SILENCE THERAPEUTICS

Annual Report and Accounts 2017

RNAi – new medicines that will make a difference

RNAi – addressing serious diseases with new medicines that will make a difference

Silence is at the forefront of the discovery and development of a range of new medical treatments. Globally, we are one of a small handful of companies with the technological capability to switch off, or silence, individual human genes.

This technology is called RNA interference, or RNAi. It is through the application of such technology that we can offer opportunities to partners and investors that were undreamt of just a few years ago. Ultimately, our RNAi-based drugs are designed to provide new hope to patients suffering diseases that were previously difficult or impossible to treat.

Our mission is to use our technology to create a new generation of therapeutics which can improve outcomes for patients and, in the process, build shareholder value.

1 Strategic report

2 Governance

3 Financial statements

Highlights

Silence Therapeutics' international team is driving pipeline development of RNA interference (RNAi) therapeutics, a highly innovative, specific, new class of medicines with life-saving potential for patients with serious and rare diseases, creating value in tandem for our stakeholders.

Strategic highlights

- Silence remains focused upon executing its core business of drug discovery and development, building a proprietary therapeutic pipeline based upon its core siRNA platform technology.
- Pipeline progression is a priority, with the decision made to move two programmes towards Clinical Trial Applications at the earliest possible opportunity.
- Silence continues to invest in the siRNA platform through its Technology Innovation group: optimising stability, potency and durability of its molecules together with developing potentially transformative oligonucleotide-based technologies that have the potential to increase the value of the Company.
- The Company continues to defend its foundational Intellectual Property at the same time as seeking to patent new technologies, molecules and conjugates.
- Following the presentation of strong pre-clinical data at the Capital Markets Day, Silence is actively focused upon securing at least one validating substantial business development deal in 2018, together with academic and commercial collaborations.
- The Silence senior management team has been strengthened considerably in order to keep pace with the growth of the Company, with further senior clinical and regulatory hires anticipated in 2018.

Operational highlights

- Generated and presented extensive, multi-faceted, pre-clinical data demonstrating clear proof of biologic mechanism and concept for Silence's two lead programmes for iron overload disorders and alcohol use disorder, planned to be in clinical development within 18 months.
- Data highlights included key findings in animal disease models representative of iron overload disorders, increasing confidence in Silence's lead candidate SLN124, planned to enter clinical development by end of 2018.
- Recruited five high calibre individuals: Head of Intellectual Property, Chief Operating Officer, Head of Business Development and Licensing, Non-Executive Chair, and Head of Technology Innovation - all with leadership roles at both major global pharma and entrepreneurial biotechnology companies, as well as deep RNAi and oligonucleotide expertise.
- During 2017 Silence commenced UK litigation action against Alnylam Pharmaceuticals and The Medicines Company, who subsequently sought claims for revocation and declarations of non-infringement in respect of the patent in suit. In November 2017 Silence counterclaimed for threatened infringement of the patent in suit. It is likely that all issues between the parties will be heard at a trial beginning on, or around, 3 December 2018.

Financial highlights

- Initiated an orderly disposal of Silence's near 10% stake in Arrowhead Pharmaceuticals Inc. in Q4 2017 after considerable share price appreciation, significantly bolstering the cash balance available to be deployed for operations.
- Operating cash outflow of £9.6m for the year, and an ending cash balance of £42.7m.

Post year end

- New European patent (EP 1857547B) granted 17th January 2018 further protecting Silence's key siRNA chemical modifications that read widely across the RNAi industry.
- Disposal of the final portion of Arrowhead Pharmaceuticals shares in January 2018 with cumulative proceeds from the disposal totalling $24.7m (£18.4m) and a cash balance of £43m as of 2 January 2018.

How does gene silencing work?

Every living organism is made up of cells. Humans have millions of cells and inside each one is a nucleus, protecting its DNA. Cells use DNA as a blueprint to manufacture the proteins that make the body function. While DNA always remains inside the nucleus, a blueprint for each gene is taken outside the nucleus by a messenger known as mRNA (messenger RNA) and is used by the cell as the instructions to make proteins.

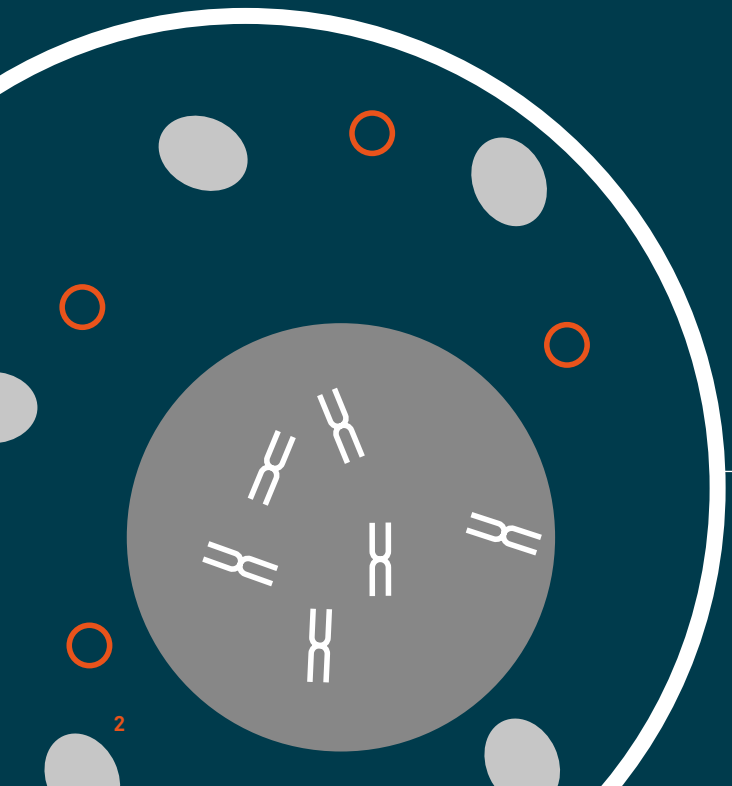
DNA

3.2 bn
bases of DNA make up the human genome

1

2

In most cases, everything works well and the body functions as it should. But sometimes certain cells produce mRNA erroneously, resulting in synthesis of too much of a particular protein, or a wrong protein, leading to a disease.

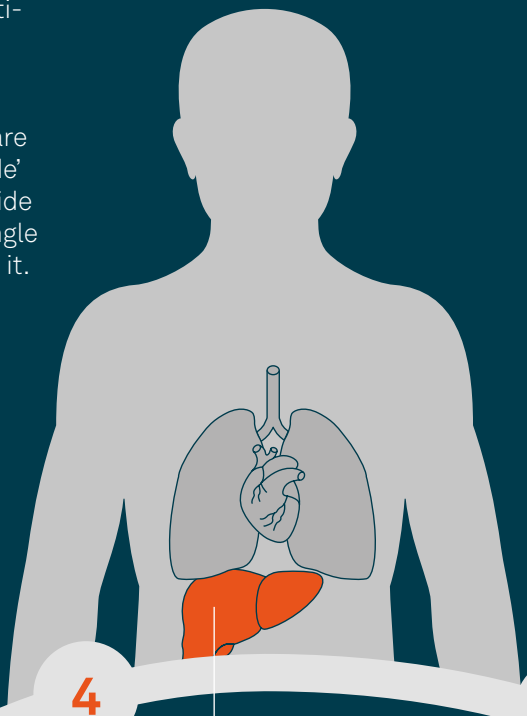


Iron overload disorders:

1 million
patients in the US

2 million
patients in the EU

As we know the sequences of all genes and their blueprints, a specific 'anti-code' can be designed against the problematic mRNA. Short interfering RNA (siRNA) molecules are our therapeutic 'anti-code' molecules that, once inside the cell, will find their single target mRNA and bind to it.



siRNA molecules can be engineered to suppress the expression of any gene in the genome. Coupled with a tissue-specific delivery system, this novel drug modality provides double specificity by acting only in the desired organ and inhibiting the expression of only one gene.

3

4

5

6

>7,000

genes operate in the liver. Using proprietary GalNAc delivery technology, we can deliver siRNA molecules to the liver cells (hepatocytes) and degrade mRNA expressed from any of those genes. Down-regulation of properly selected genes may result in mitigating liver-associated disorders.

Guided by our tailored siRNA molecules, the endogenous cell machinery will then trigger a natural process known as RNA interference (RNAi) and degrade the target mRNA. This mechanism results in inhibited production of the disease-causing protein, allowing the cell to revert to its physiological healthy state.

The combination of siRNA and suitable delivery systems leads to the creation of a new generation of drug candidates that will impact the future of medicine.

Currently in preclinical development with plans to enter clinical development in Q4/2018

Chair's statement

Dr. Annalisa Jenkins, MBBS, FRCP
Non-Executive Chair

> **The Board is focused on optimising Silence's strategies to capitalise on a world class RNAi platform, and on ensuring management has the right resources and capabilities to succeed.**

Dear shareholder,
It is with great pleasure that I present this annual report, the first since I became Non-Executive Chair in October 2017.

Firstly, I would like to thank Dr. Stephen Parker, from whom I have taken over the Chair role, for his exemplary Board leadership over the past two years. Stephen remains a Non-Executive Director having been appointed to the Board in 2013 and I look forward to our continuing collaboration.

Silence Therapeutics is listed on the AIM in London. It is the leading European RNAi (RNA interference) company competing globally in a sector that is now delivering new treatment options for people living with serious medical conditions. I am pleased to have joined the Board because I am genuinely excited about the current window of opportunity to advance our leading technology platform into the clinic in the coming year. I have been highly impressed by the quality of the science and specifically the deep expertise in RNAi and associated technologies. Our R&D operation in Berlin has over 15 years of oligonucleotide discovery research expertise in high throughput screening, in vivo pharmacology and CMC (Chemistry, Manufacturing and Control). This is combined with remarkable people, and a culture that is dedicated to developing innovative new therapeutic options to change the lives of patients with serious diseases. I have great confidence in our ability to be a leader in the next generation of RNAi medicines. I believe that the team we are building will deliver a globally competitive and successful RNAi platform and drug development company.

Robust governance and strategy
Governance and compliance continues to be a key focus for the Board. Board responsibilities, tasks and achievements for 2017 are described in detail in the Corporate Governance report starting on page 26. The Board is focused on optimising Silence's strategies to capitalise on a world class RNAi platform, and on ensuring management has the right resources and capabilities to succeed. We are confident that Silence has created and will sustain an entrepreneurial, international culture befitting a biotechnology company at the forefront of innovation and the development of new medicines for patients globally.

Becoming a clinical stage company
Silence is intent on accelerating development of a novel innovative pipeline through a clear focus on the quality of the science, integrated development planning and decision making, to maximise the probability of success. We started 2018 with a substantial cash position of £43 million (as of 2nd Jan 2018) which will be primarily invested in advancing our lead programmes into the clinic and strengthening our R&D capabilities. Our lead programme addresses disorders of iron overload, characterised by a group of rare diseases including beta thalassaemia, where the medical need is great and for which there are limited effective treatment options. We anticipate filing a Clinical Trial Application (CTA) this year and entering clinical trials in the

first half of 2019. Well characterised rare diseases such as these have attractive development pathways whilst still being commercially attractive. Silence is also advancing the preclinical development for our therapy designed to help patients with alcohol use disorder at high risk of fatal consequences. We expect to file a CTA for the RNAi candidate for alcohol use disorder in 2019.

Business development

As an innovative disruptive approach, the RNAi field has progressed over a number of years from the bench through translation into the clinic. This cycle of innovation has been led by academics and biotech companies all aligned by a desire to offer new important therapies for patients. Silence's foundational intellectual property covering patents and knowhow on key chemical modifications affecting efficacy, targeting and delivery of RNAi has been an important part of this evolution. RNAi is now at an inflection point and poised to deliver on its promise, addressing serious diseases with new medicines that will make a difference. The broader pharmaceutical sector is increasingly focused on personalised approaches to rare and serious diseases. We believe that our platform and R&D capabilities offer an opportunity for partnerships that will enable and accelerate the field. Silence is focused on securing strategic platform and pipeline deals in 2018 that validate our science and support the broadening of our pipeline and geographic footprint.

Outlook

The efforts of our leadership and scientists over many years have built a foundation that today offers an exciting set of opportunities that we intend to capture in the coming year. I would like to recognise and thank our employees at Silence, at all levels of the organisation, for their hard work, resilience, passion, dedication and will to succeed. It is the quality of the people at a company and the culture as much as the fundamental technology, science and programmes, that keep an outstanding business moving forwards and sustain its ability to prevail. It is a privilege to be part of a team of colleagues who are making a difference and I am thankful to the Board and investors for your confidence. Together we will help people live better and longer lives.

Dr. Annalisa Jenkins
Chair
7 March 2018

Chief Executive Officer's review

Ali Mortazavi
Chief Executive Officer

> **We are excited by the potential of RNAi based therapies using our world class GalNAc-siRNA technology as we progress our lead asset into clinical trials, taking one step closer to making our therapeutic products available to patients, and all the while creating value in tandem for our stakeholders.**

2017 was a pivotal year in the validation of RNA interference (RNAi) as a new class of therapeutics and our Company has made great strides as a part of this new paradigm, which offers a vast opportunity. We remain committed to building a globally competitive drug development company focused on using our robust and proprietary RNAi platform to bring therapies to patients with life-threatening diseases. We are excited to become a clinical stage company within the coming year and to see our technology progress into clinical trials, a key step closer to making our therapeutic products available to patients.

Transformative year

2017 has also been a year of transformation for Silence Therapeutics, building an international, sector-experienced Board and executive team and advancing its pre-clinical pipeline. This was highlighted at our Capital Markets Day in November 2017, an event well attended by investors, analysts and media at which many of our recently recruited, top calibre executives presented their on-going achievements, and ambitious plans. Members of the team showed that Silence is well equipped to execute its strategy of transitioning into a drug development company with a powerful enabling technology which can essentially inhibit any gene in the liver (via hepatocytes), using our GalNAc-siRNA (short interfering RNA) platform. This enabling platform technology is being continuously improved by our technology innovation group, providing potentially important advantages over competitors.

Pipeline focus

The Company presented robust pre-clinical data at its Capital Markets Day in November 2017, demonstrating clear proof of biologic mechanism and concept for its two lead programmes which will be in clinical development within 12 and 18 months, respectively. This data included key findings in animal disease models representative of human Iron Overload Disorders, which increased the Company's confidence in its lead candidate SLN124. SLN124 will enter clinical development by end of 2018 and will be Silence's first GalNAc-siRNA candidate to generate data in humans. Silence's second programme, SLN226, designed to help patients with alcohol use disorder at high risk of fatal consequences is on track to follow suit with a CTA filing by mid-2019, potentially with a partner company.

Focus is also being given to rigorous new target selection processes to generate a deep pre-clinical pipeline which can undergo clear go/no-go gates to potential Clinical Trial Application (CTA) filings and beyond. Target selection is crucial to the long-term business strategy of Silence's. This includes a highly experienced target selection team augmented by access to the highest calibre key opinion leaders and academic/industry liver groups who help the Company identify new targets and causal biological pathways.

Maximising the platform

Silence has the industry experience and expertise at all levels of our Company to capitalise on our powerful, reproducible and modular GalNAc-siRNA platform; a platform that can rapidly and safely be used to specifically and effectively silence any disease-associated target gene in hepatocytes and to drive the Company forward on multiple fronts. The Board and executive management have a strong track record of proven execution and expertise in the RNAi and oligonucleotide fields as well as experience within the broader pharma and biotech industry. During 2017, Silence made a number of high-profile appointments to the Board and senior management team: Head of Intellectual Property, Alison Gallafent; Chief Operating Officer, Dr. Torsten Hoffmann; Head of Business Development and Licensing, Michael Mulqueen; Non-Executive Chair, Dr. Annalisa Jenkins and Dr. Marie Lindholm, Head of Technology Innovation (see page 24 for more details). Together, these individuals combine decades of industry experience and notable successes with a passion to drive innovative medicine and bring therapies to patients with life- threatening diseases.

Given the vast number of opportunities in the liver, Silence plans to pursue different therapeutic opportunities, selected in a risk-diversified manner, and focus on indications with high unmet need where the Company's therapies can make a dramatic difference to patients. Silence will take an approach that will allow the Company to develop treatments both for rare and non-rare conditions, periodically assessing options and seeking strategic partnerships for the larger markets.

2017 progress drives value creation

Silence stated that 2016-2018 would be the pivotal years when RNAi became a reality and this continues to be borne out as the first RNAi therapies have shown efficacy in late-stage human clinical trials. 2017 saw the first successful clinical Phase 3 RNAi results and the field is forecast to deliver a series of important new medicines in the coming five years, with first regulatory approvals expected in 2018.

As a result of the tangible progress in RNAi and pipeline creation within each RNAi company, the field has attracted significant levels of capital in recent months. This has been reflected by sustained expansion of company valuations with company share price performance significantly outstripping that of publicly listed biotech companies on average, and biotech companies with large market capitalisations of over $40 billion, in particular. Whilst the NBI Biotech index rose 18% in calendar year 2017 the shares of Silence Therapeutics and its peer group have risen 90% or more (source: Bloomberg).

Silence aims to maintain this trend and continue to create shareholder value as a result of its commitment to developing highly innovative and specific RNAi therapies for patients in need.

Strong cash position

Given a significant rise in the share price of Arrowhead Pharmaceuticals, the Board decided to liquidate, in an orderly manner, Silence's near 10% investment stake in Arrowhead during Q4 2017 and early January 2018. Cumulative net sale proceeds were $24.7 million (£18.4 million), bolstering Silence's net cash balance which stood at £43 million on 2nd January 2018.

Silence thus has a strong cash position to drive the value of its platform technology and therapeutic portfolio. The Company will be deploying its capital on core drug development activities to reach value inflection points that may include clinical trial data and out-licensing of programmes.

Advantages of focusing on Rare Diseases

- **Market opportunity – although patient populations are small, these are often life threatening diseases with high unmet needs and little competition**
- **Lower development costs – smaller patient populations allow for smaller clinical studies to demonstrate safety and efficacy**
- **Faster development time – accelerated paths to regulatory approval are often available given the high unmet need**
- **Support from regulators – advantages provided by incentive programmes such as FDA and EMA orphan drugs designation**

Chief Executive Officer's review
continued

Strong Intellectual Property

Technology innovation is key to remaining at the forefront of disruptive new treatment modalities such as RNAi, and this is underpinned by intellectual property (IP). In recent years GalNAc conjugates have become the main accepted and clinically validated technology for optimised stability, delivery, targeting, specificity and efficacy of RNAi. In 2017, Silence continued to strengthen its overall patent estate and protection of its GalNAc-siRNA IP in particular by filing additional patents for several lead sequences, several linker chemistries, several RNAi constructs and modification rules. The US Patent and Trade Mark Office also granted several US patent applications in 2017 for Silence's foundational chemical modification technology, providing Silence with further protection for this technology in the USA. Additional patent grants for this technology in Europe also resulted from Silence's prosecution before the European Patent Office in 2017. Silence, as a pioneer in RNAi modification, now has ten granted US patents, one USpatent application, four granted European patents and three European patent applications encompassing its chemical modification technology.

Silence believes that several granted claims protecting its chemical modification technology are relevant to third-party RNAi medicines and that, more generally, its foundational IP underpins the RNAi field. As part of Silence's determination to enforce its patent estate, litigation in the UK is ongoing in respect of one of its patents. The potential risks and ramifications of this litigation have been carefully assessed. This litigation is proceeding towards a trial in the High Court in London beginning on, or around, 3 December 2018.

While Silence continues to develop further innovation and to protect its rights and inventions, the Company remains focused on executing its core business of drug discovery and development to continue to build its therapeutic pipeline.

External partnerships

Silence's IP has already been validated through out-licensing to Quark Pharmaceuticals ("Quark"), and future licensing agreements are anticipated. In July 2017 Quark announced positive results of a phase 2 trial evaluating the efficacy and safety of an siRNA treatment (QPI-1002) for the prevention of Acute Kidney Injury (AKI) in patients at high risk following cardiac surgery. This utilised Silence's proprietary chemical modification technology. Primary endpoints of the trial were met. The product is exclusively partnered with Novartis, who have an option for worldwide development and commercialisation in AKI. Novartis also has an option on QPI-1002 in Delayed Graft Function for which a phase 3 study is ongoing. Silence awaits news from Quark as to the next steps in development of QPI-1002 in AKI.

Going forward, Silence intends to build further partnerships based both on the Company's pipeline programmes and on maximising the value of its platform

technology. With regard to innovation, Silence plans to establish research collaborations with leading academic/industry groups to explore potentially synergistic combinations of cutting-edge technologies to enable improved and/or entirely new applications for RNAi therapies such as new delivery technologies to target different cell types.

Culture and values

Our culture reflects the passion and strong commitment that each of us has to bringing therapies to patients with life-threatening diseases. We are acutely aware that perhaps no other industry has the potential to impact on society as much as ours, and this is a constant motivation for all our employees. Our work flourishes thanks to rigorous science, clarity of purpose, agile and informed decision-making, and willing hard work from everyone in our team.

In recent years, there has been much debate about the practices and pricing structures in drug commercialisation. Silence constantly strives to fairly straddle the fine line between commercial/shareholder returns and the obligations the Company has to potential patients and the wider community. At the forefront of this is assessing the potential performance of Silence's medicines in relation to current standards of care and ensuring that these medicines can create significant benefit at a price point which is equitable.

Outlook for 2018

2018 will be a year of continuity and building upon success to capture value. Silence will continue to execute on pipeline development, leveraging its platform to do so, and will be preparing to become a clinical stage company to advance our next generation RNAi technology. Silence will therefore be adding internal clinical development and regulatory capabilities to augment its existing strong research and development expertise. This is in anticipation of filing Silence's first GalNAc-siRNA CTA for the treatment of Iron Overload Disorders by the end of 2018. The Company's second programme in alcohol use disorder is on track to follow suit with a CTA filing by mid-2019, potentially being progressed through partnership.

A key 2018 objective will be for Silence to secure further validating, strategic R&D collaborations and out-licensing agreements utilising its GalNAc-siRNA technology. As Silence continues to adopt this growth strategy, and in order to continue to build value for our existing shareholders, the Company is currently exploring options to expand our international capital market presence, including the potential for a NASDAQ listing. In addition, I look forward to working with the team to maintain the highly rigorous science, clear decision making, transparency, passion and commitment that have made all our 2017 achievements possible.

Ali Mortazavi
Chief Executive Officer
7 March 2018

> **We are acutely aware that perhaps no other industry has the potential to impact on society as much as ours, and this is a constant motivation for all of our employees.**

Our pipeline

A core focus is the development of our own clinical-stage RNA therapeutics, having developed a broad pipeline of product candidates.

The graphic below shows a snapshot of our current pipeline, which is mostly centred around our liver-targeting GalNAc-siRNA platform technology. Our pipeline consists of a diversified set of therapeutic areas, including rare and metabolic indications.

With regards to our out-licensed programmes, the drug candidates being developed by our licensee Quark Pharmaceuticals, in partnership with Novartis, continue to progress and are currently advancing through Phase 2 and Phase 3 trials.

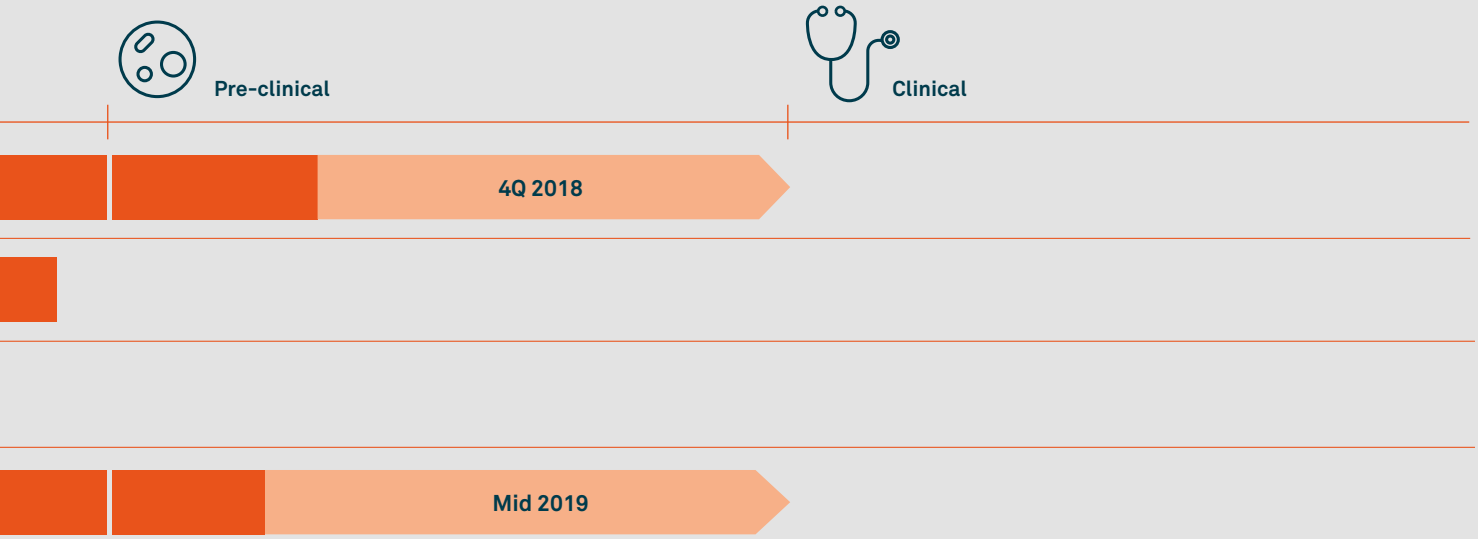
Our programmes

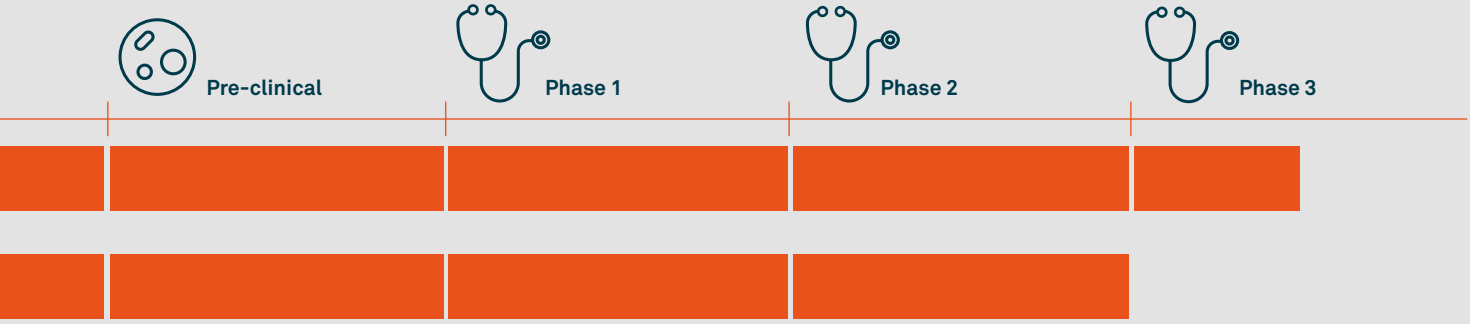
	Programme	Discovery
Rare diseases	Iron overload disorders	
Metabolic diseases	Cardiovascular disease	
	Undisclosed indication	
Other	Alcohol use disorder	

Out-licensed programmes (AtuRNAi™)

	Programme	Discovery
	QPI 1002 Delayed Graft Function (DGF)	
	QPI 1002 Acute Kidney Injury (AKI)	

“RNAi is now at an inflection point and poised to deliver on its promise, addressing important serious diseases with new medicines that will make a difference.





Rare diseases: Iron overload disorders

Iron overload is characterised by elevated systemic iron levels which result in tissue iron accumulation and, if untreated, will cause damage to tissues and organs such as the heart, liver, kidney and endocrine organs.

The unmet need

Causes

In anaemic disorders like ß-thalassemia, excess iron is distributed throughout the body due to ineffective, "stressed" erythropoiesis (production of red blood cells) and iron hyperabsorption. The condition is further exacerbated by blood transfusions used in the treatment of anaemia. In hereditary hemochromatosis, iron overload is caused by mutations in the genetic pathway that controls iron homeostasis and iron absorption.

Treatments

In patients with anaemia, iron overload is treated with iron chelators. Blood transfusions are administered as necessary. Hereditary hemochromatosis patients are commonly treated by phlebotomy (blood removal).

Symptoms and complications

Tissue iron levels are reduced by chelation therapy, which requires daily treatment and close monitoring. Iron chelators are not always well tolerated. Chelation therapy does not ameliorate the underlying anaemia.

1m
patients in the US

2m
patients in the EU

What we're doing

Our subcutaneous delivered drug will minimise patient burden and require less frequent administration, while being highly effective at targeting the underlying causes of the disease.

SLN124 has the potential to reduce systemic iron, prevent organ iron overload and enhance erythropoiesis.

Providing a significantly improved therapeutic option and better quality of life for patients living with iron overload conditions, such as ß-Thalassemia. SLN124 is currently in preclinical development with plans to enter clinical development in Q4 2018.

What could this mean?

Doctors

A milestone on the journey to precision medicine, gene silencing holds the promise of improved treatments and better quality of life for patients, a genuine cure rather than symptom relief.

Patients

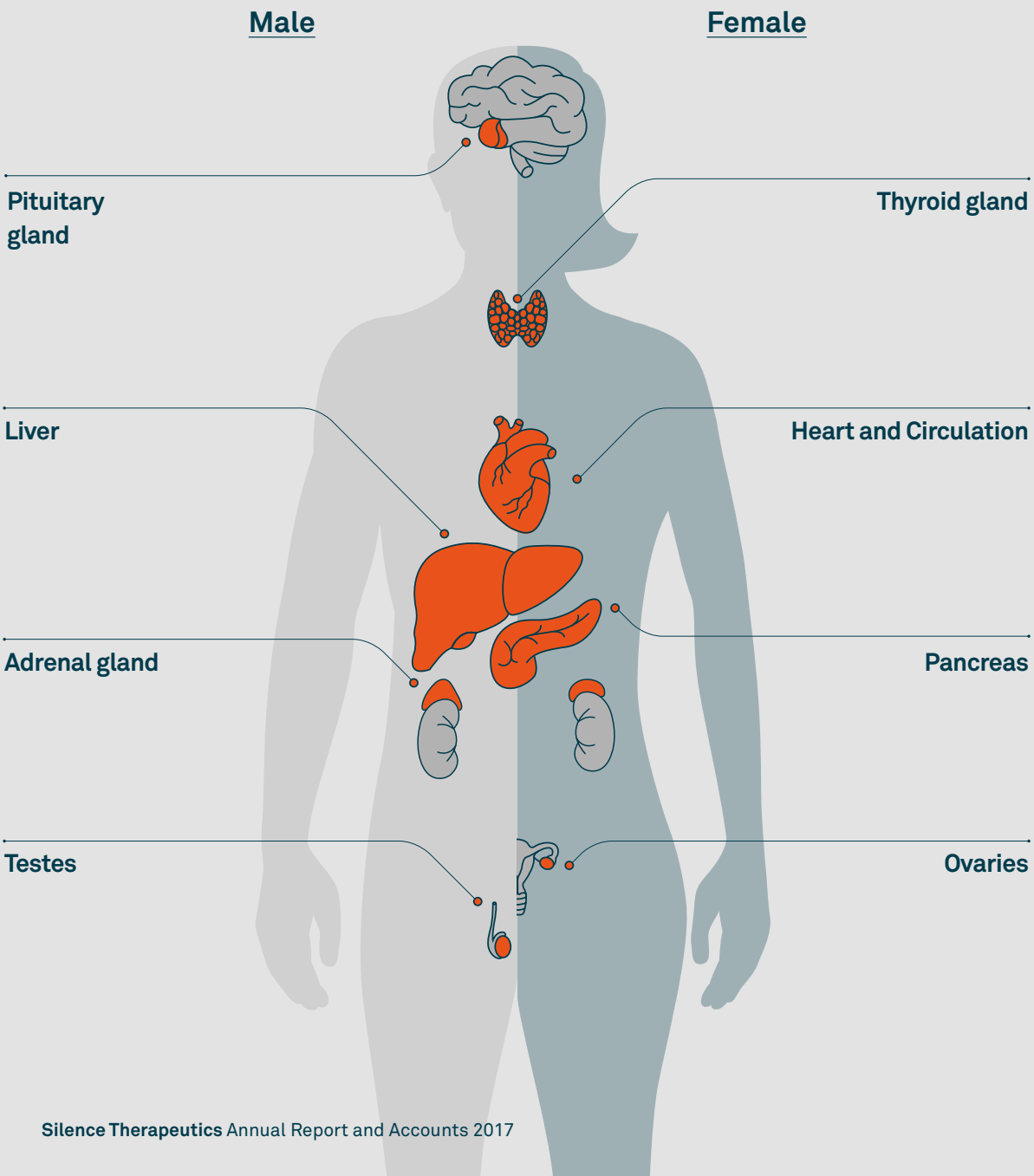
By targeting a physiological key modulator of iron homeostasis, we will reduce systemic iron levels in patients, prevent iron overload and enhance erythropoiesis while minimising the risk of side effects. Due to infrequent subcutaneous administration of our drug, patient burden will be low.

Rare diseases: Iron overload disorders continued

Diseases with iron overload

- ß-Thalassemia
- Hereditary Haemochromatosis
- Myelodysplastic Syndrome
- Aplastic Anaemia
- Sideroblastic Anaemia

Organs affected by iron overload



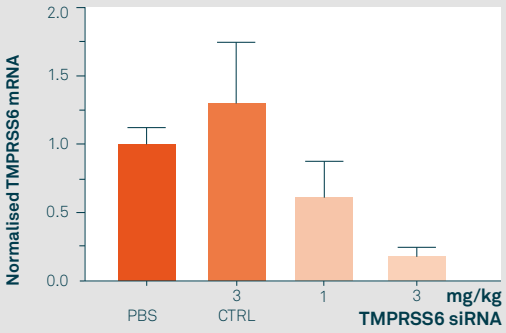
What key opinion leaders in the field of research say about SLN124

- "There is a high medical need to reduce iron overload and number of transfusions in patients which is not met by therapies currently available.
- SLN124 has the potential to
  - Reduce systemic iron;
  - Prevent organ iron overload;
  - Enhance erythropoiesis, the production of red blood cells

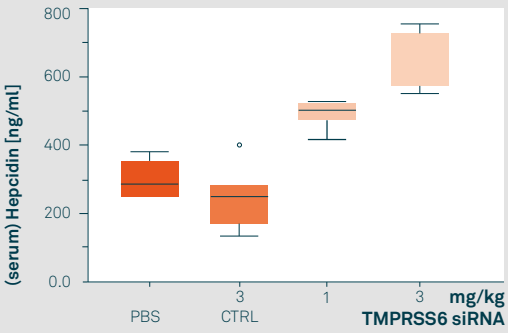
... providing a significantly improved therapeutic option and better quality of life for patients living with iron overload conditions, such as ß-Thalassemia."

How our drug, SLN124, performs in a mouse disease model

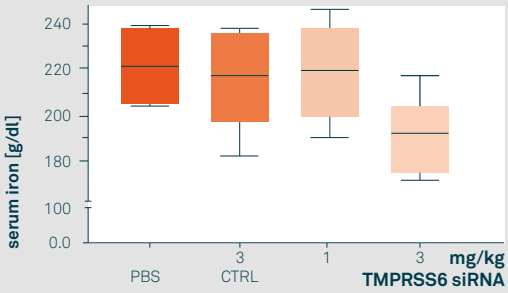
1. TMPRSS6 mRNA (liver)
TMPRSS6 regulates hepcidin and plays a key role in iron levels – SLN124 reduces TMPRSS6 created in the liver.



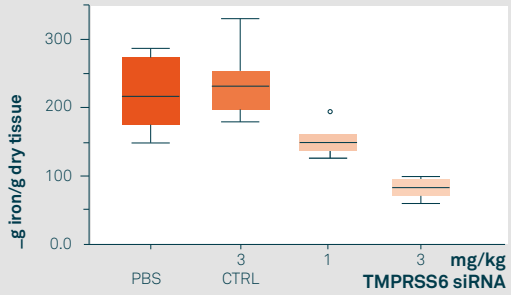
2. Hepcidin (serum)
By reducing TMPRSS6, SLN124 increases hepcidin levels.



3. Iron (serum)
This in turn reduces iron levels in blood.



4. Iron (organs)
Which results in lower iron in organs, therefore reducing iron overload.



Key

- no SLN124
- low dose of SLN124
- high dose of SLN 124

Alcohol use disorder

A condition characterised by the harmful consequences of repeated alcohol use.

The unmet need

Causes

Compulsive alcohol use and physiological dependence on alcohol.

Treatments

Psychosocial treatment to aid patients in alcohol abstinence is often not effective: 70% of patients relapse after this treatment alone. Current pharmacological aversion therapies require daily administration and therefore bear a significant risk of non-adherence.

Symptoms and complications

- Anxiety, depression, suicidal tendencies
- Comorbid substance-use disorders
- Hypertension
- Gastrointestinal damage
- Cardiac damage
- Central or peripheral neurological symptoms
- Social and/or legal problems

Prevalence

16m

alcohol-induced cirrhosis and/or hepatitis patients in the US and Europe

What we're doing

The less frequent administration regime of our treatment is designed to increase patient adherence while maintaining efficacy.

SLN226 has the potential to aid abstinence in alcohol dependent patients. With its unique mode of action, it provides a significantly improved therapeutic option due to its high target specificity and long duration of action. SLN226 is currently in preclinical development with plans to enter clinical development in mid 2019.

What could this mean?

Doctors

A milestone on the journey to novel target-specific, safe and effective treatment modalities, gene silencing holds the promise of improved treatments and better quality of life for patients. RNAi technology offers a radically new approach to help patients with alcohol use disorders to maintain abstinence from alcohol. Our RNAi molecules can be delivered to specific cells in the liver expressing the molecular disease-relevant target without impacting other cells in the body, leading to a dramatic reduction of side effects and sustained efficacy.

Patients

Patients requiring sustained abstinence from alcohol may benefit most from our novel treatment modality. The long-lasting mode of action will provide effective support of alcohol dishabituation and high potential to reduce therapy failure.

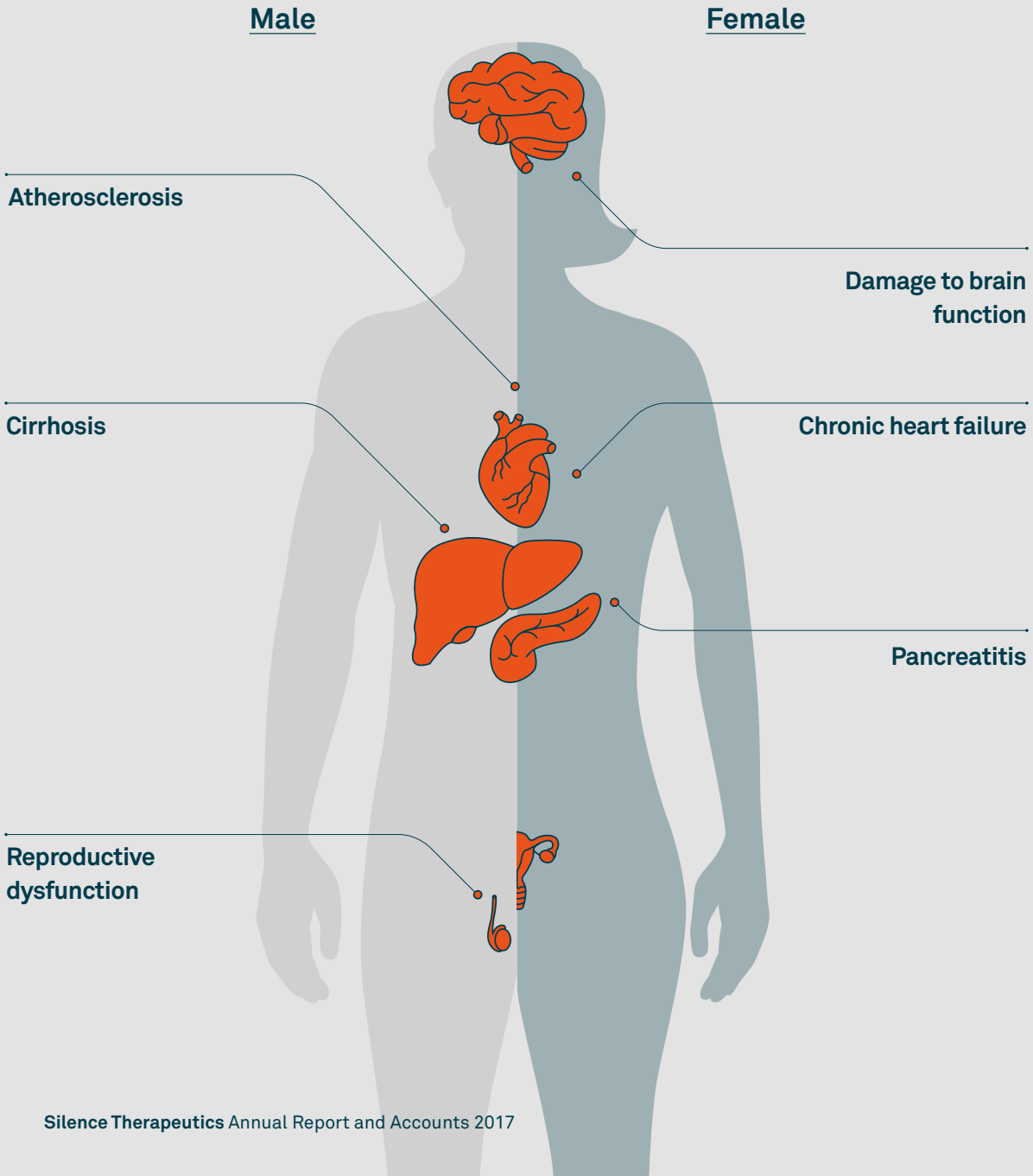
"There is a huge medical need for better treatments to help patients with alcohol use disorders. An alternative novel entity like SLN226 – safe and effective - has immense potential, and its use in patients would be highly beneficial."

(Clinical expert & key opinion leader for addiction medicines)

Alcohol use disorder continued

Alcohol abuse and physiological dependence on alcohol is a global problem with a significant impact on health, societies and economies.

Long term effects of alcohol abuse



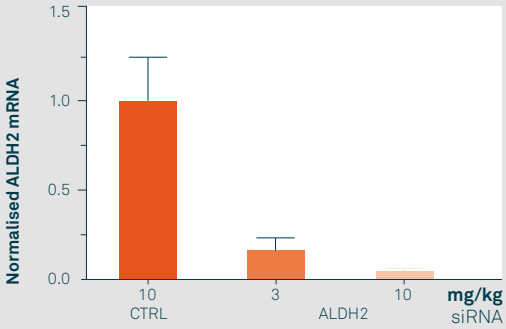
What key opinion leaders in the field of research say about SLN226

- "Alcohol abuse and physiological dependence on alcohol is a global problem with tremendous impact on health, society and economics
- There is a clear unmet medical need to become abstinent, which is not sufficiently met by currently available therapies such as disulfiram
- Hepatologists may be more attracted to prescribing SLN226 as an extension to psychotherapy
- SLN226 has the potential to aid abstinence in alcohol dependent patients on psychotherapy

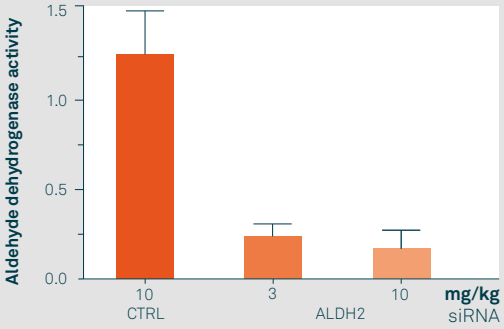
... providing a significantly improved and safe therapeutic option to improve compliance and alcohol abstinence for patients living with alcohol use disorder"

How our drug SLN226 performs in mice

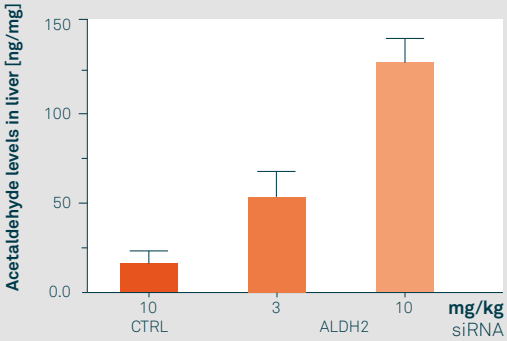
1. ALDH2 mRNA (liver)
ALDH2 is an enzyme that helps the body metabolise alcohol. SLN226 reduces ALDH2 levels. A single administration results in specific ALDH2 mRNA silencing.



2. ALDH2 enzymatic activity (liver)
As a result there are fewer enzymes to metabolise alcohol.



3. Acetaldehyde (liver)
Resulting in increased acetaldehyde when alcohol is consumed, which in turn causes unpleasant physiological effects. This disrupts the addictive cycle and alcohol-seeking behaviour, leading to abstinence.



Key

- ●/● no SLN226
- ● low dose of SLN226
- ● high dose of SLN226

Business model

Our proprietary technology allows us to inhibit the expression of selected disease-associated genes in a highly specific manner.

Once target genes have been identified through our established screening process, candidate sequences can be rapidly generated and validated by way of *in vitro* and *in vivo* model systems. This has enabled us to assemble a portfolio of development projects that includes rare disease indications suitable for internal development via proof-of-concept and pivotal regulatory trials. Our portfolio also incorporates broader indications, which we intend to develop in collaboration with external partners. We nevertheless remain flexible in our approach to partnering individual projects as well as our core technology.

Advantages of siRNA as a class of therapeutics are:

siRNA therapeutics process

Target-specific siRNA generation

siRNA screen and lead formulation

Months

Specificity

Our siRNA molecules are designed to target a single mRNA in the cell, only affecting the expression of disease-associated genes. Our delivery system ensures further specificity by delivering therapeutic siRNA to only one selected cell type in the body.

Reduced timelines

Knowing the sequence of the human genome means that potent therapeutic siRNA molecules can be rapidly identified and screened in relevant models.

Lower risk

With siRNA molecules, we have better predictability of their biological effects. This significantly reduces the potential for unexpected off-target toxicity, one of the key factors in the high attrition rates seen in small molecule drug development. In addition, we further mitigate risk by diversifying our preclinical portfolio across multiple disease areas.

Small molecules process

Target identification

Hit generation

Lead identification and production

4-5 years

Pre-clinical efficacy and toxicity

Clinical trials: Phase I, II, III

FDA review and approval

We test our ideas through a rigorous and highly stringent process, only proceeding into clinical development with those that show the greatest promise.

Financial review

> **...this change in the composition of R&D costs reflects a strategy to outsource more standard processes, whilst creating a more flexible in-house team with expertise focussed on delivering innovation and pipeline progression.**

Research and development expenditure

Research and development expenses decreased by £0.8 million to £7.9 million for 2017 (2016: £8.7 million). Material costs decreased by £1.2 million to £0.8 million in 2017 (2016: £2.0 million): 2016 costs were primarily related to clinical costs on the Atu027 study which ended in 2016, whereas 2017 primarily represents costs for the new earlier stage GalNAc pipeline. Payroll related costs decreased by £0.8 million to £2.5 million in 2017 (2016: £3.3 million) external contract research organisation costs, which increased by £0.9 million to £1.9 million in 2017 (2016: £1.0 million). This change in composition of R&D costs reflects a strategy to outsource more standard processes, whilst creating a more flexible in-house team with expertise focused on delivering innovation and pipeline progression.

Administrative expenses

General and administration expenses increased by £2.5 million to £6.5 million for 2017 (2016: £4.0 million). Payroll-related costs increased by £1.5 million to £3.9 million in 2017 (2016: £2.4 million) following investment in some key permanent hires. Legal fees increased by £0.5 million, reflecting the Company's commitment to defending its IP.

Finance and other income

The gain recognised in the income statement on disposal of available for sale financial assets during the year was £9.1 million (2016: nil), reflecting the disposal of most of the holding in Arrowhead Pharmaceuticals Inc during the year. In addition, finance and other income included a credit of £1.3 million (2016: nil) reflecting a release from the currency translation reserve following the dissolution of the Group's US subsidiary, Intradigm Inc. Bank interest included in finance income decreased to nil (2016: £0.2 million) due to negative interest on Euro cash balances offsetting interest on Sterling balances. The foreign exchange gain was £0.2 million (2016: £1.4 million), mainly on Euro cash balances.

Taxation

During the year, the Company received a research and development tax credit of £2.0 million in the UK in respect of R&D expenditure in 2016. The Company accrued £1.8 million recognising a current tax asset in respect of 2017 research and development tax credits.

Liquidity, cash and cash equivalents

The Group's cash and cash equivalents at year end totalled £42.7 million (2016: £39.0 million). The cash spent on operations was £11.6 million (2016: £11.7 million) against an operating loss of £14.4 million (2016: £11.9 million). The cash received on the disposal of the Company's Arrowhead Pharmaceuticals holding (£18.1 million) further strengthened the cash position.

Other balance sheet items

Current trade and other receivables decreased by £0.7 million to £0.7 million at the end of 2017 (2016: £1.4 million). This reflects the collection during 2017 of £0.8 million of 2016 revenue under the licence agreement with Quark.

Trade and other payables increased from £1.6 million in 2016 to £2.7 million in 2017, due to increased accruals including for legal costs (£0.2 million), contract research organisation costs (£0.2 million), and for social security on share options as required by accounting standards to reflect a significant increase in the share price (£0.3 million).

Financial assets available for sale at the 2017 year-end of £0.3 million (2016: £4.4 million) were the remaining ordinary shares held in Arrowhead, and were subsequently sold on 2 January 2018.

Goodwill at year end was £8.0 million (2016: £7.7 million). The movement in goodwill during the year related to foreign exchange.

Post year end events

In January 2018 the remaining Arrowhead shares were disposed of for £0.3 million.

David Ellam
Chief Financial Officer
& Company Secretary
7 March 2018

Principal risks

The Board continues to execute the Group's risk management strategy designed to identify, assess and manage the risks that Silence faces.

Principal risks	Impacts	Mitigating activities
Clinical and regulatory	There are currently no approved siRNA drugs on the market. It is possible that such drugs may not be approved for clinical or regulatory reasons. Currently in the United Kingdom the regulatory framework covering the development of pharmaceutical products is derived from the European Union directives and regulations. The vote to leave the European Union by the electorate (commonly referred to as 'Brexit') could materially impact the future regulatory regime which applies to product candidates in the United Kingdom, although the impact is uncertain.	New targets are rigorously assessed with regard to factors that may make any drug less likely to be approved, including, New targets are rigorously assessed with regard to factors that may make any drug less likely to be approved, including, but not limited to, dosing and toxicology. The Group utilises innovation to lower dosing and minimise safety risks. We will consider mitigating activities regarding Brexit once there is greater clarity on the impacts.
Technology innovation	The Group has a relatively low Technology Innovation spend compared to its larger competitors. There is a risk that competitors will be quicker to develop new technologies and to address novel gene targets earlier than Silence.	The Group continues to prioritise innovation and is actively conducting research to sustain a competitive edge. In tandem with these efforts, we monitor patent filings and data in the field to identify areas of science where Silence can excel.
Research practices	There is a risk from failure to appropriately conduct ethical and sound research. Scientific misconduct could result in reputational or IP damage and opportunity costs.	This macro risk is addressed through ensuring rigorous internal controls are in place such as systematic review of research data by appropriately senior scientists.
Intellectual property	The Group has a robust existing patent portfolio and expects other companies to seek licences under that portfolio and / or to challenge the validity / infringement position of that portfolio as their products approach the market. The Group may incur substantial costs in defending this portfolio from such challenges.	In managing the patent portfolio, the Group continually seeks to strengthen the existing IP position via patent extensions, divisionals and continuations, combined with external legal opinions.
Key talent	In the competitive, niche market in which the Group operates, the expertise and experience of its key people can have an enormous impact on business results. Poor recognition, incentivisation and a lack of succession planning could undermine the Company's success.	The Group appreciates the high level of contributions made by its key talent. It offers stimulating, cutting edge work, and a competitive reward structure, including share options that vest over a number of years. Additionally, a carefully considered succession plan is in place.
Financing	Progressing a drug via clinical trials can be expensive and there is no guarantee that Silence will have sufficient funds available.	The Group will seek to secure risk sharing partnerships or out-licensing deals at appropriate stages depending on the product risk and investment profile.
Information protection	Research activities or IP may be compromised if information is obtained by those not authorised to see it: whether through cyber breaches or inappropriate disclosure of gene targets or other price-sensitive information.	We have robust processes to manage information internally, and our IT system is constantly updated and monitored. Information is reviewed and scrutinised prior to public release.

Resources and relationships

We draw on a range of different resources and relationships in order to drive our business forward and, ultimately, deliver value to our shareholders.

Financial resources
The year-end cash position of £42.7m will allow the company to progress its pipeline of pre-clinical candidates towards the clinic.

Stock information
The Company is listed on AIM with the sticker SLN. The percentage of AIM securities that is not in public hands was 59.29% at 31 December 2017.

Physical resources
We are based at two sites: our headquarters in London and our laboratories (R&D) in Berlin. Our R&D not only houses state-of-the-art equipment but is located in the heart of one of the largest biomedical research facilities in Europe.

Our patent estate
We recognise that IP is a complex matter; our dedicated in-house Head of IP ensures that our patent portfolio is maintained and prosecuted in the most effective manner.

Our people
With our emphasis on highly specific research, we depend on teams of skilled individuals working collaboratively. By its innovative nature, gene silencing attracts some of the smartest graduates and most experienced professionals in the field who are passionate in their pursuit of novel therapies to successfully treat serious diseases. We work hard to create a working environment that encourages creativity, rewards commitment and is recognised as being a great place for the brightest minds to work. Our people and their knowledge of our platform encapsulates unique knowhow that forms an integral part of our intellectual property.

2017 additions to our experienced team

Dr Annalisa Jenkins, MBBS, FRCP
Non-Executive Chair
10/2017
- Biopharma thought leader, 20 years of industry experience
- President and CEO at Dimension Therapeutics since 2014–17
- Head of Global R&D at Merck Serono 2011–14
- Several leadership roles at BMS 1997–2011
- Medical officer with the British Royal Navy

Dr Torsten Hoffmann
Chief Operating Officer
06/2017
- Over 20 years of international R&D management experience
- CSO & Managing Director at Proteros 2015–17
- CSO & Executive VP at Zealand Pharma 2013–15
- Several senior leadership roles at Roche 1999–2015
- Lead inventor of the anti-emetic medicine Netupitant, >25 INDs

Michael Mulqueen
Head of Business Development & Licensing
09/2017
- Over 25 years of Business Development industry experience
- VP BD Biotie Therapies 2011–15
- VP Operations & BD Synosia Therapeutics 2006–11
- Global Head of Alliance Management and several senior leadership roles at Roche 1992-2005

Alison Gallafent
Head of Intellectual Property
01/2017
- European and UK patent attorney, private and industry sector
- Senior Associate at Olswang LLP 2016–17
- Director of IP at PLIVA 2006–09
- IP consultant to multi–national pharma 1997–2006, 2009–16
- In-house Counsel at Glaxo Wellcome and Merck 1994–97

Dr Marie W Lindholm
Head of Technology Innovation
12/2017
- Over 15 years of international R&D management experience
- Expert Scientist, Discovery Technology at Roche 2014–17
- Several senior leadership roles at Santaris 2007–14
- Associate/Assistant Professor in Cardiovascular Medicine at Lund University, Sweden 1999–200

Linnea Elrington
HR Director
11/2017
- Over 20 years of international HR experience
- HR Director, AspenTech 2017
- Global Head of OD and Employee Development 2013–2016
- Head of HR at Cisiv, specialist in late phase pharma studies 2006–2009
- Deloitte 1991–1999

Our partnerships and relationships

We maintain a network of partnerships and key relationships, including those with:

Academia and key opinion leaders
A significant portion of the technical expertise in and around RNA and sophisticated models of disease sits within academia. We work hand-in-glove with the leading experts, ensuring that we gain access to the latest thinking at an early stage and are therefore able to help direct it towards commercially-viable outcomes.

Industry
Our goal is to harness the commercial discipline and practical expertise found within the Biopharma industry. To this end, we build relationships with industry organisations and with other companies in our sector. As is the case with academia, our interactions with industry are founded on mutual trust and respect.

Pharma and Biopharma
Although we have the capabilities to discover, develop and market a drug without external support, we recognise that it is often advantageous to join forces with a larger pharmaceutical or specialist biopharma company to progress a specific programme, or to out-license certain applications of our IP or to co-develop novel technology. Our deal with Quark is an example of this, and we are committed to remaining alert to the exploitation of such opportunities.

Clinicians
Because some of our work is in the field of rare and orphan diseases, the number of patients able to take part in clinical trials is often limited. We communicate regularly with clinicians to ensure that we are able to access the appropriate patient groups and build an understanding of their needs and concerns.

Regulators
It is important to investors as well as to patients that timelines between concept and marketed drug are as short as possible. We engage with regulators, both direct and via industry bodies, to ensure they understand the challenges we face and the platform nature of our technology, while we maximise the likelihood of success of our candidates by following their guidance.

Defined goals
In the day to day management of the business, we have an Executive Committee that operates below Board level with defined functional goals and monthly reporting against key indices.

Each year, the Board approves detailed corporate goals which are cascaded throughout the business to departments and individuals. The Executive Committee meets regularly and considers progress on these goals, reporting regularly to the Board. In addition to corporate goals, individuals receive challenging personal goals.

We have reviewed our remuneration and benefit practices against benchmarked data in the UK and Europe and, where necessary, have implemented adjustments against the data. We have introduced 4 x salary life cover for all employees, and enhanced our incentive provisions based on goal achievement, to ensure our remuneration package remains competitive and attractive. We plan to make further progress in 2018, including increased focus on performance management.

Corporate social responsibility

Animal welfare
Due to the nature of our work, we have no alternative but to use laboratory animals in our research and development activities. We are committed to the welfare of all animals and to minimising the number of animals used.

Board of Directors

Our Board is formed of six accomplished members, two Executive and four Non-Executive Directors. Together, they bring highly valuable experience across a variety of relevant disciplines to the running of the Company.

Dr Annalisa Jenkins, MBBS, FRCP
Non-Executive Chair
Appointed October 2017

Dr. Jenkins is a biopharma thought leader with 20 years of industry experience. Until November 2017, she was President and Chief Executive Officer at leading gene therapy company, Dimension Therapeutics. Prior to joining Dimension in September 2014, Annalisa served as head of global research and development at Merck Serono Pharmaceuticals from 2013 to 2014, where she also served as executive vice president global development and medical from 2011 to 2013. Prior to this, Dr. Jenkins held several leadership roles at Bristol Myers-Squibb from 1997 to 2011, most recently serving as senior vice president and head of global medical affairs. Earlier in her career, Dr. Jenkins was a medical officer in the British Royal Navy during the Gulf Conflict, achieving the rank of surgeon lieutenant commander.

Areas of expertise
Drug development, R&D, regulatory approval and commercialisation.

Current external roles
President and Chief Executive Officer of PlaqueTec Limited. Non-Executive Director of Ardelyx Inc, Iox Therapeutics Limited, Oncimmune Holdings plc, Thrombolytic Science International and PhESi LLC. Chair of Vium Inc, Cocoon Biotech Inc and Cell Medica Limited.

Ali Mortazavi
Chief Executive Officer
Appointed May 2013

Ali joined Silence in 2012, initially serving as Head of Strategy, and led the refinancing and refocusing of the business. He has extensive expertise in UK small companies, particularly in biotechnology and technology investments 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. Ali is an International Master of chess and has written numerous books and publications on chess openings and strategies.

Areas of expertise
Corporate finance, algorithmic trading, investment research and computer programming.

David Ellam
Chief Financial Officer
Appointed July 2016

David was appointed Chief Financial Officer and Company Secretary of Silence in July 2016. David holds a B.A. in English and Philosophy from Birmingham University, and is a qualified chartered accountant. Prior to joining Silence, David's relevant Biotech experience includes several senior finance roles within both UK and US publicly owned life science companies, most recently as Senior EUMEA Finance Director for BioMarin Pharmaceuticals Inc. from 2010 to 2016. Prior to that he was CFO at Plethora Solutions plc (2008-2009), and Group Financial Controller at Ark Therapeutics from 2001 to 2008, during which time Ark undertook an IPO on the London Stock Exchange.

Areas of expertise
Finance, applied to the biotechnology industry.

Dr. Stephen Parker
Non-Executive Director
Appointed September 2015

Dr. Parker served as Non-Executive Chair from September 2015 to October 2017, having first joined the Board in November 2013. He brings substantial Board experience, with over thirty years' experience in the healthcare sector. Stephen was previously a Partner with the Celtic Pharma funds, Chief Financial Officer of Oxford GlycoSciences plc and a senior investment banker with Barings, Warburg's and Apax Partners.

Areas of expertise
Healthcare, finance, investment banking.

Current external roles
Chair of Sareum Holdings plc and Non-Executive Director of GammaDelta Therapeutics Limited and Sp2 Consulting Limited.

Alistair Gray
Non-Executive Director
Appointed November 2015

Alistair brings a wealth of strategic 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 for over ten years. Alistair previously chaired the Audit and Remuneration committees of AorTech International PLC and Highland Distillers PLC, as well as the Pension Trustee Board for Edrington Group. Alistair also served as a Fellow of the Institute of Directors and Institute of Consultants. His key role at Silence is to chair the Audit and Risk Committee.

Areas of expertise
Strategy, management consulting.

Current external roles
Non-executive Director with other organisations serving on the board of one and chairing three Pension Trustee Boards. Director of Renaissance & Company.

Dr. Andy Richards CBE
Non-Executive Director
Appointed September 2016

Andy has an established track record in founding and scaling up innovative Biotech and Healthtech companies in the UK. His early career spanned positions with ICI (now AstraZeneca) and PA Technology, and he was a founder and executive director of Chiroscience plc. Since 1999 he has founded, invested in and helped to scale as a director more than 25 innovative healthcare ventures including companies such as Vectura, Arakis, Cambridge Biotechnology Ltd and Geneservice. Andy is a founder member of the Cambridge Angels.

Areas of expertise
Business building, business development, investment, biotechnology.

Current external roles
He is Chair of Arecor, Congenica, Abcodia, and the Babraham Research Campus, a Non-Executive Director of Ieso Digital Health, Sensiia and Cancer Research Technology (CRUK), and an advisor to Cambridge Innovation Capital and the UCL Technology Fund.

Corporate governance report

The Directors support high standards of corporate governance and have established a set of corporate governance principles which they regard as appropriate for the stage of development of the Group. These principles are revised from time to time to ensure that they comply with best corporate governance practice as far as practicable.

Dr. Annalisa Jenkins, MBBS, FRCP
Non-Executive Chair

What corporate governance standards does the company follow?

This report provides general information on the Group's adoption of corporate governance principles. As an AIM-listed Company, Silence is not required to comply with the UK Corporate Governance Code, the set of recommended corporate governance principles for UK public companies issued by the Financial Reporting Council. However, the Directors support high standards of corporate governance and have established a set of corporate governance principles which they regard as appropriate for the stage of development of the Group. These principles are revised from time to time to ensure that they comply with best corporate governance practice as far as practicable, given the Company's size and nature of its business.

How does the Board ensure it is effective?

The Board has a majority of Non-Executive Directors, consisting of four Non-Executive Directors (including the Chair) and two Executive Directors. 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, strategic consultancy and corporate finance. The Nominations Committee is currently searching for a further Non-Executive Director with scientific/medical experience. Details of each of the Directors' experience and background are given in their biographies on pages 26 and 27.

Annalisa Jenkins, as Chair of the Board, is responsible for leading the Board and ensuring its effectiveness. Ali Mortazavi, as Chief Executive Officer, is responsible for the operational management of the Group and implementation of Board strategy and policy.

All the Directors have access to the advice and services of the Company Secretary, who is responsible for ensuring that Board procedures and applicable regulations under the Company's Articles of Association or otherwise are complied with. Each Director is entitled, if necessary, to seek independent professional advice at the Company's expense. The Group maintains directors' and officers' liability insurance.

How frequently does the Board meet?

The Board holds eight or nine scheduled meetings per year, with additional meetings and Board calls when circumstances and urgent business dictate. In the 12-month period under review, there were 12 scheduled meetings.

Type of meeting	Number of meetings
Board	12
Audit and Risk Committee	5
Remuneration Committee	7
Nomination Committee	4

All Board and Committee meetings were fully attended by the relevant Directors throughout the year. All Directors receive the agenda and Board papers in advance of Board meetings to enable them to make an effective contribution. Between Board meetings, the Executive Directors maintain regular informal contact with Non-Executive Directors. The Board will continue to meet on a regular basis in order to review progress and agree strategy.

The Board reviews the strategy and at each meeting evaluates the progress of the Group towards achieving its annual objectives. It also analyses the risk of potential activities and monitors financial progress against budget.

What key tasks does the Board perform?

- setting the Company's values and standards;
- approval of long term objectives and strategy;
- approval of revenue, expense and capital budgets and plans;
- approval for candidate progression through key development and clinical stages;
- 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, half year results, 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.

How are Board members appointed and re-elected?

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 can be found below.

Board		
Audit and Risk Committee	**Remuneration Committee**	**Nomination Committee**
Alistair Gray (Chair)	Andy Richards (Chair)	Annalisa Jenkins (Chair)
Annalisa Jenkins	Alistair Gray	Alistair Gray
Stephen Parker	Annalisa Jenkins	Stephen Parker
Andy Richards	Stephen Parker	Andy Richards

With regard to the re-election of Directors, the Company is governed by its Articles of Association (the 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 three 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. Annalisa Jenkins will stand for election at the 2018 Annual General Meeting having been appointed since the last Annual General Meeting.

How does the Board monitor potential 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.

The Board Committees

Membership of all three Board Committees is comprised of the Chair and the other three Non-Executive Directors. 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.

Nomination Committee report

What duties does the Nomination Committee perform?

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 making recommendations to the Board with regard to any changes;
- determining the qualities and experience required of the Group's Executive and Non-Executive Directors and identifying suitable candidates, assisted where appropriate by recruitment consultants;
- formulating plans for succession for both Executive and Non-Executive Directors and in particular for the key roles of Chair 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 Annalisa Jenkins as a Non-Executive Director and Chair of the Board on 16 October 2017. This followed an extensive search for a new Non-Executive Director with the right skillset, including relevant strategic corporate and scientific knowledge, also ensuring appropriate diversity and representation at Board level.

Corporate governance report continued

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. 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 and uncertainties identified are set out in the strategic report on page 23.

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. The Group maintains a Disclosure Policy 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 timescales.

Communication with shareholders

Contact with major shareholders is principally maintained by the Chief Executive Officer and the Chief Financial Officer, who ensure that their views are communicated to the Board as a whole. The Chair is also available to discuss governance and other matters directly with major shareholders, both private and institutional. The Board believes that appropriate steps have been taken during the reporting period to ensure that the members of the Board, and in particular the Non-Executive Directors, develop an understanding of the views of major shareholders about the Company.

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 available on the Company's website.

This year's Annual General Meeting of the Company will be held on 23 April 2018. The Notice of The 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 by a show of hands.

Audit and Risk Committee report

The Committee's primary focus is ensuring that the Group maintains the highest standards around financial reporting governance, together with timely risk identification and mitigation.

Who are the members and who do they interact with?

Alistair Gray is Chair of the Audit and Risk Committee. Alistair has previously chaired the Audit and Remuneration committees of AorTech International PLC and Highland Distillers PLC, as well as the Pension Trustee Board of Edrington Group. As well as attending Committee meetings, Alistair meets with the auditors and executive management to discuss issues arising.

In addition to Alistair, the members of the committee comprise Annalisa Jenkins, Stephen Parker and Andy Richards. The Committee met five times during 2017, including prior to results announcements.

What does the Audit and Risk Committee do?

- Monitors the integrity of the Group's financial and narrative reporting
- Reviews accounting policies and key estimates and judgments
- Reviews the appropriateness and completeness of the internal controls
- Makes 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
- Meets with the external auditors, ensuring they report to it on all relevant matters to enable the Committee to carry out its oversight responsibilities

How does the Committee monitor the Group's financial reporting?

The Committee monitors the integrity of the Group's financial statements, preliminary announcements and any other formal announcements relating to the Company's financial performance.

In 2017, the Committee reviewed the 2016 preliminary announcement, the 2016 annual report and the 2017 interim announcement.

The Committee reviews and challenges where necessary any changes to, and the consistency of, accounting policies, advising whether the Company has followed appropriate accounting standards and made appropriate estimates and judgments, taking into account the views of the external auditor, the going concern assumption and all material information presented with the financial statements.

What does the Committee do to review risks?

To assess the appropriateness and completeness of internal controls, the Committee reviews the detailed risk matrix which identifies high-level control issues classified as critical under the Company's risk matrix that require, or are subject to, remedial action. The Committee considers whether the necessary actions are being taken to remedy any significant failings or weaknesses.

Is there an internal audit function?

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 weaknesses in the financial reporting systems. The Committee will review the need for an internal audit function at least annually.

Who are the external auditors and how long have they been appointed

PricewaterhouseCoopers LLP was appointed as the external auditor in 2014. The Committee ensures that at least every ten years the audit services contract is put out to tender and oversees the selection process. Having reviewed the auditor's independence and performance the Committee is recommending that PricewaterhouseCoopers LLP be re-appointed as the Company's auditor at the next Annual General Meeting.

The Committee makes 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.

How does the Audit and Risk Committee assess the effectiveness of the external audit process?

The Committee oversees 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. The breakdown of fees between audit and non-audit services is provided in note 5 to the financial statements.

The auditor prepares an Audit Plan for the audit of the full year financial statements which was presented to the Committee and discussed in September 2017. The Audit Plan sets out the scope of the audit, areas to be targeted and audit timetable. Following the audit, the auditor presents its findings to the Committee for discussion.

Alistair Gray
Chair of the Audit and Risk Committee
7 March 2018

Remuneration Committee report

Dear shareholder,
On behalf of the Remuneration Committee, I am pleased to present our Directors' Remuneration Report for the year ended 31 December 2017.

The past year has been one of significant progress for the Company, with investment in the company's RNAi platform alongside an expansion of the senior management team bringing appropriate international experience. Having adopted Board changes to a more US-style Board with just two Executive Directors, Annalisa Jenkins joined as Non-Executive Chair on 16 October. The Board will seek to add a further Non-Executive Director during 2018, which would give Silence a Board with two Executive and five Non-Executive Directors.

For 2017, a revised performance management system was adopted with performance linked to both carefully crafted corporate objectives and individual objectives. This system has worked effectively for 2017 and has resulted in an improved awareness of the corporate goals and priorities, and the contribution that individuals can make towards achieving them. This approach is being adopted and refined for 2018.

We need our remuneration programme to reward both achievement of short-term goals and fulfilment of our longer-term objectives, linked with the ultimate exploitation of our platform and its application in generating novel RNAi medicines. We recognise the need to retain and motivate our Executive Directors and senior management team and the need to avoid making remuneration decisions solely based on shorter-term volatility. Accordingly, we include two performance-based elements in our remuneration programme: a shorter term annual bonus programme, with payment amounts based on the previous year's achievement against goals for that year; and a longer-term equity-based programme of share options, vesting over 3 years and directed towards the achievement of substantial, longer-term strategic objectives. The short-term programme and the long-term incentive programme are providing a balance designed to incentivise our Executive Directors to work toward achievement of the corporate strategy.

Following extensive consultation with advisors, a new Employee Long Term Incentive Plan was adopted and share option grants were awarded under this scheme on 2 February 2018.

In April 2017, Ali Mortazavi was granted nominal cost options over 242,000 shares with share price hurdles. At the same time, David Ellam was granted nominal cost options over 312,375 shares, with the same hurdles. Both sets of options vest three years from grant.

The Committee increased the base salary for Ali Mortazavi on 1 January 2017 by 9% from £200,000 to £218,000, and on 1 January 2018 by a further 3.5% to £225,630. David Ellam's base salary was increased on 1 January 2017 by 4.1% from £180,000 to £187,450, and following a mid-year review his salary was increased by another 6.7% to £200,000 from 1 July 2017. The Committee subsequently increased David Ellam's base salary by a further 1.5% to £203,000 from 1 January 2018.

On 2 February 2018 Ali Mortazavi was granted nominal cost options, under the Silence Therapeutics Plc 2018 Employee Long Term Incentive Plan, over 88,620 shares. On the same date David Ellam was granted nominal cost options, under the same Plan, over 81,301 shares. These options vest over three years from the date of grant and have share price hurdles of £2.70 (for 34% of the shares), £3.00 (for a further 33% of shares) and £3.40 (for the final 33% of the shares). There is a holding period of one year.

In order to attract international talent to the Board, we have reviewed Non-Executive Director equity incentives. US practice is to issue share options to all Non-Executive Directors, which is believed in the US to align the interests of the Non-Executive Directors with shareholders. However, UK corporate governance practice renders Directors who hold share options, which are treated as performance shares, to be non-independent. In common with other companies in our sector we have decided to implement equity grants to Non-Executive Directors in the form of non-performance shares structured as restricted share units (RSUs). We are comfortable that this does not impair the independence of the Non-Executive Directors, based on their size and restrictions.

On 2 February 2018, the four Non-Executive Directors were granted nominal cost Restricted Stock Units (RSUs) under the Silence Therapeutics Plc 2018 Non-Employee Long Term Incentive Plan, over 1,626 shares each. There are no performance conditions and the RSUs will vest one year from grant. The Board of Directors believe that this is an efficient and sensible way to incentivise the Non-Executive Directors and is more in line with US RNAi peer companies.

The Combined Code, for LSE listed companies, sets a limit of options in issue (and issued over the prior ten years) not to exceed a ceiling of 10% of the issued share capital. After the options and RSU's granted on 2 February 2018, this percentage stands at 11.4%. Major shareholders have been consulted about the decision to implement a 12% ceiling. The Directors believe that this ceiling is appropriate for an AIM listed company such as Silence.

This Remuneration Report has the intention of bringing Silence in line with Biotech industry normal practices and to provide transparency around executive-level remuneration.

Dr Andy Richards, CBE
Chair of the Remuneration Committee
7 March 2018

Directors' remuneration policy

Silence's remuneration policy is driven by the Company's strategy and business model and has been designed to reflect the Committee's remuneration philosophy, as summarised below.

Philosophy Support value creation for shareholders over the longer term and create alignment with shareholders

	Fixed remuneration			Variable remuneration	
Element	Base salary	Benefits	Pension	Annual bonus	LTIP
How it is influenced by the remuneration philosophy.	Broadly mid-market.			Set no higher than mid-market and is the variable element of lesser significance. Determined by stretch corporate and individual targets that support Silence's annual goals and its overall strategy.	The more significant element of the package with stretch targets linked to longer term share performance. In February 2018, the Board approved the Silence Therapeutics Plc Employee 2018 LTIP. Share options can be issued with performance criteria under this scheme.

In developing its policy, the Committee has regard to the policy for remuneration of employees across the Group. Remuneration across the Group is implemented in the following ways:

- All employees are rewarded with a remuneration package that includes certain key benefits such as life assurance, private medical insurance, access to pension benefits, participation in Silence's share options and eligibility to receive a bonus. Internal reviews are carried out to ensure that levels of remuneration for all key employees are up to date and competitive within the sector.
- The bonus scheme for Executive Directors and employees is designed to reward performance, and all individuals work towards challenging corporate and individual goals.
- In setting the remuneration policy for Directors, the pay and conditions of other employees are taken into account, including any base salary increases awarded. The Committee is provided with data on the remuneration structure for management level tiers below the Executive Directors, and uses this information to ensure consistency of approach throughout the Group. The target base salary increase for both the Executive Directors and all employees was 3.5% for January 2018.

The remuneration of senior executives below Board level is reviewed by the Committee on an annual basis. The remuneration packages of these executives are broadly consistent with the policy outlined above, with the overall impact of the role and the individual being considered as well as relevant market comparative data, save that lower bonus percentages and lower share option opportunities are applicable.

The following table and accompanying notes set out the main principles of reward for the Executive Directors of the Group.

Executive Directors

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Base salary			
To attract and retain Executives of the highest calibre who are capable of delivering the Group's strategic objectives, reflecting the individual's experience and role within the Group. Base salary is designed to provide an appropriate level of fixed income to avoid an over-reliance on variable pay elements that could encourage excessive risk taking.	The Committee aims to set base salary at levels that are broadly aligned with the mid-points for equivalent roles in comparable companies in the UK, adjusted to reflect company size and complexity. Salaries are normally reviewed annually and changes are generally effective from 1 January. The annual salary review of Executive Directors takes into consideration a number of factors, including: - business performance; - salary increases awarded to the overall employee population; - skills and experience of the individual over time; - scope of the individual's responsibilities; - changes in the size and complexity of the Group; - market competitiveness; and - the underlying rate of inflation.	Current annual salaries from January 2018 are as follows: CEO: £225,630 CFO: £203,000 Base salary increases are awarded at the discretion of the Committee; however, salary increases will normally be no greater than the inflationary pay rises awarded to the wider workforce. Where a higher level of increase is appropriate given the performance and contribution of the incumbent, or where there has been a change in responsibilities, the Committee retains the discretion to award more significant base salary increases.	No formal metrics, although any increases take account of Group performance and Executive Director appraisal against objectives.

Executive Directors continued

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Benefits			
Benefits in kind offered to Executive Directors are provided on a market- competitive basis, to assist with their retention and recruitment.	The Company aims to offer benefits that are in line with market practice. The main benefits currently provided are life assurance and private medical insurance.	The value of each benefit is not predetermined and is based upon the cost to the Group.	Not performance related.
Pensions			
The Group aims to provide market-competitive retirement benefits, as a retention tool and to reward sustained contribution.	In the UK, the Group operates a defined contribution scheme and all UK-based employees, including Executive Directors, are invited to participate.	Employee contributions are matched two-fold by employer contributions up to a maximum employer contribution of 8%. Employees may contribute more than 4% themselves, but the company will not provide any further employer contributions above this level.	Not performance related.
Annual performance bonus			
An annual cash bonus rewards the achievement of objectives that support the Group's corporate goals and delivery of the business strategy.	Objectives are agreed with the Remuneration Committee, and the Board, at the start of each financial year. Different performance measures and weightings may be used each year, as agreed with the Committee, to take into account changes in the business strategy. Bonuses are paid at the discretion of the Committee. The Committee considers overall corporate performance and individual performance when determining the final bonus amount to be awarded. Bonuses are normally paid in cash, typically in January or February. Under the rules of the scheme, the Committee can claw back up to 100% of the bonus awarded in the event of material misstatement of the Company's financial results, an error in assessing the performance conditions to which an award is subject or for any other matter which it deems relevant.	From January 2017, annual cash bonuses are limited to a maximum of 100% of base salary for each Executive Director.	Corporate goals typically include development of pipeline and platform, partnering successes, revenue generation, strengthening of Intellectual Property and control of cash expenditure, although the Committee has the discretion to set other targets. Goals set are specific, measurable and are linked to the Group's longer-term strategy.
Long-Term Incentive Plan (LTIP) implemented in February 2018			
The Remuneration Committee believes that a key component of the overall remuneration package is the provision of equity awards to senior executives through an LTIP, which is designed to develop a culture which encourages strong corporate performance on an absolute and relative basis to align with shareholder interests.	Annual award of nominal cost options that vest according to performance conditions measured over at least three years, with a one year holding period. Awards will be subject to claw-back where there has been a misstatement of the Company's financial results, lack of protection of the Company's intellectual property, an error in assessing the performance conditions to which an award is subject or for any other matter which the Committee deems relevant.	Up to a maximum of 250% of annual salary (with an exceptional limit of 300% at the discretion of the Board). The January 2018 awards were approximately 75% of salary for the CEO and CFO.	For the 2 February 2018 options, there are performance targets based on attaining share price hurdles of £2.70, £3.00 and £3.40. The Board has the discretion to utilise differing types of performance criteria for future option grants, should it believe they are more relevant.

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
All employee share options			
All employees, including Executive Directors, are offered the opportunity to receive share options under the Silence Therapeutics plc 2018 Employee Long Term Incentive Plan.	The LTIP can operate on standard terms and include leaver provisions. Options may be priced at either nominal cost or at the market value at the time of grant and vest after 3 years with no performance criteria. However, for nominal cost options, share price hurdles may apply.	New joiners may receive an allocation of options. Annual awards may be made at the discretion of the Board based upon seniority and contribution.	Usually not performance related however, for nominal cost options share price hurdles may apply.

Chair and Non-Executive Directors

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Set at a level that is sufficient to attract and retain high-calibre Non-Executives who contribute to the business.	The Chair and the Non-Executive Directors receive fees paid in cash, with additional fees received for chairing committees of the Board. Fees are paid monthly and reviewed annually. The Chair and the Non-Executive Directors do not participate in any performance-related incentive schemes. Since 1 January 2018 they do not receive any benefits in connection with their roles other than group life assurance. The Non-Executive Directors are offered the opportunity to participate in the Silence Therapeutics Plc 2018 Non-Employee LTIP in the form of non-performance restricted stock units with careful consideration being made with respect to ensuring their independence.	When reviewing fee levels, account is taken of market movements in the fees of Non-Executive Directors, Board Committee responsibilities and ongoing time commitments.	Not performance related.

In operating its policy, the Committee has a number of discretions set out in the approved policy and the relevant sections of the various plan and individual contract rules.

Other remuneration policies

Termination and loss of office payments

The Group's policy on remuneration for Executive Directors who leave the Group is consistent with general market practice and is set out below. The Committee will exercise its discretion when determining amounts that should be paid to leavers, considering the facts and circumstances of each case. When calculating termination payments, the Committee will consider a variety of factors, including individual and Company performance, the length of service of the Executive Director in question and, where appropriate, the obligation for the Executive Director to mitigate loss.

In the case of a "good leaver", the following policy will normally apply:

- notice period of six months and pension and contractual benefits, or payment in lieu of notice;
- statutory redundancy payments will be made, as appropriate;
- Executives have no entitlement to a bonus payment in the event that they cease to be employed by the Group; however, they may be considered for a pro-rated award by the Committee in good leaver circumstances;
- any share-based entitlements granted to an Executive Director under the Company's share and individual share contracts or share option plans will be determined based upon the relevant individual share option contracts or plan rules; and
- the Committee may also provide for the leaver to be reimbursed for a reasonable level of legal fees in connection with a settlement agreement.

In circumstances in which a leaving Director may be entitled to pursue a legal claim, the Company may negotiate settlement terms if it considers this to be in the best interests of the Company and, with the approval of the Committee on the remuneration elements therein, enter into a settlement agreement.

Executive Directors' service contracts

It is the Group's policy that Executive Directors should have contracts with an indefinite term and which provide for a maximum period of six months' notice.

The Executive Directors may accept outside appointments, with prior Board approval, provided that these opportunities do not negatively impact on their ability to fulfil their duties to the Group. Whether any related fees are retained by the individual or are remitted to the Group will be considered on a case-by-case basis.

Non-Executive Directors' terms of engagement

All Non-Executive Directors, including the Chair, have specific terms of engagement which may be terminated on not less than three months' notice by either party.

The remuneration of Non-Executive Directors is determined by the Board within the limits set by the Articles and based on a review of fees paid to Non-Executive Directors of similar companies.

A Board evaluation has been performed and the results of this exercise confirmed that all Non-Executive Directors were independent.

Remuneration for new appointments
Where it is necessary to recruit or replace an Executive Director, the Committee has determined that the new Executive Director will receive a compensation package in accordance with the provisions of the Policy.

In setting base salaries for new Executive Directors, the Committee will consider the existing salary package of the new Director and the individual's level of experience.

In setting the annual performance bonus, the Committee may wish to set different performance metrics (to those of other Executive Directors) in the first year of appointment. Where it is appropriate to offer a below-median salary on initial appointment, the Committee will have the discretion to allow phased salary increases over a period of time for a newly appointed Director, even though this may involve increases in excess of inflation and the increases awarded to the wider workforce.

The Committee wishes to retain the ability to make buyout awards to a new Executive Director to facilitate the recruitment process. The amount of any such award would not exceed the expected value being forfeited and, to the extent possible, would mirror the form of payment, timing and degree of conditionality. Where awards are granted subject to performance conditions, these would be relevant to Silence Therapeutics Group. Any such award would only be made in exceptional circumstances and shareholders would be informed of any such payments at the time of appointment. Share-based awards would be made under the LTIP.

In respect of internal appointments, any commitments entered in respect of a prior role, including variable pay elements, may be allowed to pay out according to its prior terms.

For external and internal appointments, the Committee may consider it appropriate to pay reasonable relocation or incidental expenses, including reasonable legal expenses. Tax equalisation may be considered if an Executive Director is adversely affected by taxation due to their employment with the Company.

The terms of appointment for a Non-Executive Director would be in accordance with the remuneration policy for Non-Executive Directors as set out in the policy table.

Remuneration Committee ("the Committee")

Governance
The Committee takes account of information from both internal and independent sources, including New Bridge Street (NBS) (Aon plc's executive remuneration consultancy) and Radford surveys.

The Group's HR Director provides updates to the Committee, as required, to ensure that the Committee is fully informed about pay and performance issues throughout the Group. The Committee takes these factors into account when determining the remuneration of the Executive Directors and senior executives.

No Executive Director or employee can participate in any discussion directly relating to their own personal conditions of service or remuneration.

The Committee met seven times in 2017.

Role
The Committee's principal function is to support the Group's strategy by ensuring that those individuals responsible for delivering the strategy are appropriately incentivised through the operation of the Group's remuneration policy. In determining the Group's current policy, and in constructing the remuneration arrangements for Executive Directors and senior employees, the Board, advised by the Committee, aims to provide remuneration packages that are competitive and designed to attract, retain and motivate Executive Directors and senior employees of the highest calibre, and align incentives with shareholder interest.

The Committee is responsible for:

- setting a remuneration policy that is designed to promote the long-term success of the Company;
- ensuring that the remuneration of the Executive Directors and other senior executives reflects both their individual performance and their contribution to the overall Group results;
- determining the terms of employment and remuneration of the Executive Directors and Senior Executives, including recruitment and retention terms;
- approving the design and performance targets of any annual incentive schemes that include the Executive Directors and senior executives;
- agreeing the design and performance targets, where applicable, of all share incentive plans requiring shareholder approval;
- rigorously assessing the appropriateness and subsequent achievement of the performance targets related to any share incentive plans;
- recommending to the Board the fees to be paid to the Chair. The Chair is excluded from this process;
- gathering and analysing appropriate data from comparator companies in the Biotech sector; and
- the selection and appointment of the external advisors to the Committee to provide independent remuneration advice where necessary.

Annual performance bonus – 2017
In 2017, all employees were eligible for an annual discretionary cash bonus, whereby performance objectives are established at the beginning of the financial year by reference to suitably challenging corporate goals. The scheme was offered to all staff below Board level and maximum bonus opportunities ranged from 5% to 30% of salary, depending on grade. Bonus payments are not pensionable.

For 2017, 80% of the annual bonus was by reference to corporate goals, and 20% to individual goals. In the future, the Committee expects the percentage attributable to individual goals to increase for employees (excluding the Executive Directors).

The 2017 corporate goals were weighted as follows:

	Target	2017 achievement
Pipeline development	40%	38%
IP strengthening	10%	10%
Financial resources and organisational succession planning	20%	20%
New deals and strategic partnerships	30%	24%
Total	**100%**	**92%**

Achievement against objectives is given careful consideration by the Committee prior to finalisation. The 2017 bonus award granted to Ali Mortazavi was £182,248 (2016: £162,000), and to David Ellam was £177,200 (2016: £63,660, which included a signing on bonus of £25,000).

For 2017, the Executive Directors' annual cash bonus also comprised the split of 80% corporate goals (same as above), and 20% individual goals.

For 2018 the Executive Directors' annual cash bonus will again be comprised of 80% corporate and 20% individual goals. The Committee considers overall corporate performance and individual performance when determining the final bonus amount to be awarded to Executive Directors. The company's 2018 corporate objectives are weighted as follows:

	Target
Pipeline development	40%
Intellectual property	10%
Technology & Innovation	5%
Business Development	15%
Financing & Investor Relations	20%
Culture and People	10%
Total	**100%**

The bonus scheme is also offered to all staff below Board level and maximum bonus opportunities will range from 5% to 50% of salary, depending on grade. Bonus payments are not pensionable.

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

Director	At 1 January 2017	Exercised	Awarded	Lapsed	At 31 December 2017	Exercise price (pence)	Earliest date of exercise	Latest date of exercise
Ali Mortazavi								
Individual contract	728,078	—	—	—	728,078	25.0	01.08.14	31.07.24
EMI scheme	1,000,000	—	—	—	1,000,000	25.0	01.08.14	31.07.24
Individual contract	2,000,000	—	—	—	2,000,000	117.0	18.04.19	18.04.26
Individual contract[1]	—	—	242,222	—	242,222	5.0	03.04.20	03.04.27
David Ellam								
Individual contract	200,000	—	—	—	200,000	110.6	18.07.19	18.07.26
Individual contract[2]	—	—	312,375	—	312,375	5.0	03.04.20	03.04.27

1 Options awarded 3 April 2017 with a nominal cost exercise price, and will vest over 3 years. These options had the following hurdles: 79,934 at 135p; 79,934 at 150p; and 82,354 at 160p. Each hurdle price to be maintained for at least 30 continuous days.
2 Options awarded 3 April 2017 with a nominal cost exercise price, and will vest over 3 years. These options had the following hurdles: 103,084 at 135p; 103,084 at 150p; and 106,207 at 160p. Each hurdle price to be maintained for at least 30 continuous days.

Directors' interests in shares at 31 December 2017

Director	Number of ordinary shares	Percentage of issued share capital
Ali Mortazavi	1,937,399	2.77%
David Ellam	—	—
Dr Annalisa Jenkins	—	—
Dr Stephen Parker	6,478	0.01%
Alistair Gray	3,848	0.01%
Dr Andy Richards	7,000	0.01%

The average share price for the year was 135.4p (2016: 119.4p).

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

Dr Andy Richards, CBE
Chair of the Remuneration Committee
7 March 2018

Directors' report

The Directors present their report and the audited financial statements of the Group for the year ended 31 December 2017.

Principal activities
The Group is focused on the discovery, delivery and development of RNA therapeutics.

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. Principal risks and uncertainties 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 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 (2016: nil).

Research and development
In 2017, the Group spent £7.9m on research and development (2016: £8.7m). See the Chief Executive Officer's strategic perspective on pages 6 to 9 for more 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 £3.8m (2016: £10.4m). The loss after tax for the year was £1.6m (2016: £8.4m). 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.

Indemnification of Directors
Qualifying third-party indemnity provisions (as defined in the Companies Act 2006) are in force for the benefit of Directors and former Directors who held office during 2017 and up to the signing of the annual report.

Directors

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

Director	Job title
Ali Mortazavi	Chief Executive Officer
David Ellam	Chief Financial Officer
Dr Annalisa Jenkins	Non-Executive Chair
Alistair Gray	Non-Executive
Dr Stephen Parker	Non-Executive
Dr Andy Richards CBE	Non-Executive

On 16 October 2017, Annalisa Jenkins was appointed as Chair of the Board as a Non-Executive Director. There were no other appointments in the year, and there were no resignations.

The interests of the Directors in the share options of the Company are set out in the Directors' remuneration report.

Substantial interests

At 31 December 2017 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	18,928,635	27.0%
Robert Keith	12,335,371	17.6%
Invesco Asset Management	8,281,131	11.8%
Aviva Investors	3,594,883	5.1%
Woodford Investment Management	3,424,047	4.9%
ING Bank	3,239,646	4.6%
Lombard Odier Asset Management	2,385,694	3.4%
Ali Mortazavi	1,937,399	2.8%
Simpson Financial	1,601,452	2.2%

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 outflow from operating activities for 2017 of £9.6m (2016: £10.1m), and at 31 December 2017 had cash and cash equivalent balances of £42.7m and nil on short-term deposit (2016: £39.0m and nil on deposit). Based on current forecasts, the cash on hand at the date of this report will support operations for more than one year.

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

Dr Annalisa Jenkins
Chair
7 March 2018

Statement of Directors' responsibilities in respect of the financial statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and Company financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. 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 Company and of the profit or loss of the Group and Company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRS as adopted by the European Union have been followed for the Group financial statements and IFRS as adopted by the European Union have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

The Directors are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

The Directors consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group and Company's performance, business model and strategy.

Each of the Directors, whose names and functions are listed in the Directors' Report confirm that, to the best of their knowledge:

- the Company financial statements, which have been prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and loss of the Company;
- the Group financial statements, which have been prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and loss of the Group; and
- the Directors' report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that it faces.

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

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

On behalf of the Board

David Ellam
Chief Financial Officer and
Company Secretary
7 March 2018

Financial statements

Independent auditors' report
to the members of Silence Therapeutics plc

Report on the audit of the financial statements
Opinion
In our opinion, Silence Therapeutics plc's group financial statements and company financial statements (the "financial statements"):

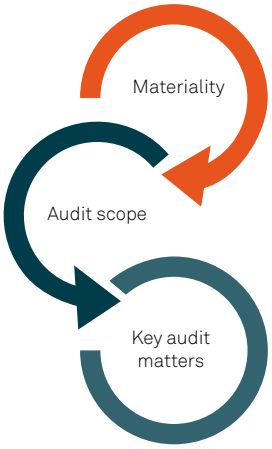
- give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2017 and of the group's loss and the group's and the company's cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union and, as regards the company's financial statements, as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Accounts (the "Annual Report"), which comprise: the consolidated and company balance sheets as at 31 December 2017; the consolidated income statement and statement of comprehensive income, the consolidated and company cash flow statements, and the consolidated and company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our audit approach
Overview



- Overall group materiality: £732,500 (2016: £518,000), based on 5% of loss before tax adjusted to exclude gains on disposals of available-for-sale securities (£9,066,000) and reclassification of foreign exchange gains on liquidation of a subsidiary (£1,344,000).
- Overall company materiality: £678,700 (2016: £415,800), based on 5% of loss before tax adjusted to exclude gains on disposal of available-for-sale securities (£9,066,000).

The scope of our work covered both of the groups operating units being:

- Silence Therapeutics plc and Silence Therapeutics GmbH.

Our audit scope addressed 99.95% of group expenses and 99.95% of group assets

- Carrying value of investment (Parent).
- Gain on disposal of shares in Arrowhead Pharmaceuticals.

The scope of our audit
As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Key audit matters
Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
Carrying value of investment (Company) We focussed on this area because the determination of whether Silence Therapeutics plc's investment in Silence Therapeutics GmbH was impaired involved significant judgements by management about the future results of the business. At 31 December 2017, the parent company's investment in Silence Therapeutics GmbH was carried at £21.5m. Management's impairment assessment is based on projected future cashflows from drug candidates under development, which have not yet been commercialised.	We evaluated the appropriateness of the key assumptions underpinning management's impairment assessment, including expected launch date, pricing, market size and market share. We also evaluated the appropriateness of the discount rates, probabilities of success and future royalty rates. We performed sensitivity analysis on certain key assumptions. As part of our work we also considered the market capitalisation of the group and the associated value that could be attributed to the German business, plus the key role the subsidiary plays in the Group's operations. We considered the carrying value of the investment to be supported.
Gain on disposal of shares in Arrowhead Pharmaceuticals During the year the Group disposed of 6.7 million shares in Arrowhead Pharmaceuticals Inc realising a gain on disposal of £9.1 million which was recognised on the face of the income statement.	We verified the calculation of the gain on disposal by agreeing the number of shares sold and associated proceeds to brokers statements. We agreed the cash proceeds to a bank statement. We also assessed management's assessment of the tax implications of the transaction. We considered the treatment of the gain on disposal to be appropriate.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate.

Scoping overview

The Group has two operating units (Silence Therapeutics plc and Silence Therapeutics GmbH) and we performed a full scope audit on each unit in London and Berlin respectively.

Our scope provided us with coverage of 99.95% of Group expenses and 99.95% of group net assets.

In establishing the overall approach to the Group and Company audit, we determined the type of work that needed to be performed at the reporting units by us, as the Group engagement team, or component auditors. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those reporting units to be able to conclude whether sufficient and appropriate audit evidence had been obtained as a basis for our opinion on the group financial statements as a whole.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Company financial statements
Overall materiality	£732,500 (2016: £518,000).	£678,500 (2016: £415,800).
How we determined it	5% of adjusted loss before tax.	5% of adjusted loss before tax.
Rationale for benchmark applied	Although the Group (and Company) is currently loss making its goal is to be a profit-making business and therefore we applied a profit related benchmark. In the current year, there were two significant one-off transactions relating to the gain on disposal of equity shares and the recycling of foreign exchange gains on the liquidation of an overseas subsidiary which were not reflective of the ongoing operations of the business and therefore were excluded from our materiality calculation.	

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £425,000 and £512,000. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £35,000 (Group audit) (2016: £25,900) and £34,000 (Company audit) (2016: £20,800) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

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

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's and company's ability to continue as a going concern.

Independent auditors' report continued

Reporting on other information
The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' report
In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' report.

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

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

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

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

Use of this report
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.

Other required reporting
Companies Act 2006 exception reporting
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
- certain disclosures of directors' remuneration specified by law are not made; 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.

Stuart Newman (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Cambridge
7 March 2018

Consolidated income statement
year ended 31 December 2017

	Note	2017 £000s	2016 £000s
Revenue	3	**16**	770
Research and development costs		**(7,943)**	(8,711)
Administrative expenses		**(6,464)**	(3,965)
Operating loss	5	**(14,391)**	(11,906)
Realised gain on disposals of available-for-sale financial assets	13	**9,066**	—
Reclassification of foreign exchange gains on liquidation of overseas subsidiary	14	**1,344**	—
Finance and other income	7	**206**	1,544
Loss for the year before taxation		**(3,775)**	(10,362)
Taxation	8	**2,157**	1,922
Loss for the year after taxation		**(1,618)**	(8,440)
Loss per ordinary equity share (basic and diluted)	9	**(2.3p)**	(12.1p)

Consolidated statement of comprehensive income
year ended 31 December 2017

	Note	2017 £000s	2016 £000s
Loss for the year after taxation		**(1,618)**	(8,440)
Other comprehensive income/(expense), net of tax:			
Items that may subsequently be reclassified to profit & loss:			
Foreign exchange differences arising on consolidation of foreign operations		**404**	1,705
Reclassification of foreign exchange gains on liquidation of overseas subsidiary	14	**(1,344)**	—
Fair value movements on available-for-sale financial assets	13	**9,104**	118
Reclassification of fair value movements on disposal of available-for-sale financial assets	13	**(9,066)**	—
Total other comprehensive (expense)/income for the year		**(902)**	1,823
Total comprehensive expense for the year		**(2,520)**	(6,617)

Consolidated balance sheet
at 31 December 2017

	Note	2017 £000s	2016 £000s
Non current assets			
Property, plant and equipment	10	**1,170**	1,375
Goodwill	11	**8,029**	7,709
Other intangible assets	12	**28**	45
Available-for-sale financial assets	13	**—**	4,417
Other receivables	15	**233**	236
		9,460	13,782
Current assets			
Trade and other receivables	15	**733**	1,397
R&D tax credit receivable	8	**1,750**	1,600
Investments held for sale		**—**	3
Available-for-sale financial assets	13	**319**	—
Cash and cash equivalents	16	**42,745**	39,012
		45,547	42,012
Current liabilities			
Trade and other payables	17	**(2,657)**	(1,610)
Total assets less current liabilities		**52,350**	54,184
Net assets		**52,350**	54,184
Capital and reserves attributable to the owners of the parent			
Share capital	19	**3,500**	3,490
Capital reserves	21	**163,215**	163,641
Translation reserve		**2,063**	3,003
Accumulated losses		**(116,428)**	(115,950)
Total equity		**52,350**	54,184

The financial statements on pages 45 to 70 were approved by the Board on 7 March 2018 and signed on its behalf.

David Ellam
Chief Financial Officer
and Company Secretary

Ali Mortazavi
Chief Executive Officer

Company number: 02992058

Consolidated statement of changes in equity
year ended 31 December 2017

	Share capital £000s	Capital reserves £000s	Translation reserve £000s	Accumulated losses £000s	Total equity £000
At 1 January 2016	3,490	165,074	1,298	(109,435)	60,427
Recognition of share based payments	—	475	—	—	475
Lapse of vested options in year	—	(843)	—	843	—
Share options repurchased (note 20)	—	(1,065)	—	964	(101)
Transactions with owners recognised directly in equity	—	(1,433)	—	1,807	374
Loss for year	—	—	—	(8,440)	(8,440)
Other comprehensive income					
Exchange differences arising on consolidation of foreign operations	—	—	1,705	—	1,705
Unrealised gain on available-for-sale financial assets	—	—	—	118	118
Total comprehensive expense for the year	—	—	1,705	(8,322)	(6,617)
At 1 January 2017	3,490	163,641	3,003	(115,950)	54,184
Recognition of share based payments	—	638	—	—	638
Lapse of vested options (note 21)	—	(1,015)	—	1,015	—
Options exercised in the year	—	(87)	—	87	—
Proceeds from shares issued	10	38	—	—	48
Transactions with owners recognised directly in equity	10	(426)	—	1,102	686
Loss for year	—	—	—	(1,618)	(1,618)
Other comprehensive income					
Foreign exchange differences arising on consolidation of foreign operations	—	—	404	—	404
Reclassification of foreign exchange gains on liquidation of overseas subsidiary	—	—	(1,344)	—	(1,344)
Fair value movements on available-for-sale financial assets	—	—	—	9,104	9,104
Reclassification of fair value movements on disposal of available-for-sale financial assets	—	—	—	(9,066)	(9,066)
Total comprehensive expense for the year	—	—	(940)	(1,580)	(2,520)
At 31 December 2017	**3,500**	**163,215**	**2,063**	**(116,428)**	**52,350**

Company balance sheet
at 31 December 2017

	Note	2017 £000s	2016 £000s
Non current assets			
Property, plant and equipment	10	**375**	456
Other intangible assets		**3**	5
Available-for-sale financial assets	13	**—**	4,417
Investment in subsidiaries	14	**21,492**	25,175
Other receivables	15	**233**	220
		22,103	30,273
Current assets			
Trade and other receivables	15	**618**	459
R&D tax credit receivable	8	**1,750**	1,600
Available-for-sale financial assets	13	**319**	—
Cash and cash equivalents	16	**41,525**	38,459
		44,212	40,518
Current liabilities			
Trade and other payables	17	**(2,565)**	(5,508)
Total assets less current liabilities		**63,750**	65,283
Net assets		**63,750**	65,283
Capital and reserves attributable to the Company's equity holders			
Share capital	19	**3,500**	3,490
Capital reserves	21	**163,031**	163,457
Accumulated losses		**(102,781)**	(101,664)
Total equity		**63,750**	65,283

The Company made a loss of £2,257k in the year ended 31 December 2017 (2016: £7,044k).
The financial statements on pages 45 to 70 were approved by the Board on 7 March 2018 and signed on its behalf.

David Ellam
Chief Financial Officer
and Company Secretary

Ali Mortazavi
Chief Executive Officer

Company number: 02992058

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

Company statement of changes in equity
year ended 31 December 2017

	Share capital £000s	Capital reserves £000s	Accumulated losses £000s	Total equity £000s
At 1 January 2016	3,490	164,890	(96,545)	71,835
Recognition of share based payments	—	475	—	475
Lapse of vested options in the year	—	(843)	843	—
Share options repurchased (note 20)	—	(1,065)	964	(101)
Transactions with owners recognised directly in equity	—	(1,433)	1,807	374
Loss for the year	—	—	(7,044)	(7,044)
Other comprehensive income				
Unrealised gain on financial assets available for sale	—	—	118	118
At 1 January 2017	3,490	163,457	(101,664)	65,283
Recognition of share based payments	—	638	—	638
Lapse of vested options (note 21)	—	(1,015)	1,015	—
Options exercised in the year	—	(87)	87	—
Proceeds from shares issued	10	38	—	48
Transactions with owners recognised directly in equity	10	(426)	1,102	686
Loss for the year	—	—	(2,257)	(2,257)
Other comprehensive (expense)/income				
Fair value movements on available-for-sale financial assets	—	—	9,104	9,104
Reclassification of fair value movements on disposal of available-for-sale financial assets	—	—	(9,066)	(9,066)
At 31 December 2017	**3,500**	**163,031**	**(102,781)**	**63,750**

Cash flow statements
year ended 31 December 2017

	Consolidated		Company	
	2017 £000s	2016 £000s	**2017 £000s**	2016 £000s
Cash flow from operating activities				
Loss before tax	**(3,775)**	(10,362)	**(4,414)**	(8,966)
Depreciation charges	**414**	302	**107**	112
Amortisation charges	**19**	8	**1**	—
Charge for the year in respect of share based payments	**638**	475	**638**	475
Realised gain on disposal of available-for-sale financial assets	**(9,066)**	—	**(9,066)**	—
Reclassification of foreign exchange gains on liquidation of overseas subsidiary	**(1,344)**	—	**—**	—
Finance and other income	**(206)**	(1,544)	**(1,050)**	(3,984)
Impairment of investment	**3**	—	**3**	—
Decrease/(Increase) in trade and other receivables	**664**	(1,030)	**(159)**	(185)
Increase/(Decrease) in trade and other payables	**1,047**	491	**(2,943)**	4,694
Decrease in loan to subsidiary undertakings	**—**	—	**4,504**	—
Cash spent on operations	**(11,606)**	(11,660)	**(12,379)**	(7,854)
Corporation tax credits received	**2,007**	1,594	**2,007**	1,594
Net cash outflow from operating activities	**(9,599)**	(10,066)	**(10,372)**	(6,260)
Cash flow from investing activities				
Acquisition of financial assets available for sale	**(4,921)**	(4,299)	**(4,921)**	(4,299)
Disposal of financial assets available for sale	**18,123**	—	**18,123**	—
Decrease/(Increase) in loan to subsidiary undertakings	**—**	—	**—**	(243)
Interest (paid)/received	**(15)**	161	**(15)**	161
Purchase of property, plant and equipment	**(173)**	(492)	**(26)**	(17)
Purchase of intangible assets	**—**	(45)	**—**	(5)
Net cash inflow/(outflow) from investing activities	**13,014**	(4,675)	**13,161**	(4,403)
Cash flow from financing activities				
Proceeds from issue of share capital	**48**	—	**48**	—
Share options repurchased	**—**	(101)	**—**	(101)
Net cash inflow/(outflow) from financing activities	**48**	(101)	**48**	(101)
Increase/(decrease) in cash and cash equivalents	**3,463**	(14,842)	**2,837**	(10,764)
Cash and cash equivalents at start of year	**39,012**	51,907	**38,459**	47,822
as in Net increase/(decrease) in the year	**3,463**	(14,842)	**2,837**	(10,764)
Effect of exchange rate fluctuations on cash held	**270**	1,947	**229**	1,401
Cash and cash equivalents at end of year	**42,745**	39,012	**41,525**	38,459

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

Notes to the financial statements
year ended 31 December 2017

1. General information

1.1 Group

Silence Therapeutics plc and its subsidiaries (together the "Group") are primarily involved in the discovery, delivery and development of RNA therapeutics. 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 Eastcastle Street, London W1W 8DH and the principal place of business is 72 Hammersmith Road, London W14 8TH.

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:

	2017 £000s	2016 £000s
	2,257	7,044

2. Principal accounting policies

2.1 Basis of preparation

The consolidated financial statements and the Company financial statements 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 and Company 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 and Company 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 new and amended accounting standards have been issued by the IASB and are likely to affect future financial statements:

- IFRS 9 Financial Instruments was issued in its final form in July 2014 and will be implemented by the Group from 1 January 2018. The Standard will replace the majority of IAS 39 and covers the classification, measurement and de-recognition of financial assets and financial liabilities, impairment of financial assets and provides a new hedge accounting model. The two most relevant impacts of adopting the new standard on 1 January 2018 are:
  - Available-for-sale financial assets under the existing framework will be classified under IFRS 9 in the new "fair value through other comprehensive income" category, unless an irrevocable election is made for fair value movements to be classified under Other Comprehensive Income. On 1 January 2018, £319k of Arrowhead shares which were previously classified financial assets available-for-sale will now have fair value movements go directly through the income statement as an irrevocable election has not been made for this holding, given it is immaterial and was fully disposed of on 2 January 2018.
  - The new model for calculating impairment of receivables will have not have a material impact on the consolidated financial statements, as there these balances were immaterial on 1 January 2018. However, if there is an impairment in future it would be reclassified to the income statement based on amortised cost calculations instead of fair value calculations. This change has a greater impact for the Company financial statements, given the opening long-term receivable of £12,464k owed by Silence Therapeutics GmbH. IFRS 9 introduces the concept of "Expected Credit Losses" (ECLs). The impact of IFRS 9 on this long-term receivable has been considered and, while the repayment is not foreseen by the parent (hence the quasi-equity classification), a provisional assessment of ECLs is that the loan is not impaired due to the potential for its recovery through realisation of the value of Silence Therapeutics GmbH's intellectual property.
- IFRS 15 Revenue from Contracts with Customers was issued in May 2014 and was be implemented by the Group from 1 January 2018. The Standard provides a single, principles-based approach to the recognition of revenue from all contracts with customers. It focuses on the identification of performance obligations in a contract and requires revenue to be recognised when or as those performance obligations are satisfied. The requirements of IFRS 15 will be considered for each revenue-generating contract from 1 January 2018. At present, the impact is not expected to be material.
- IFRS 16 Leases was issued in January 2016 and will be implemented by the Group from 1 January 2019. The Standard will replace IAS 17 and will require lease liabilities and "right of use" assets to be recognised on the balance sheet for almost all leases. The impact of IFRS 16 is not expected to be material.

2.2 Basis of consolidation

The Group financial statements consolidate those of the Company and its controlled subsidiary undertakings drawn up to 31 December 2017. 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 2017 the Group had cash balances of £42.7m. The Directors have reviewed the working capital requirements of the Group for the twelve months from signing these financial statements 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 6 to 9.

2.4 Research and development

The Group recognises expenditure incurred in carrying out its research and development activities in line with management's best estimation of the stage of completion of each separately contracted study or activity. This includes the calculation of research and development accruals at each period to account for expenditure that has been incurred. This requires estimations of the full costs to complete each study or activity and also estimation of the current stage of completion. In all cases, the full cost of each study or activity is expensed by the time the final report or where applicable, product, has been received. Further details on research and development 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 2017 the Group had a defined contribution pension scheme in which it paid £95k (2016: £68k) on behalf of UK employees. 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 2016 or 2017.

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.

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.

2.9 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.

2.10 Goodwill
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.

2.11 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:

Licences and internally generated patents	10 – 15 years.

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 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 quasi-equity loans from the Company. Investments in shares of the subsidiaries are stated at cost less provisions for impairment in line with IAS 27 (Separate Financial Statements).

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.

The Group classified its financial assets in the following categories: Loans and receivables, and available-for-sale. Currently other categories of financial asset are not used. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

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.

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.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives and are included in non-current assets unless management intends to dispose of the assets within 12 months after the balance sheet date. Purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are initially recognised at fair value plus transaction costs, and are subsequently carried at fair value. Unrealised gains and losses arising from changes in the fair value of investments classified as available-for-sale are recognised within equity. When these investments are sold or impaired, the accumulated fair value adjustments within equity are included in the income statement. The fair values of quoted financial assets are based on current bid prices.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a Group of financial assets is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the investment below its cost is considered in determining whether the investments are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from the fair value reserve within equity and recognised in the income statement. Impairment losses recognised in the income statement on equity investments are not reversed through the income statement, until the equity investments are disposed of.

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 minus, 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 20). 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 or Monte Carlo 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. Any payment made to a counterparty on the cancellation or settlement of a grant of equity instruments (even if this occurs after the vesting date) should be accounted for as a repurchase of an equity interest (that is, as a deduction from equity). But, if the payment exceeds the fair value of the equity instruments repurchased (measured at the repurchase date), any such excess should be recognised as an expense.

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 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 following, which are all judgements:

- 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 2017 amounting to £7.9m (2016: £8.7m). 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 2017 is £21.5m (2016: £25.2m). 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 £8.0m (2016: £7.7m). 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 Officer, Ali Mortazavi. The Group has a single reportable segment (see note 4).

3. Revenue

The revenue in 2017 of £16k (2016: £770k) was from licence fees generated entirely by the European operations.

4. Segment reporting

In 2017, the Group operated in the specific technology field of RNA therapeutics.

Business segments

The Group has identified the Chief Executive Officer as the Chief Operating Decision Maker ("CODM"). For the 12 months ended 31 December 2016 and 2017, the CODM determined the Group had one business segment, the development of RNAi based medicines. This is in line with reporting to the Executive Committee and senior management. The information used internally by the CODM is the same as that disclosed in the Financial Statements.

An analysis of the group's assets and revenues by location is shown below:

Non current assets	UK £000s	Germany £000s
As at 31 December 2017	**611**	**8,849**
As at 31 December 2016	5,103	8,669

Revenue analysis	**2017 £000**	2016 £000
Research collaboration	**16**	—
Revenue from licensing	**—**	770

The country of registration of the single fee-paying party is United States of America (2016: Israel). The revenue was billed and received in US Dollars (2016: US Dollars).

5. Operating loss

This is stated after charging:

	2017 £000s	2016 £000s
Depreciation of property, plant and equipment	**414**	302
Amortisation of intangibles and abandonment of patents	**19**	8
Share based payments charge	**638**	475
Fees payable to the Company's auditors for the audit of the parent Company and the consolidation:		
○ audit of these financial statements	**127**	88
○ other assurance services	**13**	5
○ tax compliance services	**37**	37
Operating lease payments on premises	**467**	454

6. Directors and staff costs

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

	2017 £000s	2016 £000s
Wages and salaries	**3,896**	3,937
Termination benefits	**352**	382
Social security costs	**881**	589
Charge in respect of share based payments	**638**	475
Pension costs	**95**	68
	5,862	5,451

Directors' remuneration

	Base salary 2017 £000s	Benefits in kind 2017 £000s	Bonus 2017 £000s	Pension 2017 £000s	Total 2017 £000s	Base salary 2016 £000s	Benefits in kind 2016 £000s	Bonus 2016 £000s	Pension 2016 £000s	Total 2016 £000s
Executive Directors										
Ali Mortazavi[1]	217	14	182	17	430	200	10	162	9	381
David Ellam[2]	193	7	177	15	392	81	1	64	4	150
Timothy Freeborn[3]	—	—	—	—	—	67	4	19	3	93
Michael Khan[4]	—	—	—	—	—	63	—	—	3	66
Lars Karlsson[5]	—	—	—	—	—	68	18	—	15	101
Non Executive Directors										
Annalisa Jenkins[6]	17	—	—	—	17	—	—	—	—	—
Stephen Parker[7]	100	7	—	5	112	100	3	—	3	106
Alistair Gray	40	—	—	—	40	40	—	—	—	40
Andy Richards[8]	40	—	—	—	40	13	—	—	—	13
Simon Sturge[9]	—	—	—	—	—	2	—	—	—	2
Stuart Collinson[10]	—	—	—	—	—	9	—	—	—	9
Total	607	28	359	37	1,031	643	36	245	37	961

1 Bonus for 2016 includes an amount of £42k in respect of 2015 that was retrospectively awarded in 2016.
2 Appointed as a Director (Chief Financial Officer) on 18 July 2016, 2016 bonus includes a £25k sign-on bonus.
3 Resigned as a Director on 17 June 2016, but continued as an employee until 31 December 2016. Table only includes remuneration whilst a Director.
4 Resigned as a Director on 17 June 2016, when he became a consultant. Table only includes remuneration whilst a Director.
5 Resigned as a Director on 5 April 2016 and left the company.
6 Appointed as Non-Executive Chair on 16 October 2017 with an annual salary of £80k and no benefits in kind.
7 Effective 1 January 2018, annual salary is £40k, consistent with other Non-Executive Directors
8 Appointed as a Director on 14 September 2016.
9 Resigned as a Director on 18 January 2016.
10 Resigned as a Director on 18 January 2016.

The monthly average number of employees, including Executive Directors, during the year was 50 (2016: 59). Of these, the monthly average number of employees working in research and development and administration was 33 (2016: 44) and 17 (2016: 15), respectively.

Apart from the Executive Directors, the monthly average number of employees of the parent Company was 13 (2016: 9).

	Share options charge 2017 £000s	Share options charge 2016 £000s
Ali Mortazavi	309	196
David Ellam	83	17
Timothy Freeborn	—	18
Michael Khan	—	18
Total	392	249

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

7. Finance and other income

Finance and other income comprises:

	2017 £000s	2016 £000s
Bank interest (payable)/ receivable	(15)	161
Net foreign exchange gains	221	1,383
Finance and other income	206	1,544

Net foreign exchange gains include exchange gains on foreign currency denominated bank accounts of £270k (2016: £1,947k).

8. Taxation

The deferred tax charge in 2017 was nil (2016: nil). Reconciliation of current tax credit at standard rate of UK corporation tax to the current tax credit:

	2017 £000s	2016 £000s
Loss before tax	(3,775)	(10,362)
Tax credit at the standard rate of UK corporation tax of 19.25% (2016: 20%)	727	2,072
Effect of overseas tax rate	25	(79)
Impact of unrelieved tax losses not recognised	(752)	(1,993)
Research and development tax credit in respect of prior year	407	322
Research and development tax credit in respect of current year	1,750	1,600
	2,157	1,922

Estimated tax losses of £64.8m (2016: £79.3m) 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 £2.0m (2016: £1.6m). We have accrued £1.8m recognising a current tax asset in respect of 2017 research and development tax credits.

The corporation tax main rate was 20% until 31 March 2017 and dropped to 19% from 1 April 2017. The rate from April 2020 will be reduced to 17% but 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 £1.62m (2016: loss of £8.4m) and on the weighted average of 69,942,558 (2016: 69,801,624) ordinary shares in issue during the year.

The options outstanding at 31 December 2017 and 31 December 2016 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 2016	3,886	599
Additions	492	17
Disposals	(302)	—
Translation adjustment	715	—
At 31 December 2016	4,791	616
Additions	173	26
Disposals	(303)	—
Translation adjustment	173	—
At 31 December 2017	**4,834**	**642**
Accumulated depreciation		
At 1 January 2016	2,793	48
Charge for the year	302	112
Eliminated on disposal	(297)	—
Translation adjustment	618	—
At 31 December 2016	3,416	160
Charge for the year	414	107
Eliminated on disposal	(303)	—
Translation adjustment	137	—
At 31 December 2017	**3,664**	**267**
Net book value		
As at 31 December 2016	1,375	456
As at 31 December 2017	**1,170**	**375**

11. Goodwill

	2017 £000s	2016 £000s
Balance at start of year	7,709	6,663
Translation adjustment	320	1,046
Balance at end of year	**8,029**	7,709

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 by 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 £136.1m. This is the only CGU. The Directors consider that the use of a fair value less costs to sell model based on market prices is 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 2016	2,039	884	2,923
Additions	45	—	45
Disposals	(86)	—	(86)
Translation adjustment	262	—	262
At 31 December 2016	2,260	884	3,144
Additions	—	—	—
Disposals	—	—	—
Translation adjustment	94	—	94
At 31 December 2017	**2,354**	**884**	**3,238**
Accumulated amortisation			
At 1 January 2016	2,033	884	2,917
Charge for the year	8	—	8
Eliminated on disposal	(86)	—	(86)
Translation adjustment	260	—	260
At 31 December 2016	2,215	884	3,099
Charge for the year	19	—	19
Eliminated on disposal	—	—	—
Translation adjustment	92	—	92
At 31 December 2017	**2,326**	**884**	**3,210**
Net book value			
As at 31 December 2016	45	—	45
As at 31 December 2017	**28**	**—**	**28**

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 from the date that the asset is available for use. The charge for amortisation is included in the research and development costs in the income statement.

13. Available-for-sale financial assets

The available-for-sale financial assets represent a shareholding in Arrowhead Pharmaceuticals Inc, a company incorporated in the USA and listed on NASDAQ. This stake represents 0.1% (2016: 4.7%) of the common share capital of Arrowhead Pharmaceuticals Inc.

	£000s	Shares
At 1 January 2016	—	—
Purchases (cost)	4,299	3,500,000
Unrealised gain in other comprehensive income	118	—
At 31 December 2016	4,417	3,500,000
Purchases (cost)	4,921	3,331,359
Disposals (proceeds)	(18,123)	(6,714,745)
Realised gain on disposals	9,066	—
Net unrealised gain in other comprehensive income on remaining shares	38	—
At 31 December 2017	**319**	**116,614**

14. Investments in subsidiaries

Company	**2017 £000s**	2016 £000s
Investment in subsidiary undertakings	**21,492**	25,175

The investment in subsidiary undertakings is made up as follows:

	Investment at cost £000s	Quasi-equity loan £000s	Impairment provision £000s	Net total £000s
Shares and loans in subsidiary undertakings				
At 1 January 2016	47,632	35,926	(61,047)	22,511
Movement in the year	—	2,664	—	2,664
At 31 December 2016	47,632	38,590	(61,047)	25,175
Movement in the year	—	(3,683)	—	(3,683)
At 31 December 2017	**47,632**	**34,907**	**(61,047)**	**21,492**

At 31 December 2016, a £4.5m (€5.3m) short-term loan was owed by the company to Silence Therapeutics GmbH. During 2017, in the process of restructuring finance arrangements for Silence Therapeutics GmbH, both parties agreed to offset this balance against the company's loan to Silence Therapeutics GmbH. The movement in the year includes a foreign exchange gain of £0.5m (2016: £2.0m), and accrued interest of £0.3m (2016: £0.4m).

At 31 December 2017, a non-interest-bearing unsecured loan of £22.4m (2016: £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[1]	USA	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	Yes	No
Intradigm Corporation[1]	Yes	Yes
Silence Therapeutics (London) Ltd (formerly Stanford Rook Ltd)	Yes	No
Innopeg Ltd	Yes	No

1 Intradigm Corporation was dissolved on 13 November 2017. The Company's investment in Intradigm Corporation (and the Group's goodwill relating to Intradigm) was fully impaired in 2012. Foreign exchange gains on liquidation of Intradigm were £1,344k, and were released from the translation reserve to the income statement during the current year (reclassification of foreign exchange gains on liquidation of overseas subsidiary).

Silence Therapeutics plc has made an impairment provision against the investment and loans to Silence Therapeutics (London) Ltd and Innopeg Ltd to the extent that they are deemed to be not recoverable. An impairment provision of £14.3m was recorded against the investment in Silence Therapeutics GmbH in 2015 as the Directors 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%, determined that an impairment arose.

15. Trade and other receivables

	2017		2016	
	Group £000s	**Company £000s**	Group £000s	Company £000s
Trade receivables	**—**	**—**	810	—
Other receivables	**216**	**177**	301	144
Prepayments	**517**	**441**	286	315
Trade and other receivables - current	**733**	**618**	1,397	459
Other receivables (non-current)	**233**	**233**	236	220
Total trade and other receivables	**966**	**851**	1,633	679

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

Other current receivables primarily relate to VAT receivable.

No interest is charged on outstanding receivables. There were no material balances overdue but not impaired.

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.

	2017		2016	
	Group £000s	**Company £000s**	Group £000s	Company £000s
Cash and cash equivalents	**42,745**	**41,525**	39,012	38,459

17. Trade and other payables

	2017		2016	
	Group £000s	**Company £000s**	Group £000s	Company £000s
Trade payables	**462**	**407**	528	318
Amount payable to subsidiary undertaking	**—**	**489**	—	4,478
Social security and other taxes	**192**	**77**	73	70
Accruals and other payables	**2,003**	**1,592**	1,009	642
Total trade and other payables	**2,657**	**2,565**	1,610	5,508

Trade payables principally comprise amounts outstanding for trade purchases and continuing operating costs. The amount payable by the Company to a subsidiary undertaking is repayable in the next 12 months and does not incur interest. Accruals and other payables primarily represent accrued expenses where an invoice has not been received yet. 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 in respect of trading losses recognised by the Group and Company:

	2017 £000s	2016 £000s
Deferred tax liability:		
○ in respect of intangible assets	8	2
Less: offset of deferred tax asset below	(8)	(2)
Liability	—	—
Deferred tax asset:		
○ in respect of available tax losses	12,683	12,134
○ in respect of share based payments	542	656
Less: offset against deferred tax liability	(8)	(2)
	13,217	12,788
○ provision against asset	(13,217)	(12,788)
Asset	—	—

Due to the uncertainty of future profits, a deferred tax asset in respect of trading losses was not recognised at 31 December 2017 (2016: nil).

The following are the deferred tax assets in respect of capital losses recognised by the Group and Company:

	2017 £000s	2016 £000s
Deferred tax asset at 20% in respect of capital losses	3,381	—
Capital gains tax at 20% realised in the year	(1,813)	—
	1,568	—
Provision against asset	(1,568)	—
Asset	—	—

Deferred tax assets are recognised where it is probable that future taxable profit will be available to utilise losses. The deferred tax asset relates to capital losses in relation to the 2010 investment in Intradigm Corporation. Capital gains of £9,066k were recognised during the year on the disposal of shares in Arrowhead Pharmaceuticals Inc., utilising £1,813k of the deferred asset. Due to the uncertainty of future capital gains, a deferred tax asset in respect of capital losses was not recognised at 31 December 2017 (2016: nil).

19. Share capital

	2017 £000s	2016 £000s
Allotted, called up and fully paid 69,991,624 (2016: 69,801,624) ordinary shares par value 5p	3,500	3,490

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 year are as follows:

	Number
Number of shares in issue at 1 January 2016	69,801,624
Shares issued during the year	—
Number of shares in issue at 31 December 2016	69,801,624
Shares issued during the year	—
Options exercised at 25p	190,000
Number of shares in issue at 31 December 2017	**69,991,624**

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

At 31 December 2017, there were options outstanding over 6,101,764 (2016: 5,284,375) unissued ordinary shares. Details of the options outstanding are as follows:

Exercisable from	Exercisable until	Number	Exercise price
05/12/2011	28/02/2018	200	£10.00
05/11/2016	04/03/2018	31,250	£2.40
07/05/2011	07/05/2018	399	£20.75
26/09/2011	25/09/2018	300	£14.75
30/09/2016	30/09/2018	10,182	£2.75
30/06/2016	30/11/2018	12,000	£1.06
05/12/2011	05/12/2018	4,899	£10.00
30/05/2010	05/12/2018	200	£54.50
30/12/2016	31/12/2018	100,000	£1.17
28/06/2016	31/12/2018	80,000	£1.25
30/12/2017	31/12/2018	12,113	£2.06
16/07/2016	15/07/2023	10,000	£1.06
15/06/2017	16/06/2024	12,000	£1.06
30/06/2017	01/07/2024	6,000	£1.06
01/08/2015	31/07/2024	1,728,078	£0.25
31/08/2017	01/09/2024	9,000	£1.06
15/11/2017	15/11/2024	6,000	£1.06
31/12/2015	31/12/2024	80,000	£1.25
05/07/2018	06/07/2025	10,000	£1.06
15/11/2018	16/11/2025	6,000	£1.06
05/01/2019	05/01/2026	21,472	£1.63
04/04/2019	04/04/2026	13,672	£1.28
15/04/2019	15/04/2026	2,000,000	£1.17
23/05/2019	23/05/2026	13,839	£1.12
28/06/2016	26/06/2026	80,000	£1.25
02/07/2019	02/07/2026	16,968	£1.04
06/07/2018	06/07/2026	100,000	£1.00
18/07/2019	18/07/2026	200,000	£1.10
01/09/2019	01/09/2026	21,986	£1.06
14/09/2017	14/09/2026	144,927	£1.15
01/01/2020	01/01/2027	100,000	£1.01
01/02/2020	01/02/2027	128,712	£1.01
03/04/2020	03/04/2027	554,597	£0.05
04/04/2020	04/04/2027	92,000	£0.90
18/04/2020	18/04/2027	56,470	£0.85
16/05/2020	16/05/2027	125,000	£0.85
03/07/2020	03/07/2027	59,500	£0.94
04/09/2020	04/09/2027	70,000	£1.76
18/09/2020	18/09/2027	64,000	£1.47
13/11/2020	13/11/2027	50,000	£2.05
01/12/2020	01/12/2027	70,000	£1.99
Total options outstanding		**6,101,764**	

The market price of Company shares at the year-end was 194.5p (2016: 101.0p). During the year the minimum and maximum prices were 72.8p and 245.5p respectively (2016: 101.0p and 163.5p).

20. Equity-settled share-based payments

The Company has issued individual share option contracts, open to all employees of the Group, as well as EMI shares and under the unapproved share scheme. Under the individual contracts and schemes available, the options vest at dates set by the Company at the time the option is granted. The options usually lapse after one year following the employee leaving the Group.

	2017		2016	
	Number	**Weighted average exercise price pence**	Number	Weighted average exercise price pence
Options				
Outstanding at the beginning of the year	**5,284,375**	**93.73**	3,755,015	96.26
Granted during the year	**1,370,279**	**71.72**	2,904,579	116.76
Lapsed during the year	**(362,890)**	**190.62**	(586,083)	367.75
Repurchased during the year	**—**	**—**	(789,136)	125.00
Exercised during the year	**(190,000)**	**25.00**	—	—
Outstanding at the year-end	**6,101,764**	**82.68**	5,284,375	93.73
Exercisable at the year-end	**2,230,930**	**52.23**	2,397,415	58.57

The options outstanding at the year-end have a weighted average remaining contractual life of 7.8 years (2016: 8.8 years). In 2016, certain employees were offered the opportunity to sell back options granted in 2013 back to the Group at a price below the fair value at the time of the repurchases. This was not repeated in 2017.

The weighted average share price at the time of exercise during the year was 89.00p (2016: no exercises).

The Group granted 1,370,279 options during the year (2016: 2,904,579). The fair value of options granted were calculated using a Binomial or Monte Carlo model and inputs into the model were as follows:

Inputs and assumptions for options granted in the year	**2017**	2016
Weighted average fair value at grant (pence)	**60.8p**	46.6
Weighted average share price (pence)	**109.2p**	117.0
Expected volatility	**53%-58%**	60%-66%
Risk free rate	**1.10%-1.53%**	0.70%-2.01%
Hurdle price (pence)	**see below**[1]	see below[2]
Expected dividend yield	**nil**	nil

The Group recognised total charges of £638k (2016: £475k) related to equity settled share based payment transactions during the year.

1 All options issued during 2017 were without a hurdle price except for 183,018 options at a hurdle price of 135.0p, 183,018 options at a hurdle price of 150.0p, and 188,561 options at 160.0p.
2 All options issued during 2016 were without a hurdle price except for 200,000 options at a hurdle price of 117.0p, 600,000 options at a hurdle price of 176.0p, a further 600,000 options at 234.0p and another 600,000 options at 293.0p.

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 2016	132,917	22,248	4,715	5,194	165,074
On options in issue during the year	—	—	475	—	475
On vested options lapsed during the year	—	—	(843)	—	(843)
On options repurchased during the year	—	—	(1,065)	—	(1,065)
Movement in the year	—	—	(1,433)	—	(1,433)
At 31 December 2016	132,917	22,248	3,282	5,194	163,641
On options in issue during the year	38	—	638	—	676
On vested options lapsed[1]	—	—	(1,015)	—	(1,015)
Options exercised in the year	—	—	(87)	—	(87)
Movement in the year	38	—	(464)	—	(426)
At 31 December 2017	**132,955**	**22,248**	**2,818**	**5,194**	**163,215**

Company	Share premium account £000s	Merger reserve £000s	Share-based payment reserve £000s	Capital redemption reserve £000s	Total £000s
At 1 January 2016	132,917	22,064	4,715	5,194	164,890
On options in issue during the year	—	—	475	—	475
On vested options lapsed during the year	—	—	(843)	—	(843)
On options repurchased during the year	—	—	(1,065)	—	(1,065)
Movement in the year	—	—	(1,433)	—	(1,433)
At 31 December 2016	132,917	22,064	3,282	5,194	163,457
On options in issue during the year	38	—	638	—	676
On vested options lapsed[1]	—	—	(1,015)	—	(1,015)
Options exercised in the year	—	—	(87)	—	(87)
Movement in the year	38	—	(464)	—	(426)
At 31 December 2017	**132,955**	**22,064**	**2,818**	**5,194**	**163,031**

1 Following a review of the share-based payment reserve in the year, £763k was identified as relating to options that had lapsed in prior years. This was reclassified to Accumulated losses in the year, with another £252k relating to 2017 lapses.

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.

22. Capital commitments and contingent liabilities

There were no capital commitments or contingent liabilities at 31 December 2017 (2016: nil).

23. Commitments under operating leases

At 31 December 2017, the Group and Company had a gross commitment on its office rental and service charge at 72 Hammersmith Road, London equal to £0.2m (2016: £0.2m) in the next year.

£0.2m (2016: £0.2m) is payable between one to five years. No amounts are payable after more than five years.

In addition, the Group enters into contracts in the normal course of business with contract research organisations to assist in the performance of research and development activities and other services and products for operating purposes. These contracts generally provide for termination on notice, and therefore are cancellable contracts and not reflected in the table above.

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:

	2017		2016	
Loans and receivables	**Group £000s**	**Company £000s**	Group £000s	Company £000s
Trade and other receivables	**449**	**410**	1,347	364
Cash and cash equivalents	**42,745**	**41,525**	39,012	38,459
Loans to subsidiary undertakings – non-current	**—**	**12,464**	—	16,123
Total	**43,194**	**54,399**	40,359	54,946

All amounts are current except for £233k of trade and other receivables which are due after one year (2016 due after one year: £236k) and loans to subsidiary undertakings which are non-current in their entirety.

	2017		2016	
Available-for-sale	**Group £000s**	**Company £000s**	Group £000s	Company £000s
Available-for-sale financial assets	**319**	**319**	4,417	4,417

Available-for-sale financial assets are level 1 financial instruments as equity securities in Arrowhead Pharmaceuticals Inc listed in the US. These are denominated in US dollars. The maximum exposure to credit risk at the reporting date is the carrying value of the securities classified as available-for-sale.

Financial liabilities by category

	2017		2016	
Other financial liabilities at amortised cost	**Group £000s**	**Company £000s**	Group £000s	Company £000s
Trade and other payables	**2,465**	**1,999**	1,537	960
Loans from subsidiary undertakings	**—**	**—**	1,116	4,478
Total	**2,465**	**1,999**	2,653	5,438

All amounts are short-term.

Credit quality of financial assets (loans and receivables)

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

	2017		2016	
	Group £000s	**Company £000s**	Group £000s	Company £000s
Trade and other receivables	**449**	**12,874**	1,347	16,487

Cash and cash equivalents are not considered to be exposed to credit risk due to the fact it sits within banks with top credit ratings. 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.

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. All deposits are held in instant access accounts, 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. The Group considers the maximum credit risk relating to trade receivables is nil (2016: £810,000), and assessed that no provision against this was required in 2016 as the credit risk of the counter-party is considered to be low.

Currency risk
The Group operates in a global market with income possibly arising in a number of different currencies, principally in sterling or euros. Additionally, the Group holds available-for-sale financial assets in US dollars. The majority of the operating costs are incurred in euros with the rest predominantly in sterling. Additionally, to a lesser extent, a number of operating costs are incurred in US dollars. 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:

	2017		2016	
	Group £000s	**Company £000s**	Group £000s	Company £000s
Financial assets	**6,066**	**17,332**	11,535	26,932
Financial liabilities	**(1,388)**	**(708)**	(614)	(4,529)
Net financial assets	**4,678**	**16,624**	10,921	22,403

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

	2017		2016	
	Group £000s	**Company £000s**	Group £000s	Company £000s
Financial assets	**7,924**	**7,865**	8,928	8,118
Financial liabilities	**(4)**	**(4)**	(40)	(33)
Net financial assets	**7,920**	**7,861**	8,888	8,085

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

During the year sterling depreciated by 4% against the euro. The table shows the impact of an additional weakening or strengthening of sterling against the euro by 20%.

2017	**As reported £000s**	**If sterling rose 20% £000s**	**If sterling fell 20% £000s**
Group result for the year	**(1,618)**	**(1,293)**	**(2,106)**
Euro denominated net financial assets	**4,678**	**3,898**	**5,846**
Total equity at 31 December 2017	**52,381**	**50,101**	**55,801**

2016	As reported £000s	If sterling rose 20% (restated) £000s	If sterling fell 20% (restated) £000s
Group result for the year	(8,440)	(9,121)	(7,419)
Euro denominated net financial assets	10,921	9,101	13,651
Total equity at 31 December 2016	54,184	51,803	57,576

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 against the US dollar.

During the year sterling rose by 9% against the US dollar. The table shows the impact of an additional weakening or strengthening of sterling against the US dollar by 20%.

2017	As reported £000s	If sterling rose 20% £000s	If sterling fell 20% £000s
Group result for the year	(1,618)	(4,491)	(2,692)
US dollar denominated net financial assets	7,920	6,600	9,900
Total equity at 31 December 2017	52,381	51,061	54,361

2016	As reported £000s	If sterling rose 20% (restated) £000s	If sterling fell 20% (restated) £000s
Group result for the year	(8,440)	(9,225)	(7,262)
US dollar denominated net financial assets	8,888	7,407	11,110
Total equity at 31 December 2016	54,184	52,703	56,406

Except for the available-for-sale financial assets explained above, no amounts are included in the balance sheet at fair value and therefore no fair value hierarchy is included.

Comparatives have been restated for the "Group result of the year" Euro and US Dollar sensitivities presented in the tables above. This corrects a prior year error, which only impacts this disclosure.

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:

	2017		2016	
	Group £000s	Company £000s	Group £000s	Company £000s
Silence Therapeutics GmbH				
Expenses charge for services	—	4,971	—	6,217
Balance owed at 31 December	—	484	—	11,694

Intradigm Inc was dissolved in November 2017. Immediately prior to dissolution, £218k was owed by Silence Therapeutics GmbH to Intradigm Inc. Intradigm Inc transferred this receivable to its parent company, Silence Therapeutics plc, resulting in a credit to the income statement for Silence Therapeutics plc. This amount is included in the net balance owed at 31 December 2017 as shown in the table above. The income statement is not presented in the table above – such that the expenses charge for services reflects the gross charge from Silence Therapeutics GmbH to Silence Therapeutics plc in the year.

26. Subsequent events

On 2 January 2018, the remaining Arrowhead shares were sold, with proceeds of £320k and a gain of £163k.

27. Group companies

In accordance with Section 409 of the Companies Act 2006 a full list of subsidiaries, the address of the registered offices and effective percentages of equity owned as at 31 December 2017 are disclosed below.

All subsidiaries are wholly owned.

Name	Registered address
Silence Therapeutics GmbH	Robert-Roessle-Str. 10, 13125 Berlin, Germany
Silence Therapeutics (London) Ltd	27 Eastcastle Street, London W1W 8DH, England
Innopeg Ltd	27 Eastcastle Street, London W1W 8DH, England

28. Legal proceedings

On 3 July 2017, the Company issued a claim in the UK High Courts of Justice (Patents Court) naming as defendants Alnylam UK Limited, Alnylam Pharmaceuticals Inc, and The Medicines Company UK Limited. The claim asks the Court to determine whether the Group is entitled to "supplementary protection certificates" (SPCs) on several late stage Alnylam products, which include Patisiran, Fitusiran, Givosiran, and Inclisiran and could result in the extension of Silence's European patent protection on EP 2 258 847 ("EP 847") on these products. SPCs are national intellectual property rights which can give up to five years of exclusivity after a patent expires.

On 17 October 2017, the company delivered to the defendants its claim for declaratory relief relating to its entitlement to SPCs on certain Alnylam products. Subsequently, Alnylam UK Limited and The Medicines Company UK Limited sued to revoke EP 847 in the UK, and also included claims for declarations of non-infringement of EP 847 by the above-named Alnylam products. On 20 November, the company served its Defence in the actions initiated by Alnylam UK Limited and The Medicines Company UK Limited and has counterclaimed for threatened infringement of EP 847 by these companies.

It is likely that all issues between the parties will be heard at a trial beginning on, or around, 3 December 2018.

A loss against Alnylam UK Limited and The Medicines Company UK Limited in these issues could result in incurring additional legal costs, and/or a finding of invalidity on EP 847 in the UK. Given the early stage of litigation, no provisions or receivables have been recognised at 31 December 2017, except for legal professional fees for time already incurred. Legal costs are expensed as incurred.

Glossary

AKI
Acute kidney injury

AtuRNAi
Proprietary siRNA modification pattern

Atu027
Our proprietary cancer product candidate

DGF
Delayed graft function

DNA
Deoxyribonucleic acid

EMA
European Medicines Agency

FDA
Food and Drug Administration

GalNAc
N-Acetylgalactosamine

IP
Intellectual property

mRNA
Messenger RNA

RNA
Ribonucleic acid

siRNA
Short interfering RNA

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