects better suited to GalNAc will be transitioned to this technology. Material achievements in GalNAc over a short period of time will result in the liver being a major focus for Silence going forward. Consequently, we are actively hiring experts in this space.

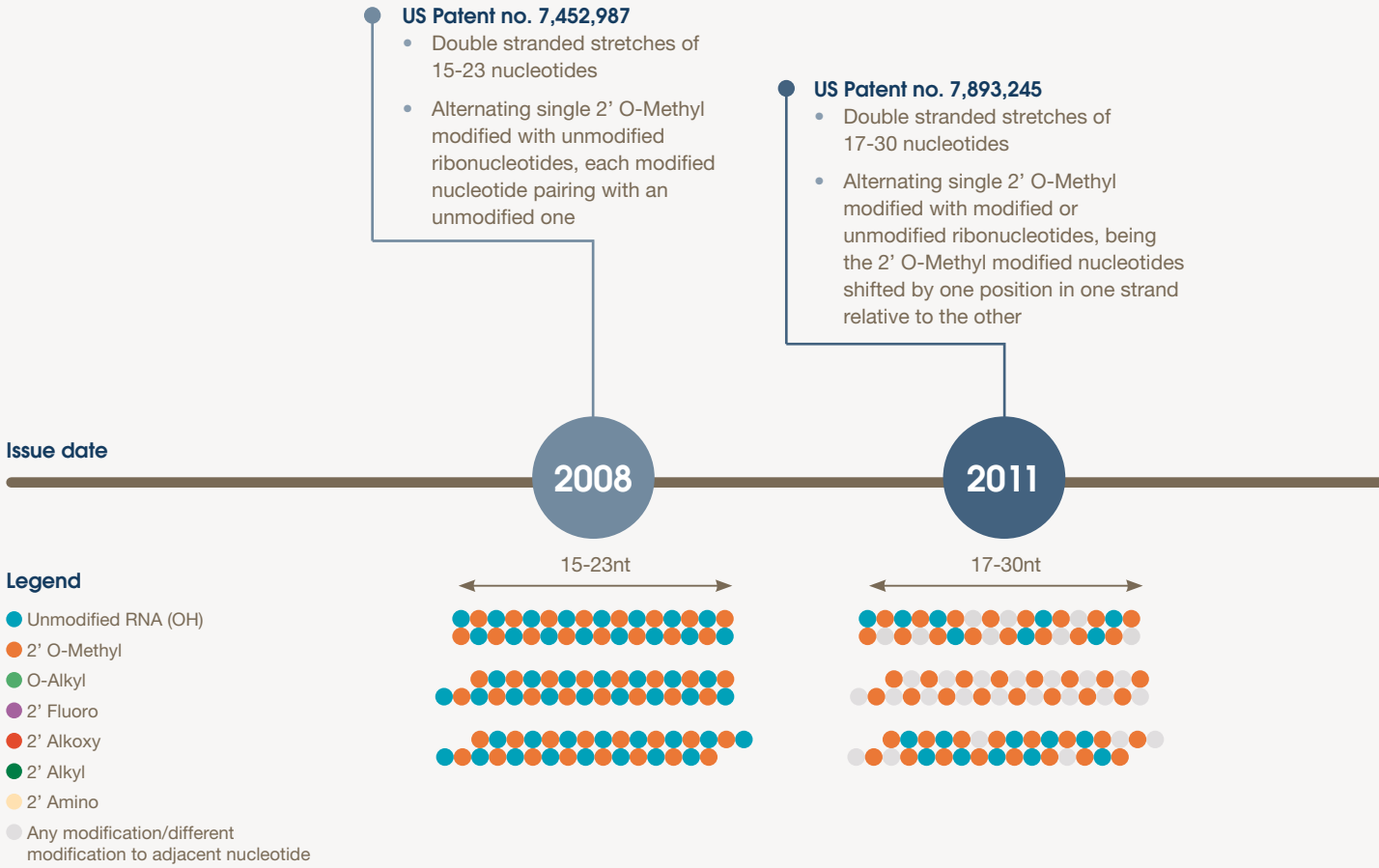
Liposomal siRNA delivery

Also in siRNA delivery, our liposomal systems targeting the vasculature continue to be optimised as we aim to maximise potency. Our lung targeted system (DACC) has shown promising proof of concept results in representative mouse models of pulmonary arterial hypertension, targeting both a validated and a novel gene. In both experiments, the therapeutic benefit was measured by a reduction in right ventricle systolic pressure (RVSP) as well as a reduction in pathologic pulmonary vessel remodelling.



Chief Executive's review continued

Timeline



mRNA therapeutics

The Company has improved its mRNA delivery capabilities, mainly for liver delivery, achieving a 20 fold increase in protein production from the delivered mRNA cargo in mice. In addition, our mRNA technology has successfully translated to higher species, showing activity in NHP. Progress in optimising our mRNA delivery capabilities will be key to enabling both protein replacement and gene editing applications. Initial *in vivo* CRISPR/Cas9 studies have begun.

Construct engineering is being explored in parallel in order to optimise mRNA stability and improve the tolerability profile. We are actively investigating indications in this area.

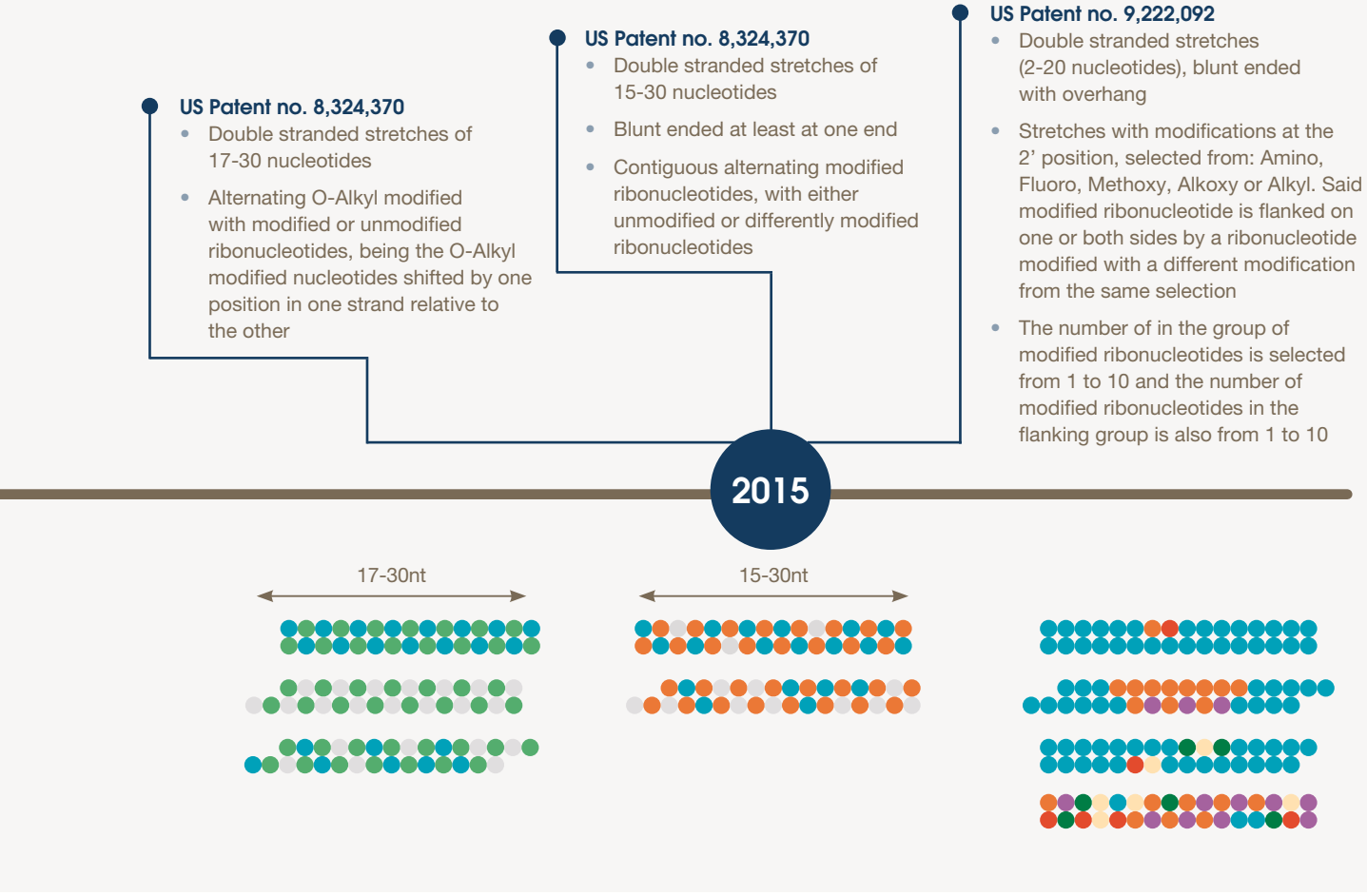
Licensing

Silence is pleased to announce the progress of two of our licensee's clinical programmes into a pivotal Phase 3 for delayed graft function and a Phase 2 for acute kidney injury. First patients have now been dosed and we will be giving guidance as to the potential financial value of these trials to Silence.

According to the out-licensing deal terms and because of Quark's arrangements with its partner Novartis, we believe that Silence is now due $3m, equating to a 15% milestone payment. After numerous unsuccessful attempts at resolving this issue with Quark, we have decided to instigate arbitration proceedings and will update the market accordingly. We remain confident of our case but no revenue has been recognised in the year due to the uncertainty.

However, Quark has confirmed in writing that it will honour its financial obligations to Silence should both these trials come to a successful conclusion. Silence is entitled to 15% of all sub-licence revenues from Novartis. In 2010, Quark announced potential milestones of up to $650m from Novartis beyond the $30m already received. Silence's direct licence with Quark, in the absence of Novartis, sets out milestones of up to €2.5m on approval and launch, with royalties of 4%.

After initial discussions in 2013, the Company has again been approached by a US company for a licence for a clinical product. As in the case of Quark, the licence is for the use of the critical chemical modifications of AtuRNAi to enable the safe transit of the siRNA into a target cell. We continue to discuss terms with this company. In light of the



fact that these licensing negotiations have started late in the development of the US company's candidate and the absolute requirement of AtuRNAi® to be the therapeutic agent, we believe that we are in a strong position to secure robust financial terms. We will update the market accordingly.

Board changes and Technology Advisory Board

Lars Karlsson stepped down as Head of Research from the Board. Silence is seeking a new Head of Research, which is a challenging task in a highly specialised field such as RNA therapeutics. In the meantime, while we identify the ideal candidate, we are in the process of setting up a Technology Advisory Board. This Board will consist of highly experienced executives from pharma and biotech with specific knowledge in RNA therapeutics. It is envisaged that this Board will regularly convene with senior scientists from within the Company to assist in the implementation of the research plan that is currently being executed. Two members of this team have already been appointed.

Dr Stuart Collinson resigned from the Board due to an unexpected increase in his commitments to Arcturus Therapeutics and other companies with which he is working. Both Dr Collinson and the Board expressed their regret that he was unable to remain on the Silence Board.

The Company will seek to make a further non-executive appointment to the Board and continues to look to hire the highest calibre non-executives with specific expertise in different areas of the business.

Outlook

Silence Therapeutics remains one of the global leaders in RNA therapeutics. We have made significant strides in making the technology behind the platform more reproducible and robust.

A recruitment drive in the translational science team, focusing on liver indications, will transition the Company from technology to products. With the strength of our balance sheet to support the breadth of our platform, we look forward to the future with great confidence.

Ali Mortazavi
Chief Executive

29 April 2016

Financial review

During 2015 Silence improved its cash position through the £38.9m net proceeds of its share placing in May 2015. The funds raised have allowed the Company to expand development of its platform technology, in particular with strong progress in delivery of messenger RNA and conjugated delivery of siRNA.

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Research and development expenditure

Research and development expenditure expenses decreased to £7.1m during the year (2014: £8.9m). This reflected the completion of dosing in the Phase 2a clinical trial and the lower value of the euro versus sterling.

Administrative expenses

Administrative expenses during the year decreased to £2.7m (2014: £3.3m). This reflects two non-cash reductions in costs. Firstly, a £0.4m fall in the charge for share-based payments. Secondly, in our US subsidiary, a £0.4m credit reflecting retirement of balances related to historic contracts.

Financial income

Bank interest included in finance income was higher at £0.2m (2014: £0.1m) mainly due to higher average cash balances during the year.

Taxation

During the year, we received a research and development tax credit of £1.5m (2014: £0.9m) in the UK in respect of R&D expenditure in 2014, whose cash value is reflected in the results for 2015. We have accrued £1.3m recognising a current tax asset in respect of 2015 research and development tax credits as we are now confident we are able to make this claim for the year.

Liquidity, cash, cash equivalents and money market investments

The Group's cash, cash equivalents and money market investments at year end totalled £51.9m. At the end of 2014, Silence had cash, cash equivalents and money market investments of £21.9m. A total of £39.2m net was raised during 2015 through the placing and exercise of options.

The net cash outflow from operating activities in 2015 was £8.3m (2014: £9.5m) against an operating loss of £9.8m (2014: £12.0m).

Other balance sheet items

Trade and other receivables at year end were £1.6m (2014: £0.4m) and trade and other payables were £1.1m at year end (2014: £2.0m). The decrease in payables reflects the drop in research spending at year end and the retirement of balances related to historic contracts.

Goodwill at year end was £6.7m (2014: £7.1m). The movement in goodwill during the year related to foreign exchange.

Timothy Freeborn
Chief Financial Officer

29 April 2016

Risk factors

The Board has adopted a risk management strategy designed to identify, assess and manage the risks that it faces.

PRINCIPAL RISKS		ACTION TAKEN TO MANAGE THESE RISKS
Economic and financial risk	• Very high costs of product development, where products have lead times to market of many years • Lack of substantial recurrent revenue stream • Small portfolio of products • Subject to foreign currency exchange fluctuations	• Accounts are reviewed on a monthly basis • Cash position reviewed regularly against the budget (budget approved by Board) • All payments handled within framework of authorisation limits • Sizeable deposits held in euros and sterling • Raise of funds to ensure company resources to meet costs
Clinical and regulatory risk	• Drug candidates may not be successful due to an inability to demonstrate in a timely manner the necessary safety and efficacy in a clinical setting to satisfaction of regulatory bodies (FDA, EMA) • Reliance on third parties to conduct clinical trials	• Use of external third party regulatory experts • Use of the Technology Advisory Board • No materials released unless approved by a qualified person at the suppliers • The Company has taken out insurance against risks to patients
Competition risk and intellectual property risk	• Intellectual property protection may expire before products are successful commercially • Increased interest and with that increased competition in the RNA technology sector	• Staff dedicated to monitoring market developments and providing competitor/peer analysis • Use of experienced IP advisers • Obsolescence or alternative technology patent challenge/litigation

The Group's principal activity is biotechnology research and development. As with any business in this sector, there are risks and uncertainties relevant to the Group's business. The Board has adopted a risk management strategy designed to identify, assess and manage the significant risks that it faces. While the Board aims to identify and manage such risks, no risk management strategy can provide absolute assurance against loss.

The management and mitigation of risks is a key focus for the Board. The Board reviews risks at its regular Board meetings, including but not limited to a financial update, corporate development update and update on operations to oversee the management and mitigation of the principal risks faced by the Group, as set out above. The operational update includes a review of both preclinical and clinical activities.

The Board periodically reviews the significant risks facing the business; this review includes identifying operational risks, compliance risks, financial risks and risks to the achievement of goals and objectives. Set out above are the key risk factors associated with the business that have been identified through the Group's approach to risk management. Some of these risk factors are specific to the Group, and others are more generally applicable to the biotech industry in which the Group operates. The Group considers that these risk factors apply equally and therefore all should be carefully considered before any investment is made in Silence.

Financial and non-financial key performance indicators (KPIs)

The Directors consider cash and research and development spend to be the Group's financial KPIs at the current stage of the Company's development. These are detailed in the financial review. The Directors consider that the most important non-financial KPIs relate to the validation of our technologies, the number of drugs in development by stage of development and the number of research collaborations, all of which are discussed in the Chief Executive's review.

This report was approved by the Board of Directors and signed on its behalf by:

Ali Mortazavi
Chief Executive

29 April 2016

Research ethics

It is our mission to discover and develop safe and effective medicines for treatment of cancer and other life-threatening diseases with high unmet medical need.

Humane care and use of laboratory animals

Our commitment

It is our mission to discover and develop safe and effective medicines for treatment of cancer and other life-threatening diseases with high unmet medical need. We have both legal and ethical obligations to ensure the safety and efficacy of our investigational new medicines prior to their use in humans.

The use of laboratory animals represents an integral part of any biomedical research and development activities. While we are actively pursuing alternative methodologies to reduce and substitute the use of animals in our research, currently there are clear regulatory requirements to assess safety and efficacy of novel drug candidates in appropriate animal models before moving into clinical development.

Silence Therapeutics is committed to the welfare of all our animals used for its research and development programs, therefore:

- our animal studies comply with national and international laws and guidelines for care and welfare for animals in research;
- we minimise animal numbers by using alternative scientific methods whenever appropriate and advance our research methodologies consistently. Animals must not be used if alternative research methods are available that produce comparable data to those obtained from using animals in research;
- in addition, every study involving the use of animals is subjected to an internal committee review for purpose and significance, for use of alternative methodologies, study design and feasibility in adherence to the 3Rs (reduce, refine, replace);
- we ensure that only certified employees, sufficiently trained and qualified in care and skills, are involved in conducting and planning of animal research studies;
- all our laboratory animals are consistently monitored for any signs of distress and pain by qualified staff members;
- environmental enrichment in husbandry allows the animals to perform species-specific behavioural repertoire;
- we are in constant dialogue with our independent external animal welfare officer providing the latest information on animal husbandry and care; and
- contract research laboratories, that carry out work for Silence Therapeutics, need to observe the same animal welfare standards. We ensure that contractors adhere to local, national and international regulations and guidance and we carry out additional onsite visits ourselves as appropriate.

The German Animal Welfare Act contains some of the strictest legislation in the world to ensure far-reaching protection for animals in research. Independent, external authorities, namely the State Office of Health and Social Affairs Berlin (Landesamt für Gesundheit und Soziales) and animal welfare officers on site monitor the adherence of all of Silence's animal studies to the Animal Welfare Act and ensure their compliance with the latest scientific insights and highest standards in animal welfare. Our animal facility, programmes and documentation are subject to regular inspections from external state and local authorities ensuring proper husbandry and care of research animals.

Board of Directors

Ali Mortazavi
Chief Executive

Ali joined Silence in 2012, leading its refinancing, and refocused the business. He has extensive expertise in UK small companies, particularly in biotechnology investment and ventures. Ali has over 17 years' experience in finance having co-founded Evolution Securities in 2001, heading up the Group's principal trading division.

Timothy Freeborn
Chief Financial Officer and Company Secretary

Timothy also joined Silence in 2012, bringing over 20 years' experience in finance. After qualifying as a chartered accountant and specialising in corporate tax, he spent twelve years as a financial journalist on a national newspaper and eight years as a stockbroking analyst, covering electronics, chemicals and alternative energy.

Dr Michael Khan
Executive Director

With a doctorate in Developmental Neurobiology from University College London, Mike has over 30 years' clinical experience in the NHS, including 17 as a consultant in General Medicine and Endocrinology. He is director of the largest screening service for hereditary disorders of lipid metabolism in England and was Head of Molecular Medicine and Associate Professor of Medicine at the University of Warwick. Michael is also an adviser to the European Commission and the National Institute of Clinical Excellence (NICE) in the UK.

Dr Stephen Parker
Non-Executive Chairman

On 30 June 2015, Stephen replaced Alastair Riddell as Non-Executive Chairman. Stephen has extensive board level expertise, and is currently a Director of sp2 Consulting Limited. Previously a partner at Celtic Pharma, he was also Chief Financial Officer of Oxford GlycoSciences. He brings sector corporate finance experience having been an investment banker focusing on pharma and biotechnology with Barings, Warburg and Apax Partners.

Alistair Gray
Non-Executive Director

Alistair joined the Board on 12 November 2015 and brings with him a wealth of consultancy and business experience. Having trained as an accountant, his early career was in senior management positions with Unilever and John Wood Group PLC. Alistair was a director of Arthur Young (now Ernst and Young) Management Consultants and PA Consulting Group. Alistair chaired the audit and remuneration committees of AorTech International PLC and Highland Distillers PLC, as well as the Pension Trustee Board. Alistair also served as a Fellow of the Institute of Directors and Institute of Consultants.

Dr Lars Karlsson – Head of Research and Development
Lars Karlsson served as the Head of Research and Development during the year, resigning from his role on 5 April 2016.

Dr Alastair Riddell – Non-Executive Chairman
Alastair Riddell served as the Non-Executive Chairman during the year and acted as Executive Chairman from 30 July 2015 to his resignation on 22 September 2015.

Simon Sturge – Non-Executive Director
Simon Sturge served as a Non-Executive Director during the year, resigning from his role on 18 January 2016.

Corporate governance report

> As a Board we continue to recognise that applying sound leadership and governance principles in running the Company is essential to provide a sustainable platform for growth and maintain the trust of our stakeholders.

In September 2015, your Company returned to having a Non-Executive Chairman. This underlined our full commitment to maintaining high standards of corporate governance and transparency about our arrangements and intentions for future improvement, including restructuring the Board to achieve a majority of Non-Executive Directors.

Dear Shareholder,

Principles of corporate governance

As a Board, we continue to recognise that applying sound leadership and governance principles is essential to provide a sustainable platform for growth and to maintain the trust of our stakeholders. Without this, the Company would be unable to deliver its objectives and strategy for developing the next generation of RNA therapeutics.

As previously reported, the Company remains committed to deliver its business within the UK Corporate Governance Code (the UK Code) as a basis for guiding its leadership and governance structures. However, it is recognised that some aspects of the UK Code are not relevant for AIM companies such as Silence Therapeutics plc. As previously stated we use the Quoted Companies Alliance Corporate Governance Code (the QCA Code) against which to measure our progress, as this is more applicable for small and medium sized companies.

Corporate governance framework

Leadership

Your Board provides challenge, oversight and advice to ensure that the Company is doing the right things in the right way. The changes we have made in 2015 and those we plan to make to Board membership should assure shareholders that the Company is led by a Board with appropriate experience, skills, perspectives and qualifications to carry out its role on behalf of our shareholders.

Effectiveness

The Board also needs to have the right information at the right time, so that it can engage deeply on how the business is operating, how the Executive is performing and fully understand the risks and major challenges the business is facing. The performance of your Board, its Committees and each of the Directors will be scrutinised each year in the Board Effectiveness Review.

Risk management and control

Understanding and managing our risks and continuously improving our controls are central to the delivery of our business strategy. Your Board's Audit Committee plays a role in ensuring that Silence Therapeutics undertakes well-measured risk-taking activity that supports long-term sustainable growth.

During this reporting year, we prepared a report on our corporate risks. The Board assumed responsibility for oversight of enterprise-wide risk and assuring key areas of risk are addressed by the Executive.

Remuneration

Your Board seeks to ensure that remuneration decisions are aligned with and support the achievement of long-term value creation.

The Board

In September 2015, your Company returned to having a Non-Executive Chairman. This underlined our full commitment to maintaining high standards of corporate governance and transparency about our arrangements and intentions for future improvement, including restructuring the Board to achieve a majority of Non-Executive Directors.

Dr Stephen Parker
Chairman

29 April 2016

Where appropriate the Board delegates responsibilities to Board Committees to provide an effective management framework.

Operation of the Board and its Committees

Composition of the Board

The Board consists of five Directors: three Executive Directors and two Non-Executive Directors including the Chairman. The Board's composition is geared towards its current stage of development and priorities. The skill set of the Board includes extensive knowledge of the pharmaceutical and biotechnology industries, financial services and corporate finance, and experienced researchers and clinicians. Details of each of the Directors' experience and background are given in their biographies on page 13.

Board meetings

Below is a table showing the number of different meetings which took place during 2015. The Board will continue to meet on a regular basis in order to review progress and agree strategy:

Type of meeting	Number of meetings in 2015
Board	11
Audit Committee	2
Remuneration Committee	2
Nomination Committee	1

Appointments to the Board and re-election

The Board has delegated the tasks of reviewing Board composition, searching for appropriate candidates and making recommendations to the Board on candidates to be appointed as Directors to the Nomination Committee. Further details on the role of the Nomination Committee may be found on page 18.

With regard to re-election of Directors, the Company is governed by its Articles of Association (Articles). Under the Articles, the Board has the power to appoint a Director during the year but any person so appointed must stand for election at the next Annual General Meeting. Any Director who has been a Director at each preceding two Annual General Meetings and has not been re-appointed since, must retire from office at the next Annual General Meeting. The Director is then eligible to stand for re-appointment by the shareholders. Alistair Gray will stand for election at the 2016 Annual General Meeting having been appointed a Director since the last Annual General Meeting.

Development, information and support

The Directors are encouraged to attend training and continuing professional development courses as required. Updates are given to the Board on developments in governance and regulations as appropriate. For example, a briefing on governance standards and key policies appropriate for an AIM company was given to the Board during the year. The Chief Financial Officer, Timothy Freeborn, is also the Company Secretary and supports the Chairman in ensuring that the Board receives the information and support they need in order to carry out their roles.

Conflicts of interest

Under the Articles of Association the Directors may authorise any actual or potential conflict of interest a Director may have and may impose any conditions on the Director that are felt to be appropriate. Directors are not able to vote in respect of any contract, arrangement or transaction in which they have a material interest and they are not counted in the quorum. A process has been developed to identify any of the Directors' potential or actual conflicts of interest. This includes declaring any new conflicts before the start of each Board meeting.

Performance evaluation

A formal performance evaluation has been carried out during the year. This was the basis for setting the bonus of the Chief Executive and the Chief Financial Officer.

Corporate governance report continued

The Board Committees

Membership of all three Board Committees is composed of the Chairman and the other Non-Executive Director. All of the Board Committees are authorised to obtain, at the Company's expense, professional advice on any matter within their terms of reference and to have access to sufficient resources in order to carry out their duties.

The role of the Board

The key tasks of the Board are:

- setting the Company's values and standards;
- approval of long-term objectives and strategy;
- approval of revenue, expense and capital budgets and plans;
- oversight of operations ensuring adequate systems of internal controls and risk management are in place, ensuring maintenance of accounting and other records and compliance with statutory and regulatory obligations;
- review of performance in light of strategy and budgets ensuring any necessary corrective actions are taken;
- approval of the annual report and financial statements, material contracts and major projects;
- changes to structure, size and composition of the Board;
- determining remuneration policy for the Directors and approval of the remuneration of the Non-Executive Directors; and
- approval of communications with shareholders and the market.

BOARD		
Audit Committee	**Remuneration Committee**	**Nomination Committee**
Alistair Gray (Chairman) Stephen Parker	Stephen Parker (Chairman) Alistair Gray	Stephen Parker (Chairman) Alistair Gray

Audit Committee report

Members of the Audit Committee

The Committee consists entirely of independent Non-Executive Directors. The Chairman, Alistair Gray, has extensive financial experience.

Alistair Gray (Chairman)
Stephen Parker

Duties

The main duties of the Audit Committee are set out in its Terms of Reference and include:

- monitoring the integrity of the financial statements of the Company, including its annual and half year reports;
- reviewing and challenging where necessary any changes to, and consistency of, accounting policies, whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor, the going concern assumption and all material information presented with the financial statements;
- keeping under review the effectiveness of the Company's internal control systems (including financial, operational and compliance controls and risk management) and to review and approve the statements to be included in the annual report and financial statements concerning internal controls and risk management;
- regularly assessing the need for an internal audit function;
- considering and making recommendations to the Board, to be put to shareholders for approval at the Annual General Meeting, in relation to the appointment, re-appointment and removal of the Company's external auditor;
- ensuring that at least every ten years the audit services contract is put out to tender, in respect of the tender to oversee the selection process;
- overseeing the relationship with the external auditor including approval of their remuneration, approval of their terms of engagement, annual assessment of their independence and objectivity taking into account relevant professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services;
- meeting regularly with the external auditor and at least once a year, without any Executive Director or other member of management present to discuss any issues arising from the audit;

- reviewing and approving the annual Audit Plan and review the findings of the audit; and
- reviewing the Company's arrangements for its employees and contractors to raise concerns in confidence about possible improprieties in financial reporting or other matters, the Company's procedures for detecting fraud and the Company's anti-bribery procedures.

Activities in 2015
In 2015 the Audit Committee reviewed the preliminary announcement, the 2014 annual report and the interim announcement. The Committee also met with the external auditors, reviewed the audit plan and results of the external audit. A risk assessment was performed by the Committee.

Role of the external auditor
The Audit Committee monitors the relationship with the external auditor, PricewaterhouseCoopers LLP, who was appointed in 2014, to ensure that auditor independence and objectivity is maintained. As part of its review the Committee monitors the provision of non-audit services by the external auditor. The breakdown of fees between audit and non-audit services is provided in note 5 to the financial statements. The Audit Committee also assesses the auditor's performance. Having reviewed the auditor's independence and performance the Audit Committee is recommending that PricewaterhouseCoopers LLP be re-appointed as the Company's auditor at the next Annual General Meeting.

Internal audit
At present the Company does not have an internal audit function. Given the current size of the Company and control systems that are in place the Committee believes that there is sufficient management oversight to highlight any areas of weakness in the financial reporting systems. The Committee will review the need for an internal audit function at least annually.

Audit process
The auditor prepares an Audit Plan for the audit of the full year financial statements. The Audit Plan sets out the scope of the audit, areas to be targeted and audit timetable. Following the audit, the auditor presented its findings to the Audit Committee for discussion.

Remuneration Committee report
Members of the Remuneration Committee
The Committee consists entirely of independent Non-Executive Directors as follows:

Stephen Parker (Chairman)
Alistair Gray

Duties
The main duties of the Remuneration Committee are set out in its Terms of Reference and include:

- setting the remuneration policy for the Executive Directors and the Company's Chairman taking into account relevant legal and regulatory requirements, the provisions of the UK Corporate Governance Code and other guidance such as issued by the Association of British Insurers and the National Association of Pension Funds;
- within the agreed policy determining the total individual remuneration package of each Executive Director and Chairman;
- recommending and monitoring the level and structure of remuneration for senior management;
- to help it fulfil its remit to appoint remuneration consultants and commission any reports or surveys;
- approving the design of and determining the targets for any schemes of performance-related remuneration;
- considering whether the Directors should be eligible for annual bonuses and, if so, to consider the upper limits for such bonuses;
- considering whether the Directors should be eligible for benefits under long-term incentive schemes;
- agreeing the policy for authorising claims for expenses from the Executive Directors and Chairman; and
- ensuring that contractual terms on termination, and any payments made, are fair to the individual and the Company and that failure is not rewarded and that the duty to mitigate loss is fully recognised.

Activities in 2015
The Committee set the remuneration policy during the year and, more specifically, the targets used in assessing the bonus for the Chief Executive and other Executive Directors.

Corporate governance report continued

Nomination Committee report

Members of the Nomination Committee

The Committee consists entirely of independent Non-Executive Directors:

Stephen Parker (Chairman)
Alistair Gray

Duties

The main duties of the Nomination Committee are set out in its Terms of Reference and include:

- regularly reviewing the structure, size and composition (including the skills, knowledge, experience and diversity) required of the Board compared to its current position and make recommendations to the Board with regard to any changes;
- giving full consideration to succession planning for Directors and other senior Executives in the course of its work, taking into account the challenges and opportunities facing the Company, and what skills and expertise are therefore needed on the Board in the future;
- being responsible for identifying and nominating for the approval of the Board, candidates to fill Board vacancies as and when they arise;
- formulating plans for succession for both Executive and Non-Executive Directors and in particular for the key roles of Chairman and Chief Executive;
- assessing the re-appointment of any Non-Executive Director at the conclusion of their specified term of office having given due regard to their performance and ability to continue to contribute to the Board in the light of the knowledge, skills and experience required; and
- assessing the re-election by shareholders of any Director having due regard to their performance and ability to continue to contribute to the Board in the light of the knowledge, skills and experience required and the need for progressive refreshing of the Board.

During the year, the Nomination Committee discussed and approved the appointment of Dr Lars Karlsson as Head of Research and Development from 5 January 2015. Mr Alistair Gray's appointment to the Board was approved by the full Board in November 2015.

Accountability

Internal controls and risk management

The Company has in place a system of internal financial controls commensurate with its current size and activities, which is designed to ensure that the possibility of misstatement or loss is kept to a minimum. These procedures include the preparation of management accounts, forecast variance analysis and other ad hoc reports. A Financial Procedures Manual sets out minimum reporting standards. Risks throughout the Group are considered and reviewed on a regular basis. Risks are identified and mitigating actions put into place as appropriate. Principal risks identified are set out in the strategic report on page 11.

Internal control and risk management procedures can only provide reasonable and not absolute assurance against material misstatement.

Financial and business reporting

The Board seeks to present a balanced and understandable assessment of the Group's position and prospects in all half year, final and price-sensitive reports and other information required to be presented by statute. The Board receives a number of reports to enable it to monitor and clearly understand the Group's financial position. A new Disclosure Policy was put in place during the year to enhance the process for ensuring that price-sensitive information is identified effectively and all communications with the market are released in accordance with expected time scales.

Relations with shareholders

The Board is committed to maintaining ongoing communication with its shareholders. The Directors are keen to build a mutual understanding of objectives with its institutional shareholders and a regular dialogue with institutional investors has been maintained throughout the year. The Directors also encourage communications with private shareholders and encourage their participation in the Company's Annual General Meeting.

The Company uses its corporate website (www.silence-therapeutics.com) to communicate with institutional shareholders and private investors, and the website also contains the latest announcements, press releases, published financial information, current projects and other information about the Company. The annual report and financial statements is a key communication document and is also available on the Company's website.

This year's Annual General Meeting of the Company will be held on 17 June 2016. The Notice of Annual General Meeting is included with the annual report and financial statements and is available on the Company's website. Separate resolutions are provided on each issue so that they can be given proper consideration. Proxy votes are counted and the level of proxies lodged on each resolution reported after it has been dealt with on a show of hands.

Directors' remuneration report

Dear Shareholder,

One of the main purposes of the report is to support the Board's goal of working towards best practice corporate governance standards. We are also keen to promote transparency about how our Directors are rewarded.

The Remuneration Committee plays an increasingly important role in ensuring that remuneration policy underpins strategy and the long-term visionary goals of the Company.

The Remuneration Committee

The Board has delegated certain responsibilities for executive remuneration to the Remuneration Committee. Details of the Remuneration Committee, its remit and activities are set out in the corporate governance report on pages 14 to 18.

Remuneration policy

The objective of the Company's remuneration policy is to attract, retain and motivate executive management of the quality required to run the Company successfully without paying more than is necessary.

Service agreements and termination payments

Details of the Executive Directors' service agreements are set out below.

Director	Initial contract	Notice period by Company	Notice period by Director
Ali Mortazavi, Chief Executive	31.7.12	6 months	6 months
Timothy Freeborn, Chief Financial Officer	27.7.12	12 months	6 months
Michael Khan, Executive Director	1.10.12	3 months	6 months
Lars Karlsson, Head of Research and Development	8.12.14	3 months	3 months

There are no specific provisions under which Executive Directors are entitled to receive compensation upon early termination, other than in accordance with the notice period. On termination of an Executive Director's service contract, the Remuneration Committee will take into account the departing Director's duty to mitigate his/her loss when determining the amount of any compensation.

Non-Executive Directors

The remuneration payable to Non-Executive Directors is decided on by the Chairman and Executive Directors.

Fees (£)

	2015	2014
Chairman	**81,250**	75,000
Non-Executive Director fee (including Chairmanship of Board Committee)	**40,000**	35,000

Terms of appointment

Non-Executive Director	Year appointed	Start date	Expiry of current term
Simon Sturge	2013	21.08.13	Immediate
Stephen Parker	2013	18.11.13	3 months
Alistair Gray	2015	12.11.15	Immediate

The appointments for each Non-Executive Director may be terminated by either party giving notice as shown above. There are no arrangements under which any Non-Executive Director is entitled to receive compensation upon the early termination of his appointment.

Directors' remuneration report continued

Annual remuneration report

Please see note 6 of the financial statements for Directors' remuneration. During the year information in respect of share awards and Directors' shareholdings is set out below.

Share option awards table

Director	At 1 January 2015	Exercised	Awarded	Lapsed	**At 31 December 2015**	Exercise price pence	Earliest date of exercise	Latest date of exercise
Ali Mortazavi								
– Unapproved Scheme	1,728,078	—	—	—	**1,728,078**	25.0	01.08.14	31.07.24
Timothy Freeborn								
– Unapproved Scheme	190,000	—	—	—	**190,000**	25.0	27.07.14	27.07.24
– Unapproved Scheme	80,000	—	—	—	**80,000**	125.0	26.06.16	26.06.26
– Unapproved Scheme	40,000	—	—	—	**40,000**	282.0	20.11.16	20.11.26
Michael Khan								
– Unapproved Scheme	80,000	—	—	—	**80,000**	125.0	31.12.15	31.12.24
– Unapproved Scheme	80,000	—	—	—	**80,000**	125.0	26.06.16	26.06.26
Lars Karlsson								
– Unapproved Scheme	—	—	153,000	—	**153,000**	205.0	08.01.18	08.01.30
Total	2,198,078	—	153,000	—	**2,351,078**			

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

Director	Number of ordinary shares	Percentage of issued share capital
Ali Mortazavi	1,937,399	2.78
Timothy Freeborn	14,000	0.02
Dr Michael Khan	1,976	0.003
Dr Stephen Parker	6,478	0.01
Lars Karlsson	—	—
Alastair Riddell	—	—
Simon Sturge	—	—
Alistair Gray	—	—

The average share price for the year was 245.7p (2014: 244.3p).

This report was approved by the Board of Directors and signed on its behalf by:

Dr Stephen Parker
Chairman of the Remuneration Committee

29 April 2016

Directors' report

The Directors present their report and the audited financial statements of the Group for the year ended 31 December 2015.

Principal activities
The Group is focused on the development of RNA therapeutics which incorporates its structural chemistry and delivery technologies.

Review of the business and future developments
The strategic report describes research and development activity during the year as well as outlining future planned developments. Details of the financial performance, including comments on the cash position and research and development expenditure, are given in the financial review. Principle risks and KPIs are given in the strategic report.

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

Employees
The Directors are committed to continuing involvement and communication with employees on matters affecting both employees and the Company. Management conducts regular meetings with all employees on site.

Political contributions
Neither the Company nor any of its subsidiaries made any political donations or incurred any political expenditure during the year (2014: nil).

Research and development
In 2015, the Group spent £7.1m on research and development (2014: £8.9m). See the Chief Executive's review on page 6 for more information.

Disclosure of information to the auditor
Each of the persons who is a Director at the date of approval of this report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Subsequent events
A description of subsequent events is set out in note 26 to the financial statements.

Financial risk management
A description of financial risk management is set out in note 24 to the financial statements.

Results and dividends
The Group recorded a loss for the year before taxation of £9.4m (2014: £12.0m). Loss after tax for the year was £6.6m (2014: £11.1m). Further details are given in the financial review. The Group is not yet in a position to pay a dividend and the loss for both periods has been added to accumulated losses.

Directors' report continued

Directors

The Directors who served at any time during the year or since the year end were:

	Job title	Appointed	Resigned
Ali Mortazavi	Chief Executive		
Timothy Freeborn	Chief Financial Officer		
Dr Michael Khan	Executive Director		
Lars Karlsson	Head of Research and Development	5 January 2015	5 April 2016
Alastair Riddell	Chairman		22 September 2015
Simon Sturge	Non-Executive		18 January 2016
Dr Stephen Parker	Non-Executive/Chairman	22 September 2015	
Alistair Gray	Non-Executive	12 November 2015	
Stuart Collinson	Non-Executive	18 January 2016	5 April 2016

Alastair Riddell and Simon Sturge exchanged roles on 5 January 2015, with Alastair becoming Non-Executive Chairman of the Board and Chair of the Nomination Committee. As mentioned in the Chairman's statement, Alistair became Interim Executive Chairman in July 2015. Simon Sturge remained a Non-Executive Director and Chair of the Remuneration Committee until his resignation from the Board on 18 January 2016. On the same date, Lars Karlsson joined the Board as Head of Research and Development. The interests of the Directors in the share options of the Company are set out in the Directors' remuneration report.

On 22 September 2015 Alastair Riddell resigned from the Board. On the same date, Stephen Parker took on the role of Non-Executive Chairman.

On 12 November 2015 Alistair Gray was appointed as a Non-Executive Director and became the Chairman of the Audit Committee.

On 18 January 2016 Stuart Collinson was appointed as a Non-Executive Director replacing Simon Sturge.

On 5 April 2016 Stuart Collinson resigned from the Non-Executive Board. On the same date, Lars Karlsson resigned from the Board.

Substantial interests

At 31 December 2015 the Company had been informed of the following substantial interests of over 2% in the issued share capital of the Company:

	Number issued	Percentage of share capital
Richard Griffiths	14,409,248	20.64%
Robert Keith	12,596,974	18.05%
Invesco Limited	8,333,333	11.94%
Henderson Global Investors	4,938,561	7.08%
Aviva	4,458,976	6.39%
Woodford Investment Management LLP	4,166,666	5.97%
Sarossa plc	2,189,467	3.14%
Ali Mortazavi	1,777,399	2.55%

Going concern

The financial statements have been prepared on a going concern basis that assumes that the Group will continue in operational existence for the foreseeable future.

The Group had a net cash inflow for 2015 of £35.2m (2014: £1.2m), principally £4.0m outflow from operating and investing activities offset by £39.2m from share issues in the year, and at 31 December 2015 had cash and cash equivalent balances of £51.9m and nil on short-term deposit (2014: £16.9m and £5.0m on deposit). Based on current forecasts, the cash on hand at the date of this report will support operations for several years.

This report was approved by the Board of Directors and signed on its behalf by:

Dr Stephen Parker
Chairman

29 April 2016

Statement of Directors' responsibilities

The Directors are responsible for preparing the annual report, strategic report, the Directors' report and the financial statements in accordance with applicable laws and regulations.

Company law requires the Directors to prepare financial statements for each financial year. As required by the AIM Rules of the London Stock Exchange they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU (EU IFRS) and applicable law and have elected to prepare the parent Company financial statements on the same basis.

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

In preparing each of the Group and parent Company financial statements, the Directors are required to:

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

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

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

On behalf of the Board

Timothy Freeborn
Chief Financial Officer and Company Secretary

29 April 2016

Independent auditor's report
to the members of Silence Therapeutics plc

Report on the financial statements
Our opinion
In our opinion:

- Silence Therapeutics plc's group financial statements and company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2015 and of the group's loss and the group's and the company's cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union;
- the company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited
The financial statements, included within the Annual Report, comprise:

- the consolidated and company balance sheets as at 31 December 2015;
- the consolidated income statement and consolidated statement of comprehensive income for the year then ended;
- the cash flow statements for the year then ended;
- the consolidated and company statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union, and applicable law and, as regards the company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006
In our opinion, the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Other matters on which we are required to report by exception
Adequacy of accounting records and information and explanations received
Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- the company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration
Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the statement of directors' responsibilities set out on page 23, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the group's and the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report and financial statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Stuart Newman
Senior Statutory Auditor

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Cambridge

29 April 2016

Consolidated income statement
year ended 31 December 2015

	Note	2015 £000s	2014 £000s
Revenue	3	**—**	15
Research and development costs		**(7,114)**	(8,884)
Administrative expenses		**(2,655)**	(3,258)
Operating loss	5	**(9,769)**	(12,127)
Finance and other income	7	**340**	147
Loss for the year before taxation		**(9,429)**	(11,980)
Taxation	8	**2,784**	892
Loss for the year after taxation		**(6,645)**	(11,088)
Loss per ordinary equity share (basic and diluted)	9	**(10.4p)**	(22.0p)

Consolidated statement of comprehensive income
year ended 31 December 2015

	Note	2015 £000s	2014 £000s
Loss for the year after taxation		**(6,645)**	(11,088)
Other comprehensive expense, net of tax:			
Exchange differences arising on consolidation of foreign operations	21	**(616)**	(701)
Total comprehensive expense for the year		**(7,261)**	(11,789)

Consolidated balance sheet

at 31 December 2015

	Note	2015 £000s	2014 £000s
Non-current assets			
Property, plant and equipment	10	**1,093**	458
Goodwill	11	**6,663**	7,077
Other intangible assets	12	**6**	2
Other receivables	14	**233**	—
		7,995	7,537
Current assets			
Trade and other receivables	14	**1,641**	375
Investments held for sale		**2**	2
Other financial assets	15	**—**	5,000
Cash and cash equivalents	16	**51,907**	16,857
		53,550	22,234
Current liabilities			
Trade and other payables	17	**(1,118)**	(2,013)
Total assets less current liabilities		**60,427**	27,758
Net assets		**60,427**	27,758
Capital and reserves attributable to the owners of the parent			
Share capital	19	**3,490**	2,605
Capital reserves	21	**165,074**	126,197
Translation reserve		**1,298**	1,914
Accumulated losses		**(109,435)**	(102,958)
Total equity		**60,427**	27,758

The financial statements were approved by the Board on 29 April 2016.

Timothy Freeborn
Chief Financial Officer
and Company Secretary

Ali Mortazavi
Chief Executive

Company number: 02992058

Consolidated statement of changes in equity

year ended 31 December 2015

	Share capital £000s	Capital reserves £000s	Translation reserve £000s	Accumulated losses £000s	Total equity £000s
At 1 January 2014	2,353	114,478	2,615	(91,870)	27,576
Recognition of share-based payments	—	1,127	—	—	1,127
Shares issued in year, net of expenses	252	10,592	—	—	10,844
Transactions with owners recognised directly in equity	252	11,719	—	—	11,971
Loss for year	—	—	—	(11,088)	(11,088)
Other comprehensive income					
Exchange differences arising on consolidation of foreign operations	—	—	(701)	—	(701)
Total comprehensive expense for the year	—	—	(701)	(11,088)	(11,789)
At 1 January 2015	2,605	126,197	1,914	(102,958)	27,758
Recognition of share-based payments	—	777	—	—	777
Lapse of vested options in period	—	(168)	—	168	—
Shares issued in year, net of expenses	885	38,268	—	—	39,153
Transactions with owners recognised directly in equity	885	38,877	—	168	39,930
Loss for year	—	—	—	(6,645)	(6,645)
Other comprehensive income					
Exchange differences arising on consolidation of foreign operations	—	—	(616)	—	(616)
Total comprehensive expense for the year	—	—	(616)	(6,645)	(7,261)
At 31 December 2015	**3,490**	**165,074**	**1,298**	**(109,435)**	**60,427**

Company balance sheet
at 31 December 2015

	Note	31 December 2015 £000s	31 December 2014 £000s
Non-current assets			
Property, plant and equipment	10	**551**	18
Investment in subsidiaries	13	**22,511**	34,026
Other receivables	14	**233**	—
		23,295	34,044
Current assets			
Trade and other receivables	14	**1,532**	225
Other financial assets	15	**—**	5,000
Cash and cash equivalents	16	**47,822**	15,761
		49,354	20,986
Current liabilities			
Trade and other payables	17	**(814)**	(1,033)
Total assets less current liabilities		**71,835**	53,997
Net assets		**71,835**	53,997
Capital and reserves attributable to the Company's equity holders			
Share capital	19	**3,490**	2,605
Capital reserves	21	**164,890**	126,013
Accumulated losses		**(96,545)**	(74,621)
Total equity		**71,835**	53,997

The financial statements on pages 26 to 31 were approved by the Board on 29 April 2016 and signed on its behalf.

Timothy Freeborn
Chief Financial Officer

Ali Mortazavi
Chief Executive

The accompanying accounting policies and notes form an integral part of these financial statements.

Company number: 02992058

Company statement of changes in equity

year ended 31 December 2015

	Share capital £000s	Capital reserves £000s	Accumulated losses £000s	Total equity £000s
At 1 January 2014	2,353	114,294	(62,384)	54,263
Recognition of share-based payments	—	1,127	—	1,127
Shares issued in year, net of expenses	252	10,592	—	10,844
Transactions with owners recognised directly in equity	252	11,719	—	11,971
Loss for the year	—	—	(12,237)	(12,237)
At 31 December 2014	2,605	126,013	(74,621)	53,997
Recognition of share-based payments	—	777	—	777
Lapse of vested options in the period	—	(168)	168	—
Shares issued in year, net of expenses	885	38,268	—	39,153
Transactions with owners recognised directly in equity	885	38,877	168	39,930
Loss for the year	—	—	(22,092)	(22,092)
At 31 December 2015	**3,490**	**164,890**	**(96,545)**	**71,835**

Cash flow statements

year ended 31 December 2015

	Consolidated		Company	
	2015 £000s	2014 £000s	**2015 £000s**	2014 £000s
Cash flow from operating activities				
Loss before tax	**(9,429)**	(11,980)	**(24,875)**	(13,129)
Depreciation charges	**180**	90	**42**	3
Amortisation charges	**2**	242	**—**	—
Charge for the year in respect of share-based payments	**777**	1,127	**777**	1,127
Foreign exchange (gain)/loss on intra-group loan	**—**	—	**746**	859
Finance income	**(175)**	(139)	**(175)**	(139)
Corporation tax credits received	**1,513**	892	**1,513**	892
Impairment of investment	**—**	—	14,300	—
Non-cash and other movements	**—**	260	**—**	273
	(7,132)	(9,508)	**(7,672)**	(10,114)
Increase in trade and other receivables	**(228)**	(15)	**(269)**	(33)
(Decrease)/increase in trade and other payables	**(895)**	67	**(220)**	344
Net cash outflow from operating activities	**(8,255)**	(9,456)	**(8,161)**	(9,803)
Cash flow from investing activities				
Decrease in other financial assets	**5,000**	—	**5,000**	—
Increase in loan to subsidiary undertakings	**—**	—	**(3,531)**	(1,002)
Interest received	**175**	137	**175**	137
Purchase of property, plant and equipment	**(843)**	(337)	**(575)**	(15)
Purchase of intangible assets	**(7)**	(1)	**—**	—
Net cash flow/(outflow) from investing activities	**4,325**	(201)	**1,069**	(880)
Cash flow from financing activities				
Proceeds from issue of share capital, net of issue costs	**39,153**	10,844	**39,153**	10,844
Net cash inflow from financing activities	**39,153**	10,844	**39,153**	10,844
Increase in cash and cash equivalents	**35,223**	1,187	**32,061**	161
Cash and cash equivalents at start of year	**16,857**	15,890	**15,761**	15,600
Net increase in the year	**35,223**	1,187	**32,061**	161
Effect of exchange rate fluctuations on cash held	**(173)**	(220)	**—**	—
Cash and cash equivalents at end of year	**51,907**	16,857	**47,822**	15,761

The accompanying accounting policies and notes form an integral part of these financial statements.

Notes to the financial statements
year ended 31 December 2015

1. General information

1.1 Group

Silence Therapeutics plc and its subsidiaries (together the "Group") are primarily involved in the research and development of novel pharmaceutical products. Silence Therapeutics plc, a Public Limited Company incorporated and domiciled in England, is the Group's ultimate parent Company. The address of Silence Therapeutic plc's registered office is 27-28 Eastcastle Street, London W1W 8DH and the principal place of business is 72 Hammersmith Road, London.

1.2 Company income statement

The Company has taken advantage of Section 408 of the Companies Act 2006 and has not included its own income statement in these financial statements. The loss for the financial year dealt within the financial statements of the Company was as follows:

	2015 £000s	2014 £000s
	22,092	12,237

2. Principal accounting policies

2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRS IC) interpretations as adopted by the European Union and the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention. The accounting policies set out below have, unless otherwise stated, been prepared consistently for all periods presented in these consolidated financial statements. The financial statements are prepared in pounds sterling and presented to the nearest thousand pounds. The principal accounting policies adopted are set out below.

The following Standards and Interpretations were in issue but not yet effective, and therefore have not been applied in these financial statements

IFRS 9 – Financial Instruments (effective for reporting periods commencing on or after 1 January 2018)
IFRS 15 – Revenue (effective for reporting periods commencing on or after 1 January 2018)
IFRS 16 – Leases (effective for reporting periods commencing on or after 1 January 2019)

The Directors are still assessing the impact of the adoption of the Standards and Interpretations listed above.

2.2 Basis of consolidation

The Group financial statements consolidate those of the Company and its controlled subsidiary undertakings drawn up to 31 December 2015. The Group controls an entity when the Group is expected to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The parent Company financial statements present information about the Company as a separate entity and not about its Group. Where necessary, adjustments are made to the financial statements of subsidiaries to bring accounting policies into line with those used for reporting the operations of the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

2.3 Going concern

The financial statements have been prepared on a going concern basis that assumes that the Group will continue in operational existence for the foreseeable future. The Directors consider that the continued adoption of the going concern basis is appropriate and the financial statements do not reflect any adjustments that would be required if they were to be prepared on any other basis.

As at 31 December 2015 had cash balances of £51.9m. The Directors have reviewed the working capital requirements of the Group for the next twelve months and are confident that these can be met.

The Directors, having prepared cash flow forecasts, believe that existing cash resources will provide sufficient funds for the Group to continue its research and development programmes and to remain in operation for at least twelve months from the date of approval of these financial statements.

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the strategic report on pages 1 to 12.

2.4 Research and development

Expenditure on research activities is recognised in the income statement as an expense as incurred. Further details on research and development costs can be found in note 2.11.

2.5 Revenue recognition

The Group's income (in years where there is income) consists of licence fees, milestone and option payments, grant income and fees from research and development collaborations. Income is measured at the fair value of the consideration received or receivable.

Licence fees, option and milestone payments are recognised in full on the date that they are contractually receivable in those circumstances where:

- the amounts are not time related;
- the amounts are not refundable;
- the licensee has unrestricted rights to exploit the technology within the terms set by the licence; and
- the Group has no further contractual duty to perform any future services.

Where such fees or receipts require future performance or financial commitments on behalf of the Group, the revenue is recognised pro rata to the services or commitments being performed. Funds received that have not been recognised are treated as deferred revenue and recognised in trade and other payables.

Revenues from work or other research and testing carried out for third parties are recognised when the work to which they relate has been performed.

All time related receipts in respect of annual licence fees or similar technology access fees are recognised as revenue on a straight-line basis over the period of the underlying contract.

2.6 Foreign currency translation

The Group's consolidated financial statements are presented in sterling (£), which is also the functional currency of the parent Company. The individual financial statements of each Group entity are prepared in the currency of the primary economic environment in which the entity operates (its functional currency).

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the income statement for the year. When a gain or loss on a non-monetary item is recognised directly in equity, any exchange component of that gain or loss is also recognised directly in equity. When a gain or loss on a non-monetary item is recognised in the income statement, any exchange component of that gain or loss is also recognised in the income statement.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including comparatives) are expressed in sterling using exchange rates prevailing on the balance sheet date. Income and expense items (including comparatives) are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in equity. Cumulative translation differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

2.7 Defined contribution pension funds

In 2015 the Group had a defined benefit pension scheme in which it paid £37k (2014: nil) of salary to UK employees' individual pension schemes. The contributions are recognised as an expense when they fall due.

2.8 Business combinations

There were no business combinations as defined by IFRS 3 (revised) during 2014 or 2015.

Business combinations which occurred in 2010 were accounted for by applying the acquisition method described in IFRS 3 (revised) as at the acquisition date, which is the date on which control is transferred to the Group. In arriving at the cost of acquisition, the fair value of the shares issued by the Company is taken to be the bid price of those shares at the date of the issue. Where this figure exceeds the nominal value of the shares, the excess amount is treated as an addition to the merger reserve.

Acquisitions before 1 January 2010

For acquisitions which occurred before 1 January 2010, goodwill represents the excess of the cost of the acquisition over the Group's interest in the recognised amount (generally fair value) of the identifiable assets, liabilities and contingent liabilities of the acquiree.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurred in connection with business combinations were capitalised as part of the cost of the acquisition.

Notes to the financial statements continued
year ended 31 December 2015

2. Principal accounting policies continued

2.9 Goodwill and other intangible assets

Goodwill

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment.

Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Other intangible assets

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and less accumulated impairment losses.

Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life and goodwill are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

Acquired patents and trademarks	10-15 years

2.10 Property, plant and equipment

The Group holds no property assets.

All plant and equipment is stated in the financial statements at its cost of acquisition less a provision for depreciation.

Depreciation is charged to write off the cost less estimated residual values of plant and equipment on a straight-line basis over their estimated useful lives. All plant and equipment is estimated to have useful economic lives of between three and ten years. Estimated useful economic lives and residual values are reviewed each year and amended if necessary.

2.11 Other intangible assets and research and development activities

Intellectual property rights

Other intangible assets include both acquired and internally developed intellectual property used in research and operations. These assets are stated at cost less amortisation.

Acquired intellectual property rights are capitalised on the basis of the costs incurred to acquire the specific rights.

Amortisation is applied to write off the cost less residual value of the intangible assets on a straight-line basis over their estimated useful life. The principal rates used are 6.7% and 10% per annum. Amortisation is included within research and development costs.

Capitalisation of research and development costs

Costs associated with research activities are treated as an expense in the period in which they are incurred.

Costs that are directly attributable to the development phase of an internal project will only be recognised as intangible assets provided they meet the following requirements:

- an asset is created that can be separately identified;
- the technical feasibility exists to complete the intangible asset so that it will be available for sale or use and the Group has the intention and ability so to do;
- it is probable that the asset created will generate future economic benefits either through internal use or sale;
- sufficient technical, financial and other resources are available for completion of the asset; and
- the expenditure attributable to the intangible asset during its development can be reliably measured.

Careful judgement by the Group's management is applied when deciding whether recognition requirements for development costs have been met. This is necessary as the economic success of any product development is uncertain and may be subject to future technical problems at the time of recognition. Judgements are based on the information available at each balance sheet date.

To date, no development costs have been capitalised in respect of the internal projects on the grounds that the costs to date are either for the research phase of the projects or, if relating to the development phase, then the work so far does not meet the recognition criteria set out above.

2.12 Impairment testing of goodwill, other intangible assets and property, plant and equipment

At each balance sheet date, the Group assesses any impairment event and whether there is any indication that the carrying value of any asset may be impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Goodwill is subject to annual impairment review.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which management controls the related cash flows.

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value-in-use. Impairment losses recognised for cash-generating units to which goodwill has been allocated are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash-generating unit.

2.13 Investments in subsidiaries

Investments in subsidiaries comprise shares in the subsidiaries and loans from the Company. Investments in shares of the subsidiaries are stated at cost less provisions for impairment.

2.14 Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Financial assets can be divided into the following categories: loans and receivables, financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and other financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the instruments were acquired. The designation of financial assets is re-evaluated at every reporting date at which a choice of classification or accounting treatment is available.

De-recognition of financial instruments occurs when the rights to receive cash flows from investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. An assessment for impairment is undertaken at least at each balance sheet date whether or not there is objective evidence that a financial asset or a group of financial assets is impaired.

Trade and other receivables

Trade and other receivables are measured at initial recognition at fair value plus, if appropriate, directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest method. Appropriate allowances for estimated irrecoverable amounts are recognised in the income statement when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at an effective interest rate computed at initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group or Company provides money directly to a debtor with no intention of trading the receivables. Loans receivable are measured at initial recognition at fair value plus, if appropriate, directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest method, less provision for impairment. Any change in their value is recognised in the income statement.

Other financial assets

Other financial assets are initially measured at fair value (with direct transaction costs being amortised over the life of the loan) and are subsequently remeasured to amortised cost using the effective interest rate method at each reporting date. Changes in carrying value are recognised in profit.

The Group holds certain investments in restricted or unvested stock. These instruments are restricted or unvested for a variety of reasons including restrictions based on the agreed delivery of contractual milestones. These instruments have no value until the restrictions are removed or the shares vest and they are only recognised when the associated conditions have been satisfied.

Derivatives

Derivatives are initially measured at fair value (with direct transaction costs being included in profit as an expense) and are subsequently remeasured to fair value at each reporting date. Changes in carrying value are recognised in profit.

Notes to the financial statements continued
year ended 31 December 2015

2. Principal accounting policies continued

2.14 Financial instruments continued

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits that are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value.

Financial liabilities and equity

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. A financial liability is a contractual obligation to either deliver cash or another financial asset to another entity or to exchange a financial asset or financial liability with another entity, including obligations which may be settled by the Group using its equity instruments. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Financial liabilities

At initial recognition, financial liabilities are measured at their fair value plus, if appropriate, any transaction costs that are directly attributable to the issue of the financial liability. After initial recognition, all financial liabilities are measured at amortised cost using the effective interest method.

Equity instruments

Equity instruments issued by the Group are recorded at the proceeds received net of direct issue costs.

2.15 Operating leases

Leases where substantially all the risks and rewards of ownership remain with the lessor are accounted for as operating leases and are accounted for on a straight-line basis over the term of the lease and charged to the income statement.

2.16 Share-based payments

Historically the Group has issued equity-settled share-based payments to certain employees and advisers (see note 25). Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value so determined is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the number of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions. The value of the change is adjusted to reflect expected and actual levels of award vesting, except where failure to vest is as a result of not meeting a market condition. Cancellations of equity instruments are treated as an acceleration of the vesting period and any outstanding charge is recognised in full immediately. Fair value is measured using a binomial pricing model. The key assumptions used in the model have been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

2.17 Equity

Share capital is determined using the nominal value of shares that have been issued.

The share premium account includes any premiums received on the initial issuing of the share capital. Any transaction costs associated with the issuing of shares are deducted from the share premium account, net of any related income tax benefits.

The merger reserve represents the difference between the nominal value and the market value at the date of issue of shares issued in connection with the acquisition by the Group of an interest in over 90% of the share capital of another company.

Equity-settled share-based payments are credited to a share-based payment reserve as a component of equity until related options or warrants are exercised.

Foreign currency translation differences are included in the translation reserve.

Profit and loss account (deficit) includes all current and prior period results as disclosed in the income statement.

2.18 Taxation

Current tax payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Current tax liabilities are calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Tax receivable arises from the UK legislation regarding the treatment of certain qualifying research and development costs, allowing for the surrender of tax losses attributable to such costs in return for a tax rebate. Research and development tax credits are recognised when the receipt is probable.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the

corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

2.19 Critical accounting judgements and key sources of estimation uncertainty

In the process of applying the entity's accounting policies, management makes estimates and assumptions that have an effect on the amounts recognised in the financial statements. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are those relating to:

- the treatment of development expenditure
- the carrying value of the Company's investment in its subsidiaries; and
- the future recoverability of goodwill.

The Group expends considerable sums on its development projects, with its total research and development costs for 2015 amounting to £7.1m (2014: £8.9m). The Board has considered the criteria under IAS 38 to determine whether costs can be capitalised, concluding that it would not be able to prove reliably that such costs could be recovered due to the risk factors involved. Therefore, all such costs have been treated as expenses as they were incurred. Any decision to treat part of those costs as capital items could have a significant impact on the Group's results and balance sheet.

The Group's main activities are carried out by subsidiary companies which are financed by ongoing investment by the parent Company. These investments are carried in the books of the parent Company at cost less provisions for impairment. The carrying value at 31 December 2015 is £22.5m (2014: £34.0m). The key assumptions concerning the carrying value of the investments in, and loans to, subsidiaries relate to the continuing progress of the research and development programmes. As noted below, there are a number of risks and uncertainties around those assumptions and the crystallisation of any of those risks could have a significant impact on the assessment of the carrying value of the investment shown in the financial statements of the parent Company.

Goodwill is carried in the financial statements at a value of £6.7m (2014: £7.1m). The key assumptions concerning the carrying value, or otherwise, for both the goodwill and other intangible assets relate to the continuing progress of the Group's research and development programmes, which are subject to risks common to all biotechnology businesses. These risks include the impact of competition in the specific areas of development, the potential failure of the projects in development or clinical trials and the possible inability to progress projects due to regulatory, manufacturing or intellectual property issues or the lack of available funds or other resources. Furthermore, the crystallisation of any of these risks could have a significant impact on the assessment of the value of both goodwill and other intangible assets.

2.20 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Group's Chief Executive, Ali Mortazavi.

Notes to the financial statements continued
year ended 31 December 2015

3. Revenue
There was no revenue in the year. In 2014 revenue in the year was from licence, grant and service fees generated by both European and US operations. The analysis of revenues by geographical destination is:

	2015 £000s	2014 £000s
Europe	**—**	1
North America	**—**	14
Asia/Pacific	**—**	—
	—	15

4. Segment reporting
In 2015, the Group operated in the specific technology field of RNA therapeutics.

Non-current assets	UK £000s	Germany £000s
As at 31 December 2015	**784**	**7,211**
As at 31 December 2014	18	7,519

Segment loss used by the Board in its assessment of the entity is loss before tax.

Business segments

2015	**RNA therapeutics £000s**	**Group unallocated £000s**	**Consolidated data £000s**
Revenue from external customers	**—**	**—**	**—**
Operating loss	**(7,114)**	**(2,655)**	**(9,769)**
Interest and other income	**340**	**—**	**340**
Segment loss for the year before taxation	**(6,774)**	**(2,655)**	**(9,429)**
Segment assets	**7,211**	**54,334**	**61,545**
Segment liabilities	**(305)**	**(813)**	**(1,118)**
Costs to acquire property, plant and equipment	**268**	**575**	**843**
Costs to acquire intangible assets	**7**	**—**	**7**
Depreciation, amortisation and abandonment of patents	**140**	**42**	**182**
Charge for non-cash expenses: share-based payments charge	**—**	**777**	**777**
Segment non-current assets	**7,211**	**784**	**7,995**

2014	RNA therapeutics £000s	Group unallocated £000s	Consolidated data £000s
Revenue from external customers	15	—	15
Operating loss	(8,869)	(3,258)	(12,127)
Interest and other income	147	—	147
Segment loss for the year before taxation	(8,722)	(3,258)	(11,980)
Segment assets	7,519	22,252	29,771
Segment liabilities	(980)	(1,033)	(2,013)
Costs to acquire property, plant and equipment	322	15	337
Costs to acquire intangible assets	1	—	1
Depreciation, amortisation and abandonment of patents	329	3	332
Charge for non-cash expenses: share-based payments charge	—	1,127	1,127
Segment non-current assets	7,519	18	7,537

5. Operating loss

This is stated after charging:

	2015 £000s	2014 £000s
Depreciation of property, plant and equipment	**180**	90
Amortisation of intangibles and abandonment of patents	**2**	242
Share-based payments charge	**777**	1,127
Fees payable to the Company's auditor for the audit of the parent Company and the consolidation:		
– audit of these financial statements	**85**	55
– other assurance services	**5**	—
– tax compliance services	**55**	14
Operating lease payments on offices	**602**	566

6. Directors and staff costs

Staff costs, including Directors' remuneration, during the year were as follows:

	2015 £000s	2014 £000s
Wages and salaries	**3,770**	3,534
Termination benefits	**166**	117
Social security costs	**496**	377
Charge in respect of share-based payments	**777**	1,127
Pension costs	**37**	—
	5,246	5,155

Directors' remuneration

	Base salary 2015 £000	Benefits in kind 2015 £000	Bonus 2015 £000	Pension 2015 £000	Total 2015 £000	Base salary 2014 £000	Benefits in kind 2014 £000	Bonus 2014 £000	Pension 2014 £000	Total 2014 £000
Executive Directors										
Ali Mortazavi	**180**	**9**	**108**	**—**	**297**	140	7	60	—	207
Timothy Freeborn	**140**	**3**	**40**	**—**	**183**	130	2	37	—	169
Michael Khan[1]	**186**	**—**	**—**	**—**	**186**	120	—	—	—	120
Lars Karlsson[2]	**127**	**—**	**—**	**37**	**164**	—	—	—	—	—
Annie Cheng[3]	**12**	**—**	**—**	**—**	**12**	140	—	—	—	140
Non-Executive Directors										
Stephen Parker[4]	**53**	**—**	**—**	**—**	**53**	35	—	—	—	35
Alistair Gray[5]	**5**	**—**	**—**	**—**	**5**	—	—	—	—	—
Alastair Riddell[6]	**119**	**—**	**—**	**—**	**119**	42	—	—	—	42
Simon Sturge[7]	**36**	**—**	**—**	**—**	**36**	75	—	—	—	75
Total	**858**	**12**	**148**	**37**	**1,055**	682	9	97	—	788

1 See related party transaction note 25
2 Appointed as a Director (Head of Research and Development) on 5 January 2015
3 Resigned as a Director on 2 September 2014, but continued as an employee until February 2015
4 Appointed as Chairman on 22 September 2015
5 Appointed as a Director on 12 November 2015
6 Appointed as Chairman on 5 January 2015, resigned as Chairman 22 September 2015 and received £20k for loss of office included within base salary above. Alastair Riddell served as Interim Executive Chairman from July 2015 to 22 Sept 2015
7 Resigned as a Director on 18 January 2016, stepped down as Chairman on 5 January 2015

Notes to the financial statements continued
year ended 31 December 2015

6. Directors and staff costs continued

The monthly average number of employees, including Executive Directors, during the year was 56 (2014: 51). Of these, the monthly average number of employees working in research and development and administration was 46 (2014: 35) and 10 (2014: 16) respectively.

Apart from the Directors, the monthly average number of employees of the parent Company was 11 (2014: 7); 5 working in administration (2014: 5) and 6 in research and development (2014: 2).

	Share options charge 2015 £'000	Share options charge 2014 £'000
Ali Mortazavi	**—**	183
Timothy Freeborn	**73**	103
Michael Khan	**43**	114
Lars Karlsson	**88**	—
Jerry Randall	**—**	199
Total	**204**	599

The Directors of the Group are considered by the Board to be the key management of the Group.

7. Finance income

The finance income comprises:

	2015 £000s	2014 £000s
Bank interest receivable	**175**	139
Other income	**165**	8
Finance and other income	**340**	147

8. Taxation

Deferred tax charge in 2015 was nil (2014: nil). Reconciliation of current tax credit at standard rate of UK corporation tax to the current tax credit:

	2015 £000s	2014 £000s
Loss before tax	**(9,429)**	(11,980)
Tax credit at the standard rate of UK corporation tax of 20.25% (2014: 21.5%)	**1,909**	2,576
Effect of overseas tax rate	**82**	24
Impact of unrelieved tax losses not recognised	**(1,991)**	(2,600)
Research and development tax credit in respect of prior year	**1,513**	892
Research and development tax credit in respect of current year	**1,271**	—
	2,784	892

Estimated tax losses of £73.5m (2014: £63.5m) are available for relief against future profits.

The deferred tax asset not recognised in these financial statements on the estimated losses and the treatment of the equity-settled share-based payments, net of any other temporary timing differences is detailed in note 18. During the year, the parent Company received a research and development tax credit of £1.5m (2014: £0.9m). We have accrued £1.3m recognising a current tax asset in respect of 2015 research and development tax credits.

During the year, there was a reduction in the rate from 21% to 20% (effective from 1 April 2015) A subsequent change was enacted in October 2015 to reduce the corporation tax rate to 18%. Minimal impact is expected from these changes given the Group is loss making.

9. Loss per share

The calculation of the loss per share is based on the loss for the financial year after taxation of £6.6m (2014: loss £11.1m) and on the weighted average of 64,023,900 (2014: 50,424,784) ordinary shares in issue during the year.

The options outstanding at 31 December 2015 and 31 December 2014 are considered to be non-dilutive as the Group is loss making.

10. Property, plant and equipment

Equipment and furniture

	Group £000s	Company £000s
Cost		
At 1 January 2014	3,114	9
Additions	337	15
Disposals	(3)	—
Translation adjustment	(193)	—
At 31 December 2014	3,255	24
Additions	843	575
Disposals	(25)	—
Translation adjustment	(187)	—
At 31 December 2015	**3,886**	**599**
Accumulated depreciation		
At 1 January 2014	2,896	3
Charge for the year	90	3
Eliminated on disposal	(3)	—
Translation adjustment	(186)	—
At 31 December 2014	2,797	6
Charge for the year	180	42
Eliminated on disposal	(25)	—
Translation adjustment	(159)	—
At 31 December 2015	**2,793**	**48**
Net book value		
As at 31 December 2014	458	18
As at 31 December 2015	**1,093**	**551**

Notes to the financial statements continued
year ended 31 December 2015

11. Goodwill

	2015 £000s	2014 £000s
Balance at start of year	**7,077**	7,549
Translation adjustment	**(414)**	(472)
Balance at end of year	**6,663**	7,077

The carrying amount of goodwill is attributable to the acquisition of Silence Therapeutics GmbH in 2005 and forms part of the Group's RNA therapeutics cash-generating unit (CGU). In accordance with IAS 36: Impairment of Assets, the carrying value of goodwill has been assessed comparing its carrying value to its recoverable amount.

The recoverable amount is based on fair value less costs to sell. No goodwill impairment was identified.

Fair value less costs to sell of the RNA therapeutics CGU has been determined based on the market capitalisation of the Group as a whole, which at the year end was £117.0m, less the Directors' assessment of the fair value associated with the Group's other CGU, which the Directors believe is equal to its net assets.

The Directors consider that the use of a fair value less costs to sell model based on market prices to be appropriate, given the simple nature of the business and the fact that all the enterprise value in the business resides within the RNA therapeutics CGU.

Due to the headroom which exists between the recoverable amount and the carrying value there is currently no reasonable possible change in the determined recoverable amount which would cause the CGU's carrying value to exceed its recoverable amount.

12. Other intangible assets

Group	Licences £000s	Internally generated patents £000s	Total £000s
Cost			
At 1 January 2014	2,301	1,000	3,301
Additions	1	—	1
Translation adjustment	(143)	(62)	(205)
At 31 December 2014	2,159	938	3,097
Additions	6	1	7
Translation adjustment	(126)	(55)	(181)
At 31 December 2015	**2,039**	**884**	**2,923**
Accumulated amortisation			
At 1 January 2014	2,299	751	3,050
Charge for the year	1	241	242
Translation adjustment	(143)	(54)	(197)
At 31 December 2014	2,157	938	3,095
Charge for the year	2	—	2
Translation adjustment	(126)	(54)	(180)
At 31 December 2015	**2,033**	**884**	**2,917**
Net book value			
As at 31 December 2014	2	—	2
As at 31 December 2015	**6**	**—**	**6**

The intangible assets included above have finite useful lives estimated to be of 10-15 years from the date of acquisition, over which period they are amortised or written down if they are considered to be impaired. Internally generated patent costs are only recorded where they are expected to lead directly to near term revenues. These costs are amortised on a straight-line basis over 10-15 years, commencing upon the completion of the asset. The charge for amortisation is included in the research and development costs in the income statement.

13. Investments in subsidiaries

Company	2015 £000	2014 £000s
Investment in subsidiary undertakings	**22,511**	34,026

The investment in subsidiary undertakings is made up as follows:

	Investment at cost £000s	Impairment provision £000s	Net total £000s
Shares and loans in subsidiary undertakings			
At 31 December 2013	80,655	(46,747)	33,908
Addition to loan	118	—	118
At 31 December 2014	80,773	(46,747)	34,026
Movement in the year	2,785	(14,300)	(11,515)
At 31 December 2015	**83,558**	**(61,047)**	**22,511**

At 31 December 2015, a non-interest bearing unsecured loan of £22.4m (2014: £22.4m) was outstanding from Silence Therapeutics plc to Silence Therapeutics (London) Ltd (formerly Stanford Rook Ltd). This receivable has been fully provided for.

At 31 December 2015 an impairment of £14.3m was made against the holding in Silence Therapeutics GmbH.

Subsidiary companies

The principal activity of all subsidiaries is the research and development of pharmaceutical products. All subsidiary companies are consolidated in the Group's financial statements:

Name	Place of incorporation and operation	Principal technology area	Proportion of ownership interest
Silence Therapeutics GmbH	Germany	RNA therapeutics	100%
Intradigm Corporation	US	RNA therapeutics	100%
Silence Therapeutics (London) Ltd (formerly Stanford Rook Ltd)	England	Immunotherapy	100%
Innopeg Ltd	England	Not active	100%

Name	Exempt from audit	Exempt from filing financial statements
Silence Therapeutics GmbH	No	No
Intradigm Corporation	Yes	Yes
Silence Therapeutics (London) Ltd (formerly Stanford Rook Ltd)	Yes	No
Innopeg Ltd	Yes	No

Silence Therapeutics plc has made an impairment provision against the investment and loans to Stanford Rook Ltd, Innopeg Ltd and Intradigm Corporation to the extent that they are deemed to be not recoverable. An impairment provision of £14.3m has been made against the investment in Silence Therapeutics GmbH as the Directors have reassessed the near term future cash flows between Silence Therapeutics GmbH and the Company, and using a probability adjusted value-in-use basis and a discount rate of 10%, have determined that an impairment arises.

Notes to the financial statements continued
year ended 31 December 2015

14. Trade and other receivables

	2015		2014	
	Group £000s	**Company £000s**	Group £000s	Company £000s
Trade receivables	**—**	**—**	—	—
Other receivables – current	**179**	**110**	212	124
Other receivables – non-current	**233**	**233**	—	—
Research and development tax credit receivable	**1,271**	**1,271**	—	—
Prepayments	**191**	**151**	163	101
Total trade and other receivables	**1,874**	**1,765**	375	225

The Directors consider that the carrying amount of trade and other receivables approximates to their fair value. Trade and other receivables were all payable within 90 days. Fair values have been calculated by discounting cash flows at prevailing interest rates.

No interest is charged on outstanding receivables.

15. Other financial assets

	2015		2014	
	Group £000s	**Company £000s**	Group £000s	Company £000s
Other financial assets	**—**	**—**	5,000	5,000

At the end of 2014 the Company had £5.0m on deposit with Investec Bank plc. The deposit was returned in March 2015. The rate of interest on this deposit was linked to the sterling: euro exchange rate.

16. Cash and cash equivalents

Cash at bank comprises balances held by the Group in current and short-term bank deposits with a maturity of three months or less. The carrying amount of these assets approximates to their fair value. In 2014 the deposits held at bank are treated as cash equivalents under the definitions of IAS 7: Cash Flow Statements.

	2015		2014	
	Group £000s	**Company £000s**	Group £000s	Company £000s
Cash and cash equivalents	**51,907**	**47,822**	16,857	15,761

17. Trade and other payables

	2015		2014	
	Group £000s	**Company £000s**	Group £000s	Company £000s
Trade payables	**207**	**81**	540	396
Social security and other taxes	**80**	**70**	118	59
Accruals and other payables	**831**	**663**	1,355	578
	1,118	**814**	2,013	1,033

Trade payables and accruals principally comprise amounts outstanding for trade purchases and continuing costs.

The Directors consider that the carrying amount of trade and other payables approximates to their fair value.

18. Deferred tax

The following are the major deferred tax liabilities and assets recognised by the Group:

	2015 £000s	2014 £000s
Deferred tax liability:		
– in respect of intangible assets	**2**	1
Less: offset of deferred tax asset below	**(2)**	(1)
Liability	**—**	—
Deferred tax asset:		
– in respect of available tax losses	**13,912**	18,215
– in respect of share-based payments	**849**	865
Less: offset against deferred tax liability	**(2)**	(1)
	14,759	19,079
– provision against asset	**(14,759)**	(19,079)
Asset	**—**	—

Deferred tax is calculated at a weighted average rate of 21.19% using the average UK and German tax rates.

Due to the uncertainty of future profits, a deferred tax asset was not recognised at 31 December 2015 (2014: nil).

19. Share capital

	2015 £000s	2014 £000s
Allotted, called up and fully paid		
69,801,624 (2014: 52,098,109) ordinary shares par value 5p	**3,490**	2,605

The Group has only one class of share. All ordinary shares have equal voting rights and rank pari passu for the distribution of dividends.

Details of the shares issued by the Company during the current and previous years are as follows:

	Number
Number of shares in issue at 1 January 2014	47,061,554
Shares issued during 2014:	
– issue of shares (equity placing) at 230p	4,938,555
Options exercised at 90p	98,000
Total issued in year	5,036,555
Number of shares in issue at 31 December 2014	52,098,109
Shares issued during 2015:	
– issue of shares (equity placing) at 240p	16,666,667
Options exercised at 25p	1,036,848
Total issued in year	17,703,515
Number of shares in issue at 31 December 2015	**69,801,624**

The Group has also granted options to certain Directors and employees under an Enterprise Management Incentive Scheme and by individual contract.

Notes to the financial statements continued
year ended 31 December 2015

19. Share capital continued

At 31 December 2015 there were options outstanding over 3,755,015 (2014: 4,711,703) unissued ordinary shares.

Details of the options outstanding are as follows:

Exercisable from	Exercisable until	Number	Exercise price
Any time until	26 July 2016	10,645	£6.38
Any time until	24 November 2016	8,000	£21.50
Any time until	14 December 2017	200	£54.50
Any time until	5 December 2018	200	£54.50
Any time until	26 July 2017	10,000	£63.50
Any time until	14 December 2017	1,098	£33.88
Any time until	7 May 2018	399	£20.75
Any time until	25 September 2018	4,300	£14.75
Any time until	5 December 2018	30,452	£10.00
Any time until	5 January 2020	9,999	£10.61
Any time until	27 July 2024	190,000	£0.25
Any time until	31 July 2024	1,728,078	£0.25
Any time until	31 December 2024	80,000	£1.25
26 June 2016	31 December 2018	65,288	£1.25
26 June 2016	26 June 2026	949,136	£1.25
1 July 2016	1 July 2026	23,103	£1.85
15 July 2016	15 July 2026	19,919	£2.17
12 August 2016	12 August 2026	36,014	£2.03
1 October 2016	1 October 2026	10,182	£2.75
14 October 2016	14 October 2026	20,663	£2.42
4 November 2016	4 November 2026	31,250	£2.40
20 November 2016	20 November 2026	40,000	£2.82
1 December 2016	1 December 2026	26,186	£2.06
13 January 2017	13 January 2029	21,645	£2.17
4 June 2017	31 December 2016	20,000	£1.25
16 June 2017	16 June 2029	42,857	£2.10
1 July 2017	1 July 2029	21,474	£2.20
1 September 2017	1 September 2029	17,153	£2.10
15 November 2017	15 November 2029	11,752	£2.01
24 November 2017	24 November 2029	20,000	£2.00
1 December 2017	1 December 2029	11,038	£2.14
1 January 2018	1 January 2030	70,029	£2.06
8 January 2018	8 January 2030	153,000	£2.05
23 February 2018	23 February 2030	22,913	£2.55
6 July 2018	6 July 2030	19,358	£2.93
19 October 2018	19 October 2030	16,667	£2.10
16 November 2018	16 November 2030	12,017	£1.76
Total options outstanding		**3,755,015**	

The market price of Company shares at the year end was 163.0p (2014: 206.0p). During the year the minimum and maximum prices were 160.0p and 335.0p respectively (2014: 179.0p and 375.0p).

20. Equity-settled share-based payments

The Company has a share option scheme open to all employees of the Group. Options are exercisable at a price equal to the market price of the Company's shares on the date of grant (certain option have been granted in the past at lower prices). Under the scheme, the options vest at dates set by the Company at the time the option is granted. The options lapse after one year following the employee leaving the Group.

	2015		2014	
	Number	**Weighted average exercise price p**	Number	Weighted average exercise price p
Options				
Outstanding at the beginning of the year	**4,711,703**	**104.99**	4,811,651	102.36
Granted during the year	**293,984**	**214.03**	366,089	205.81
Lapsed during the year	**(213,824)**	**286.50**	(368,037)	167.81
Exercised during the year	**(1,036,848)**	**25.00**	(98,000)	90.00
Outstanding at the year end	**3,755,015**	**96.26**	4,711,703	104.99
Exercisable at the year end	**2,073,371**	**125.28**	3,050,419	78.54

The options outstanding at the year end have a weighted average remaining contractual life of 9.6 years (2014: 10.3 years).

The Group granted 293,984 options during the year (2014: 366,089). The fair value of options granted were calculated using a binomial model and inputs into the model were as follows:

Inputs and assumptions for options granted in the year	**2015**	2014
Weighted average fair value at grant (p)	**174.8**	160.4
Weighted average share price (p)	**214.0**	205.8
Expected volatility	**91%-95%**	89%-99%
Risk-free rate	**1.56%-1.99%**	1.56%-2.70%
Hurdle price (p)	**400.0**	400.0
Expected dividend yield	**nil**	nil

The Group recognised total charges of £777k (2014: £1.1m) related to equity-settled share-based payment transactions during the year.

Notes to the financial statements continued
year ended 31 December 2015

21. Capital reserves

Group	Share premium account £000s	Merger reserve £000s	Share-based payment reserve £000s	Capital redemption reserve £000s	Total £000s
At 1 January 2014	84,057	22,248	2,979	5,194	114,478
On shares issued in the year:	11,112	—	—	—	11,112
– less cost of shares issued	(604)	—	—	—	(604)
On options in issue during the year	—	—	1,127	—	1,127
On options exercised during the year	84	—	—	—	84
Movement in the year	10,592	—	1,127	—	11,719
At 31 December 2014	94,649	22,248	4,106	5,194	126,197
On shares issued in the year:	39,167	—	—	—	39,167
– less cost of shares issued	(1,106)	—	—	—	(1,106)
On options in issue during the year	—	—	777	—	777
On vested options lapsed during the year	—	—	(168)	—	(168)
On options exercised during the year	207	—	—	—	207
Movement in the year	38,268	—	609	—	38,877
At 31 December 2015	**132,917**	**22,248**	**4,715**	**5,194**	**165,074**

Company	Share premium account £000s	Merger reserve £000s	Share-based payment reserve £000s	Capital redemption reserve £000s	Total £000s
At 1 January 2014	84,057	22,064	2,979	5,194	114,294
On shares issued in the year:	11,112	—	—	—	11,112
– less cost of shares issued	(604)	—	—	—	(604)
On options in issue during the year	—	—	1,127	—	1,127
On options exercised during the year	84	—	—	—	84
Movement in the year	10,592	—	1,127	—	11,719
At 31 December 2014	94,649	22,064	4,106	5,194	126,013
On shares issued in the year:	39,167	—	—	—	39,167
– less cost of shares issued	(1,106)	—	—	—	(1,106)
On options in issue during the year	—	—	777	—	777
On vested options lapsed during the year	—	—	(168)	—	(168)
On options exercised during the year	207	—	—	—	207
Movement in the year	38,268	—	609	—	38,877
At 31 December 2015	**132,917**	**22,064**	**4,715**	**5,194**	**164,890**

The capital redemption reserve was created in 2012 following the reduction of nominal share capital to 0.1p per share. It is required under Section 733 of the Companies Act 2006, held to maintain the capital of the Company when shares are bought back and subsequently cancelled without court approval.

Due to the size of the deficit on the profit and loss account, the Company has no distributable reserves.

The share premium account reflects the premium to nominal value paid on issuing shares less costs related to the issue.

The merger reserve was created on issuance of shares relating to the acquisition of Silence Therapeutics GmbH.

The share-based payments reserve reflects the cost to issue share-based compensation, primarily employee share options.

In 2014 the consolidated statement of comprehensive income included a gain arising on exchange differences of £701,000 as opposed to a loss of £701,000 reported in consolidated statement of changes in equity. The comparative has therefore been revised to show a loss of £701,000; with the resultant total comprehensive expense for the year to 31 December 2014 revised to £11,789,000. This has no impact on the loss for the year to 31 December 2014 or net assets.

22. Capital commitments and contingent liabilities

There were no capital commitments or contingent liabilities at 31 December 2015 (2014: nil).

23. Commitments under operating leases

At 31 December 2015 the Group and Company had a gross commitment on its office rental and service charge at 72 Hammersmith Road, London equal to £0.1m (2014: £0.2m) in the next year.

£1.0m (2014: nil) is payable between one to five years. No amounts are payable after more than five years.

24. Financial instruments and risk management

The Group's financial instruments comprise primarily cash and other financial assets and various items such as trade receivables and trade payables which arise directly from its operations. The main purpose of these financial instruments is to provide working capital for the Group's operations. The Group assesses counterparty risk on a regular basis. Board approval is required for adoption of any new financial instrument or counterparty. The primary focus of the treasury function is preservation of capital. The Directors consider that the carrying amount of these financial instruments approximates to their fair value.

Financial assets by category

The categories of financial assets (as defined by IAS 39: Financial Instruments: Recognition and Measurement) included in the balance sheet and the heading in which they are included are as follows:

	2015		2014	
	Group £000s	**Company £000s**	Group £000s	Company £000s
Loans and receivables				
Trade and other receivables	**412**	**343**	375	225
Other financial assets	**—**	**—**	5,000	5,000
Cash and cash equivalents	**51,907**	**47,822**	16,857	15,761

All amounts are short term other than £233k which is due after 1 year (2014: nil) and none are past due dates at the reporting date.

Financial liabilities by category

	2015		2014	
	Group £000s	**Company £000s**	Group £000s	Company £000s
Other financial liabilities at amortised cost				
Trade and other payables	1,038	744	2,013	1,033

All amounts are short term and payable in zero to three months.

The maximum exposure to credit risk at the reporting date by class of financial asset was:

	2015		2014	
	Group £000s	**Company £000s**	Group £000s	Company £000s
Loans and receivables	**1,641**	**1,532**	375	225

Cash and cash equivalents are not considered to be exposed to credit risk due to the fact it sits within the bank. The Group considers the possibility of significant loss in the event of non-performance by a financial counterparty to be unlikely.

Capital management

The Group considers its capital to be equal to the sum of its total equity. The Group monitors its capital using a number of key performance indicators including cash flow projections, working capital ratios, the cost to achieve preclinical and clinical milestones and potential revenue from existing partnerships and ongoing licensing activities. The Group's objective when managing its capital is to ensure it obtains sufficient funding for continuing as a going concern. The Group funds its capital requirements through the issue of new shares to investors, milestone and research support payments received from existing licensing partners and potential new licensees.

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year ended 31 December 2015

24. Financial instruments and risk management continued

Interest rate risk

The nature of the Group's activities and the basis of funding are such that the Group has significant liquid resources. The Group uses these resources to meet the cost of future research and development activities. Consequently, it seeks to minimise risk in the holding of its bank deposits while maintaining a reasonable rate of interest. The Group is not financially dependent on the income earned on these resources and therefore the risk of interest rate fluctuations is not significant to the business. Nonetheless, the Directors take steps to secure rates of interest which generate a return for the Group by depositing sums which are not required to meet the immediate needs of the Group in interest-bearing deposits. Other balances are held in interest-bearing, instant access accounts. All deposits are placed with main clearing banks to restrict both credit risk and liquidity risk. The deposits are placed for the short term, between one and twelve months, to provide flexibility and access to the funds and to avoid locking into potentially unattractive interest rates.

Credit and liquidity risk

Credit risk is managed on a Group basis. Funds are deposited with financial institutions with a credit rating equivalent to, or above, the main UK clearing banks. The Group's liquid resources are invested having regard to the timing of payments to be made in the ordinary course of the Group's activities. All financial liabilities are payable in the short term (between zero and three months) and the Group maintains adequate bank balances in either instant access or short-term deposits to meet those liabilities as they fall due.

Currency risk

The Group operates in a global market with income possibly arising in a number of different currencies, principally in sterling or euros. The majority of the operating costs are incurred in euros with the rest predominantly in sterling. The Group does not hedge potential future income since the existence, quantum and timing of such income cannot be accurately predicted.

Financial assets and liabilities denominated in euros and translated into sterling at the closing rate were:

	2015		2014	
	Group £000s	**Company £000s**	Group £000s	Company £000s
Financial assets	**10,748**	**6,650**	1,246	—
Financial liabilities	**(305)**	**—**	(556)	—
Net financial assets	**10,443**	**6,650**	690	—

Financial assets and liabilities denominated in US dollars and translated into sterling at the closing rate were:

	2015		2014	
	Group £000s	**Company £000s**	Group £000s	Company £000s
Financial assets	**2**	**—**	2	—
Financial liabilities	**—**	**—**	(424)	—
Net financial assets/(liabilities)	**2**	**—**	(422)	—

The following table illustrates the sensitivity of the net result for the year and the reported financial assets of the Group in regards to the exchange rate for sterling: euro.

During the year sterling appreciated by 6% versus the euro. The table shows the impact of an additional strengthening or falling of sterling against the euro by 20%.

2015	As reported £000s	If sterling rose 20% £000s	If sterling fell 20% £000s
Group result for the year	**(6,645)**	**(5,898)**	**(7,542)**
Euro denominated net financial liabilities	**3,893**	**3,245**	**4,672**
Total equity at 31 December 2015	**60,427**	**58,577**	**62,647**

2014	As reported £000s	If sterling rose 20% £000s	If sterling fell 20% £000s
Group result for the year	(11,088)	(10,177)	(12,456)
Euro denominated net financial liabilities	690	575	863
Total equity at 31 December 2014	27,758	26,460	29,703

The Group no longer has a material operating exposure to the US dollar.

No amounts are included in the balance sheet at fair value, and therefore no fair value hierarchy is included.

25. Related party transactions

The Company and Group had transactions during the year and balances at the year end with the following organisations which are considered to be related parties:

	2015		2014	
	Group £000s	**Company £000s**	Group £000s	Company £000s
Silence Therapeutics GmbH				
Expenses charge for services	**—**	**4,454**	—	5,222
Balance due at 31 December 2015, prior to provision	**—**	**13,552**	—	10,775
Pharmalogos Limited				
Expenses charge for services	**20**	**20**	120	120
Balance owed at 31 December 2015	**—**	**—**	—	—

Pharmalogos Limited, a company controlled by Dr Stella Khan, wife of Dr Michael Khan, supplies research services to Silence Therapeutics plc at an agreed price of £120,000 per annum. Notice was given to cease Pharmalogos services in September 2014, with effect from February 2015.

26. Subsequent events

The Company is entitled to 15% of all revenues derived by Quark Pharmaceuticals Inc. ("Quark") from Novartis before patent expiry in 2023. In March 2016 the Company went into formal arbitration with Quark in respect of $3m the Company is due following $20m that was paid by Novartis to Quark in 2015.

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Glossary

AKI	Acute kidney injury
AtuRNAi®	Proprietary siRNA modification pattern
Atu027	Our proprietary cancer product candidate
CRISPR/Cas9	Clustered regularly interspaced short palindromic repeats/protein-9 nuclease
DACC	Proprietary lung targeted RNA delivery system
DGF	Delayed graft function
EMA	European Medicines Agency
FDA	Food and Drug Administration
GalNAc	N-Acetylgalactosamine
liposomal	Encapsulated in a lipid nanoparticle
mRNA	Messenger RNA
NHP	Non-human primates
OS	Overall survival
PAH	Pulmonary arterial hypertension
PFS	Progression free survival
PKN3	Protein kinase N3
RNA	Ribonucleic acid
RVSP	Right ventrical systolic pressure
siRNA	Short interfering RNA

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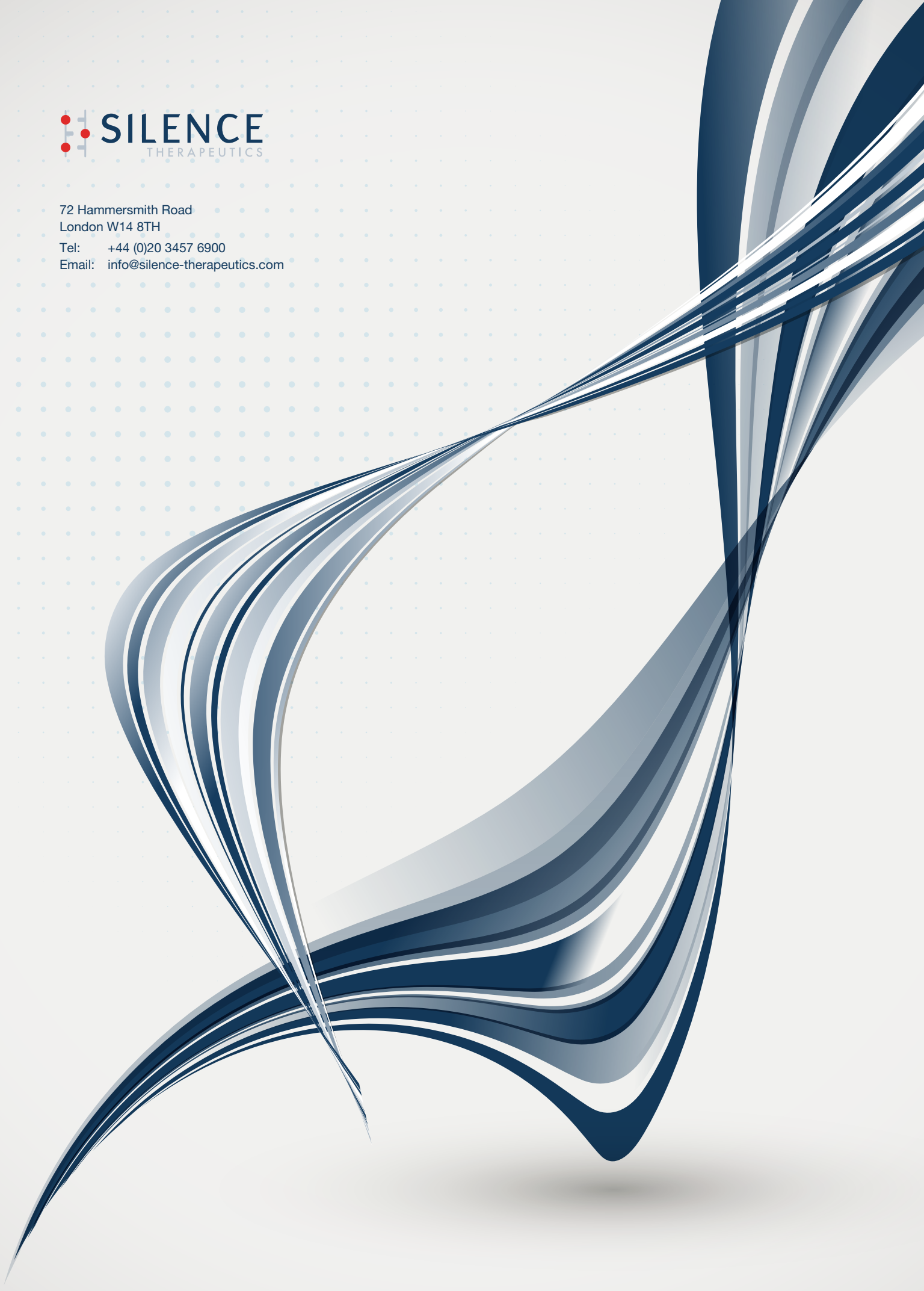

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