SILENCE THERAPEUTICS

Annual Report and Accounts 2018

We at Silence Therapeutics are at the forefront of the technological capability to switch off, or **silence**, individual human genes, creating a new generation of therapeutics, which can improve outcomes for patients and, in the process, build shareholder value

Silence is golden

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.

Operational highlights

- Lead candidate SLN124 granted Orphan Drug Designation by the European Medicines Agency for the treatment of Beta-Thalassemia
  - CTA filed Q1 2019
  - First patients expected to enter a Phase Ib study in H2 2019
- Advanced SLN360, an Lp(a) targeting siRNA for cardiovascular disease, which started IND-Enabling studies in February 2019
- Out-licensed programme, QPI-1002, for Prevention of Acute Kidney Injury progressed to Phase III clinical trial by partner Quark Pharmaceuticals, Inc.
- New leadership in place with the recruitment of Dr David Horn Solomon, an experienced public company biotech CEO and board member, as Chief Executive Officer
- Settlement and License Agreement with Alnylam Pharmaceuticals for tiered royalty on net sales of ONPATTRO™ in the EU

Post year end

- On 16 April 2019, Silence Therapeutics plc announced that Dr Andy Richards, CBE, was leaving his role as interim non-executive Chair and a Director of the Company with immediate effect.

Financial highlights

Cash and cash equivalents and term-deposits

£26.5m

2017: £42.7m

Net cash outflow from operating activities

£16.8m

2017: £9.6m

Loss after tax

£18.4m

2017: £1.6m

2017 losses were lower primarily due to £9.1 million of gains on the disposal of Arrowhead shares (2018: nil), and a one-off exchange credit of £1.3m on liquidation of an overseas subsidiary (2018: nil). 2018 also included exceptional expenditure relating to legal proceedings, with total legal fees of £4.0 million (2017: £0.8 million).

Contents

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.

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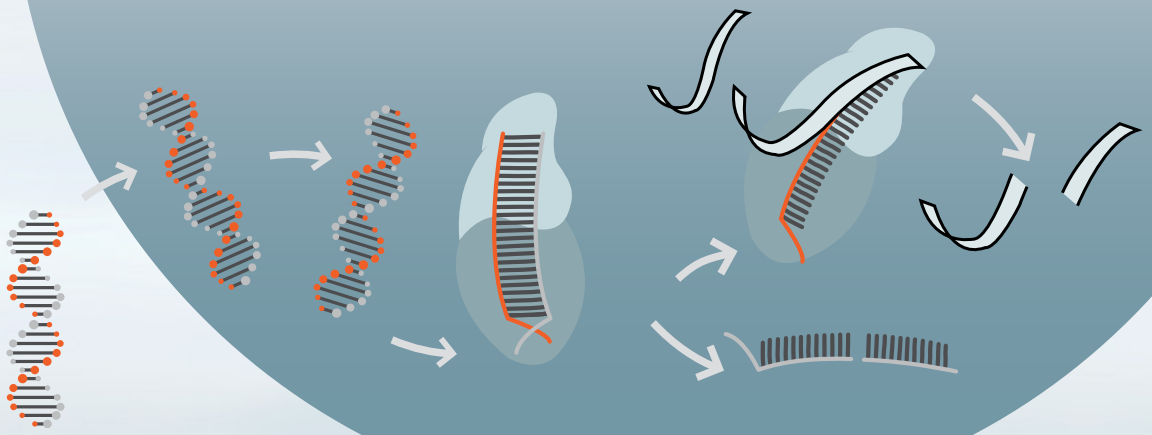
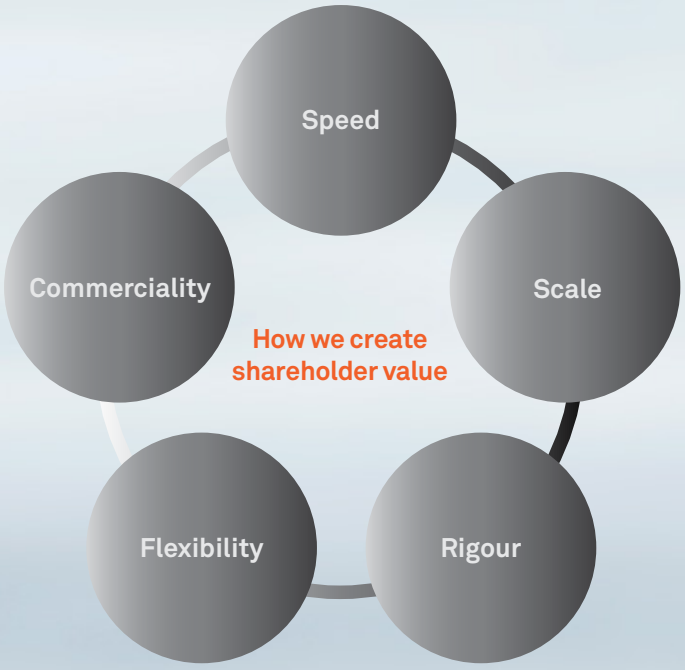
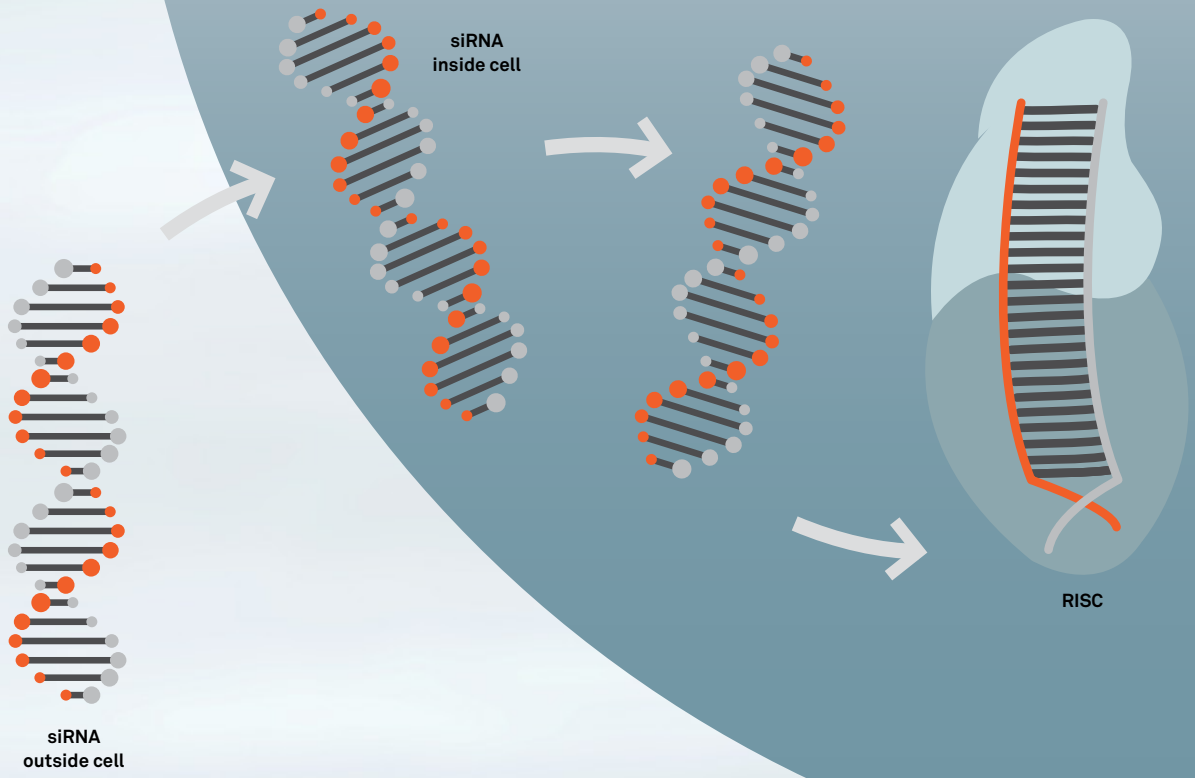
Chief Executive Officer's review





How does gene silencing work?



1

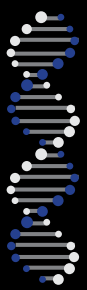
Every living organism is made up of cells. Humans have millions of cells and inside each one is a nucleus, protecting its DNA. Cells use DNA as a blueprint to manufacture the proteins that make the body function. While DNA remains inside the nucleus, a blueprint is taken out of the nucleus to the cell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

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.

3

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.

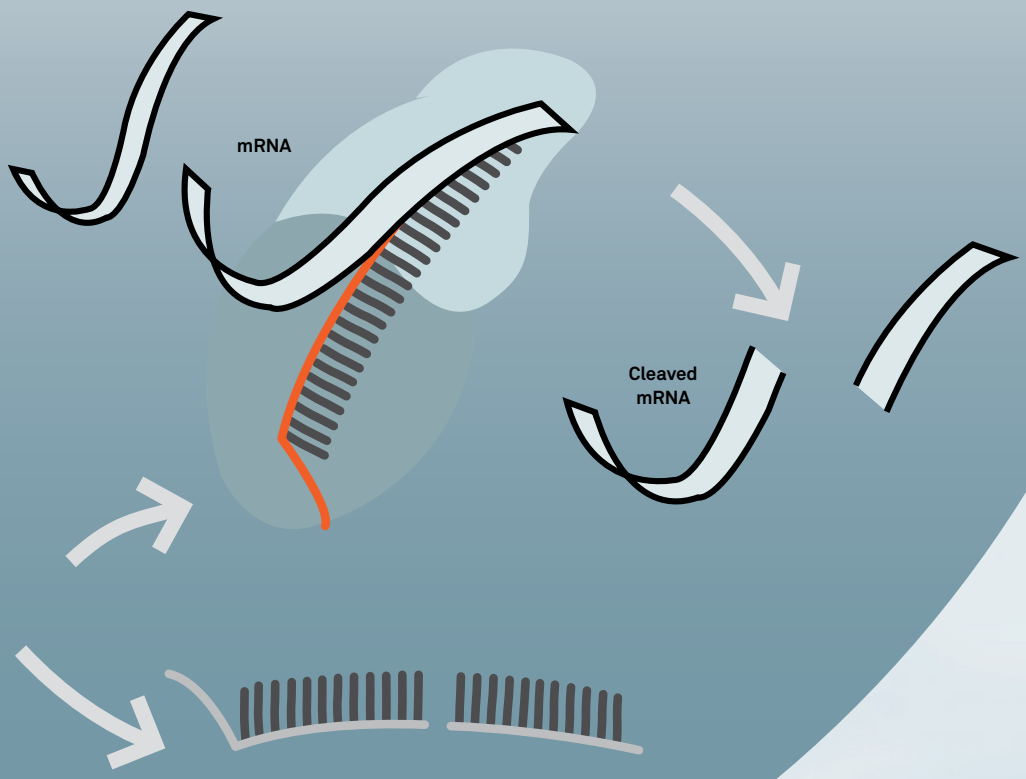


3.2 bn
bases of DNA make up the human genome

Iron overload disorders:

1 million
patients in the US

2 million
patients in the EU



4

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.

5

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.

6

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.

Genes operating in the liver:

>7,000

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.

2018

Currently in pre-clinical development with plans to enter clinical development in H2 2019

Chair's statement

I continue to be impressed by the quality of the science, the level of innovation and the ambition evident at the Company. As a leader in RNA interference (RNAi) technology, Silence is at the cutting edge of an extremely promising new class of therapeutics.

Dr Andy Richards CBE
Interim Non-Executive Chair

Dear shareholder,

Since joining the Board in September 2016 and becoming Non-Executive Chair in August 2018, I have continued to be both excited by progress within the RNAi field and impressed by the quality of the science and the level of innovation evident at Silence Therapeutics. As a leader in RNA interference (RNAi) technology, Silence is at the cutting edge of an extremely promising new class of therapeutics, which as a therapeutic modality is maturing, with the first drug approval in this field granted by the FDA on 10 August for Onpattro™ (patisiran). This landmark approval validates RNAi as a class of drugs that now have a clear path to market and opens the door to new treatment options for people living with serious medical conditions.

Silence Therapeutics' deep expertise in RNAi and associated technologies is made possible by our exceptional and experienced team, driven by an ambition to advance our leading technology platform into the clinic and beyond.

Leadership

Leadership has always been a key success factor in the internationally competitive biotech sector. In July 2018 we were delighted to announce the appointment of Dr David Horn Solomon as our new Chief Executive Officer. David brings tremendous energy along with an extensive international leadership experience in the biotech industry with a track record of successful pipeline delivery, financing and deal making. He is ideally placed to lead the Company through its next phase of growth. We have also been delighted to welcome to the Board Dave Lemus, who brings further expertise in commercialisation and strategic partnerships, as well as financing and transactions, especially in the US.

Clinical development

In 2018 we continued to progress our RNAi programmes, moving closer towards clinical development, with the Phase Ib study assessing Silence's lead candidate SLN124 anticipated to start in the second half of 2019. In early 2019 the European Medicines Agency (EMA) awarded Orphan Drug designation to SLN124, which will enable us to expedite the development of the product for the treatment of patients with the chronic and potentially life-threatening condition Beta-Thalassemia. We believe that, upon approval, the drug will have the potential to transform the lives of the patients with this and other iron overload disorders such as Myelodysplastic Syndrome (MDS) and hereditary hemochromatosis.

Corporate governance

Robust governance and compliance continue to be a key focus for the Board. Board responsibilities, tasks and achievements for 2018 are described in detail in the Corporate Governance report starting on page 26. The Board is focused on driving value from the Company's platform technology, with a core focus on the development of our proprietary clinical-stage RNA therapeutics. The Board is working hard to ensure that management has the right executive team, resources and capabilities to succeed. We are confident that Silence has created and will sustain an entrepreneurial, international and commercial culture befitting a biotechnology company at the forefront of innovation and the development of new medicines for patients globally.

Outlook

I would like to thank the entire Silence Therapeutics organisation for another year of strong progress. The ongoing focus of our leadership and scientists enables us to build upon solid foundations, offering exciting opportunities for the road ahead. With the management team led by Dr David Horn Solomon, complemented by a supportive and highly experienced Board, Silence has a closely aligned leadership team well equipped to grow the Company. Silence has a strong cash position to drive the value of its therapeutic portfolio and platform technology and continues to explore a range of financing and growth options. The employees of Silence, at all levels of the organisation, work hard to ensure that we deliver on our goals and I believe that the high calibre of the people at the company will be as key to our success as our technology and scientific programmes. I also want to take this opportunity to personally thank shareholders, for your continued support. Working together, we will cure disease, improve lives and create a successful and valuable company.

Dr Andy Richards CBE
Interim Non-Executive Chair
16 April 2019

Chief Executive Officer's review

During the year we have made great progress in advancing our lead product SLN124 towards the clinic and we are due to commence in-human clinical trials later in 2019.

Dr David Horn Solomon
Chief Executive Officer

A pivotal year for Silence Therapeutics

2018 was a defining year for Silence Therapeutics, with transformational change throughout the business. I joined as Chief Executive Officer in July 2018, attracted by the strength of the RNAi therapeutic platform at Silence and the Company's ability to rapidly advance from sound therapeutic ideas and targets, to human clinical trials. RNAi therapeutics are here to stay – the first RNAi therapeutic has now been approved by the FDA and thus a new, important class of medicine has been born. To cement our place as a leader in this exciting new field, we must continue to advance our pipeline of new medicines through the clinic to show safety, tolerability and efficacy for patients and their caregivers.

This past year's highlight has been the continued advancement of our lead medicine, SLN124 for the treatment of iron overload disorders, closer to clinical trials, with the first patient expected to be dosed in Q3 2019 following the submission of the Clinical Trial Application in Q1 2019. Furthermore, we have expanded our pipeline offering to include a new medicine, SLN360, for the reduction of cardiovascular risk, prevention of heart attacks and cardiovascular disease. Our early stage pipeline is also growing, giving the Company more shots on goal in order to maximise shareholder value. Our portfolio includes four near term clinical programs which, as they advance, will benefit all stakeholders. Lastly, all legal proceedings, in all jurisdictions, between Silence and Alnylam were withdrawn. Alnylam will license patents from Silence and will pay Silence a tiered royalty on net sales of ONPATTRO™ in the EU only ranging from 0.33 percent to 1.0 percent through 2023.

At Silence we have a newfound focus rapidly advancing our pre-clinical programmes into the clinic with discipline and zeal. With our strong progress in 2018, we have taken important steps toward realising our ambition to become a world leader as an RNAi therapeutics company. This will be further realised in 2019 as we begin clinical trials with SLN124 in patients with iron overload disorders.

Pipeline development and growth

Our therapeutic areas of interest in 2018 and at present are in haematology, where we are advancing SLN124 for iron overload disorders as seen in beta-thalassemia, myelodysplastic syndrome (MDS) and hereditary haemochromatosis (HH); in cardiovascular disease where we are advancing SLN360 to reduce cardiovascular risk by targeting Lp(a), a novel and important cardiovascular marker that, when elevated, demonstrates significant risk of cardiovascular events and disease; and in a range of rare or orphan diseases. As we focus on high value new medicines, we have also taken the decision to cease development of SLN226 for alcohol use disorder as the marketplace for this medicine is now believed to be limited. Our Technology Innovation Group, headed by Dr Marie Wikström Lindholm and highlighted in this report, is working creatively to generate new ideas, structures of our RNAi medicines to support our new and growing pipeline. In addition to advancing our valuable pipeline, it is our mission to always be at the cutting edge of our field.

Balancing partnering and standalone commercialisation

The Silence Therapeutics business model is based on establishing and developing successful partnerships and in 2018 our business development group began significant outreach to pharma and biotech companies interested in advancing or co-developing our medicines. As our company matures, it will be important to strike a balance between partnering and standalone commercialisation. We will take a standalone approach for medicines and programmes that we can advance in the clinic with trials of reasonable size and cost, whereas for assets like our new SLN360 that require size and scale following proof-of-concept studies, we will look to partner with big pharma. In this regard, we are constantly considering our options, in order that we remain nimble, always striving to create value while reducing risk.

People, culture and values

Our culture and our vision reflect the passion and commitment that each of us at Silence has to bringing medicines to patients with life-threatening diseases. We are acutely aware that perhaps no other industry has the potential to impact society as much as ours and this is a constant motivation for all our employees and management. Our work flourishes thanks to rigorous science, clarity of purpose, agile and informed decision making, and hard work from everyone in our team. As we have brought new medicines to our pipeline in 2018, and advanced SLN124 closer to the clinic, we have also strengthened our team. In 2018, we welcomed Dr Richard Jenkins as our new Head of Clinical Development and a new group of regulatory, clinical trial and quality affairs colleagues to advance our medicines to value in the clinic. We also thank Ali Mortazavi, our former Chief Executive Officer, who left the Company in 2018, for his service and dedication over six years. During the year we were very pleased to welcome Mr Dave Lemus as a new Non-Executive board member highly experienced in the biotech and pharmaceutical industry. In August 2018, Dr Andy Richards, CBE, a Non-Executive Director of Silence Therapeutics since September 2016, assumed the role of Non-Executive Chair in an interim capacity after Dr Annalisa Jenkins left her role as Executive Chair and Director of the Company. The Company has commenced a process to appoint a new Chair and will report further in due course.

Financial position and optionality

We ended 2018 with a cash and term deposit balance of £26.5 million. While this is enough to continue the development of our key proprietary medicines for value creation for shareholders beyond H1 2020, there will come a point before this when additional funding will be needed and – whether this is through partnering our medicines with large pharma companies, equity offerings or other means – in 2019 we will maintain a cost-conscious approach and financial optionality as we progress our business. Our increased R&D spend in 2018 reflects a maturing pipeline and the associated costs to rapidly increase biotech value, as we accelerate SLN124 and SLN360 into the clinic to achieve results. Our share price suffered towards the end of 2018 and in the period thereafter owing to the settlement of our patent litigation case, some investor sell-down, and declining levels of investor interest for smaller biotechnology companies on the London Stock Exchange. We remain focussed and determined to be responsive to shareholder value and also chart the right course for our business to see appropriate growth, and development. To this end we continue to assess a number of options in addition to our organic plan which we believe would be additive to the Company's future growth prospects and shareholder value.

2019 outlook

Improving patients' lives and helping to treat and cure disease through development of new and better medicines creates a sense of determination, commitment and discipline in our organisation, as we continue to expand engagement with patient organisations and key opinion leaders. You can read more about our business, results and future potential in this 2018 Annual Report. We look forward to unlocking more of Silence Therapeutics' potential in 2019 to benefit our shareholders. Thank you for your ongoing support.

Dr David Horn Solomon
Chief Executive Officer
16 April 2019

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.

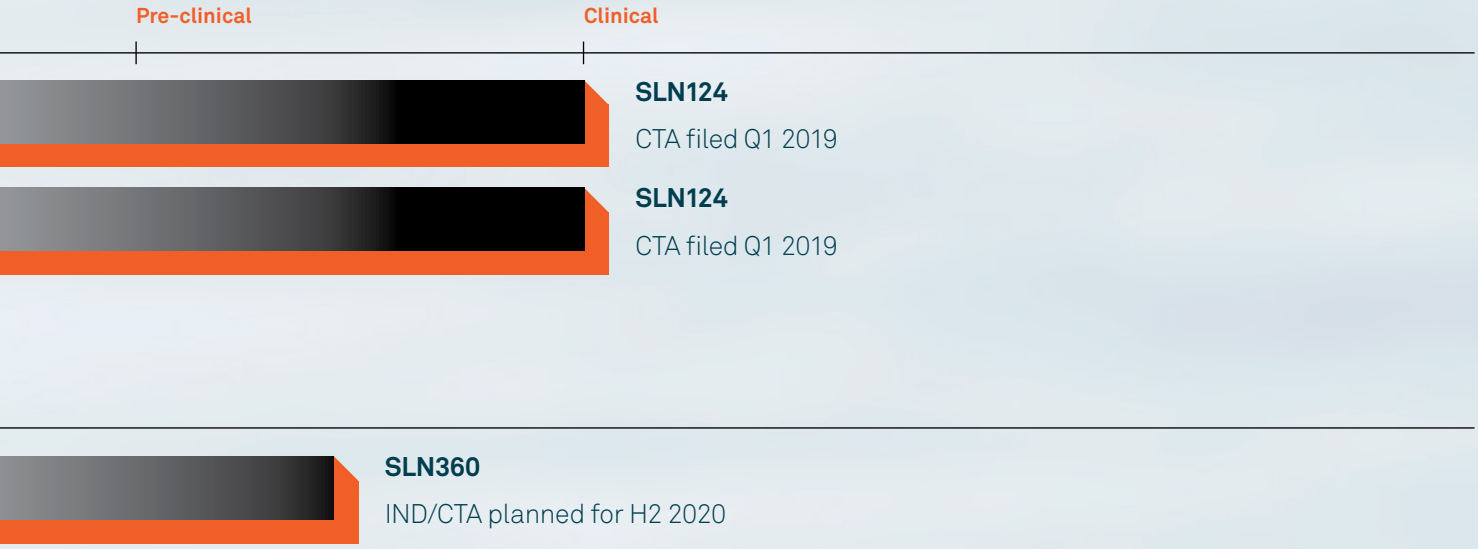
With regard to our out-licensed programmes, the drug candidates being developed by our licensee Quark Pharmaceuticals, in partnership with Novartis, continue to progress and are currently advancing through Phase 3 trials.

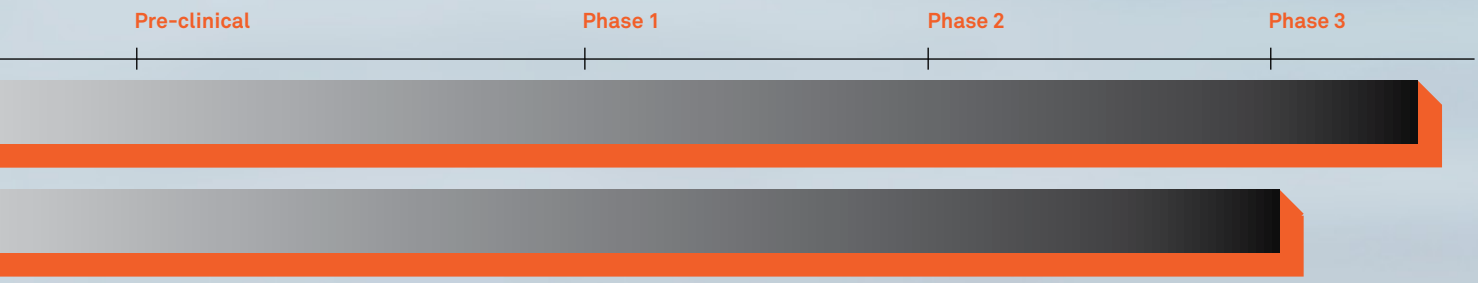
Our programmes

	Programme	Discovery
Haematology	Beta Thalassemia	
	Myelodysplastic syndrome	
	Undisclosed indication	
Cardiovascular diseases	Cardiovascular disease	
Rare diseases	Complement-mediated diseases	
	Rare metabolic	
	Rare undisclosed	

Out-licensed programmes (AtuRNAi™)

	Programme	Discovery
	Teprasarin – Delayed Graft Function (DGF)	
	Teprasarin – Acute Kidney Injury (AKI)	


Pre-clinical
Clinical
SLN124
CTA filed Q1 2019
SLN124
CTA filed Q1 2019
SLN360
IND/CTA planned for H2 2020


Pre-clinical
Phase 1
Phase 2
Phase 3

Iron overload disorders

Iron overload disorders are characterised by an imbalance in iron homeostasis resulting in the toxic accumulation of iron in patients tissues.

These disorders include

- Iron-overload anemias (e.g. beta Thalassemia)
- Myelodysplastic syndrome (MDS)
- Hereditary Hemochromatosis (HH)

In iron-loading anemias such as beta Thalassemia, the imbalance in iron homeostasis is inextricably linked to ineffective erythropoiesis. Correction of iron homeostasis improves ineffective erythropoiesis and reduces anemia in animal models of disease.

Organs affected by iron overload

Pituitary gland

Thyroid gland

Heart and circulation

Liver

Pancreas

Adrenal gland

Ovaries

Testes

1

The unmet need

Transfusion Dependent beta-Thalassemia (TDT) patients require frequent lifelong blood transfusions to survive, negatively impacting quality of life and resulting in significant secondary iron overload. Despite availability of iron chelators, a considerable number of patients develop high liver and cardiac iron overload.

Non-Transfusion Dependent beta-Thalassemia (NTDT) patients do not require regular blood transfusions, but experience chronic anemia and iron overload due to ineffective erythropoiesis. This affects the quality of life and leads to co-morbidities (e.g. pulmonary hypertension, cardiac disease, endocrine disorders and liver disease).

The majority of **low to intermediate risk MDS** patients are severely anemic. They are often unresponsive to erythropoiesis stimulating agents (ESAs), require lifelong blood transfusions and develop iron overload.

Hereditary Hemochromatosis patients develop iron overload due to genetic disposition. They require regular lifelong phlebotomy to reduce elevated iron levels. Treatment often does not improve symptoms and some such as extreme fatigue can be compounded by the side effects of phlebotomy.

1m

Iron overload disorder patients in the US

2m

Iron overload disorder patients in the EU

Iron overload disorders continued

2 What we're doing

Our subcutaneously delivered drug will minimise patient burden and require infrequent administration, while being highly effective at targeting specifically the master regulator of iron homeostasis.

SLN124 has the potential to improve ineffective erythropoiesis and anemia, reduce systemic iron, prevent tissue iron overload and enhance erythropoiesis.

SLN124 is expected to provide a significantly improved therapeutic option and better quality of life for patients living with iron overload disorders. Our Phase 1b in beta-Thalassemia and MDS patients is expected to commence enrolment in H2 2019.

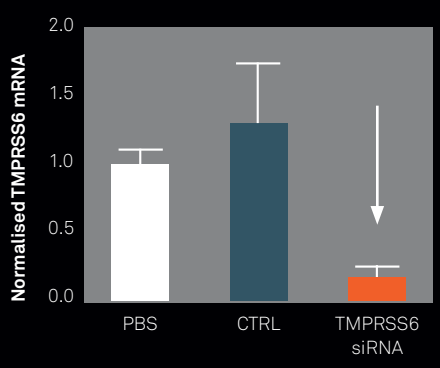
How SLN124 performs in mouse disease models

SLN124 reduces iron levels in the circulation in a murine model of hereditary hemochromatosis

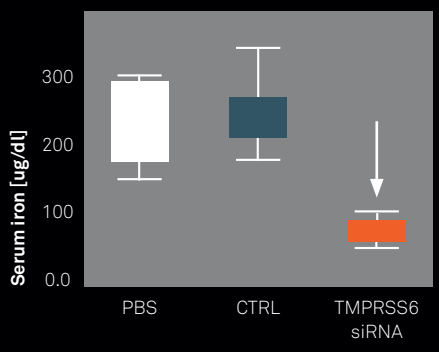
Key

●/● PBS/CTRL
● with SLN 124

TMPRSS6 mRNA (liver)
SLN124 reduces TMPRSS6 created in the liver



Iron (serum)
This in turn reduces iron levels in the blood



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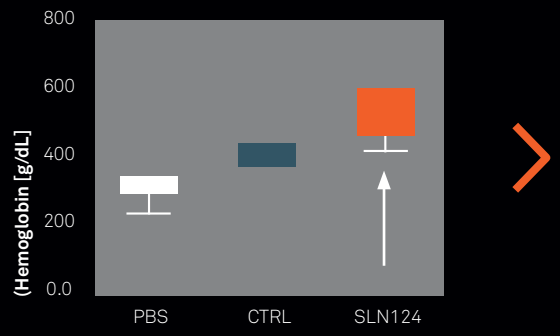
What could this mean?

Beta-Thalassemia and MDS
SLN124 has the potential to improve anemia, reduce transfusion requirements and ameliorate both primary and secondary iron overload.

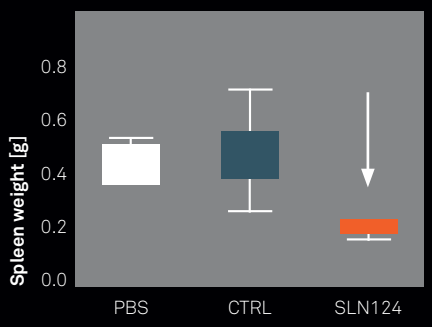
Hereditary Hemochromatosis
SLN124 has the potential to obviate need for phlebotomy and reduce symptoms such as extreme fatigue and joint pain.

SLN124 improves anaemia and normalises spleen size in a murine model of beta-thalassemia intermedia

Hemoglobin (blood)
SLN124 improves anemia shown by increase in hemoglobin levels



Spleen weight
This leads to reduction of ineffective erythropoiesis and thereby normalisation of spleen size



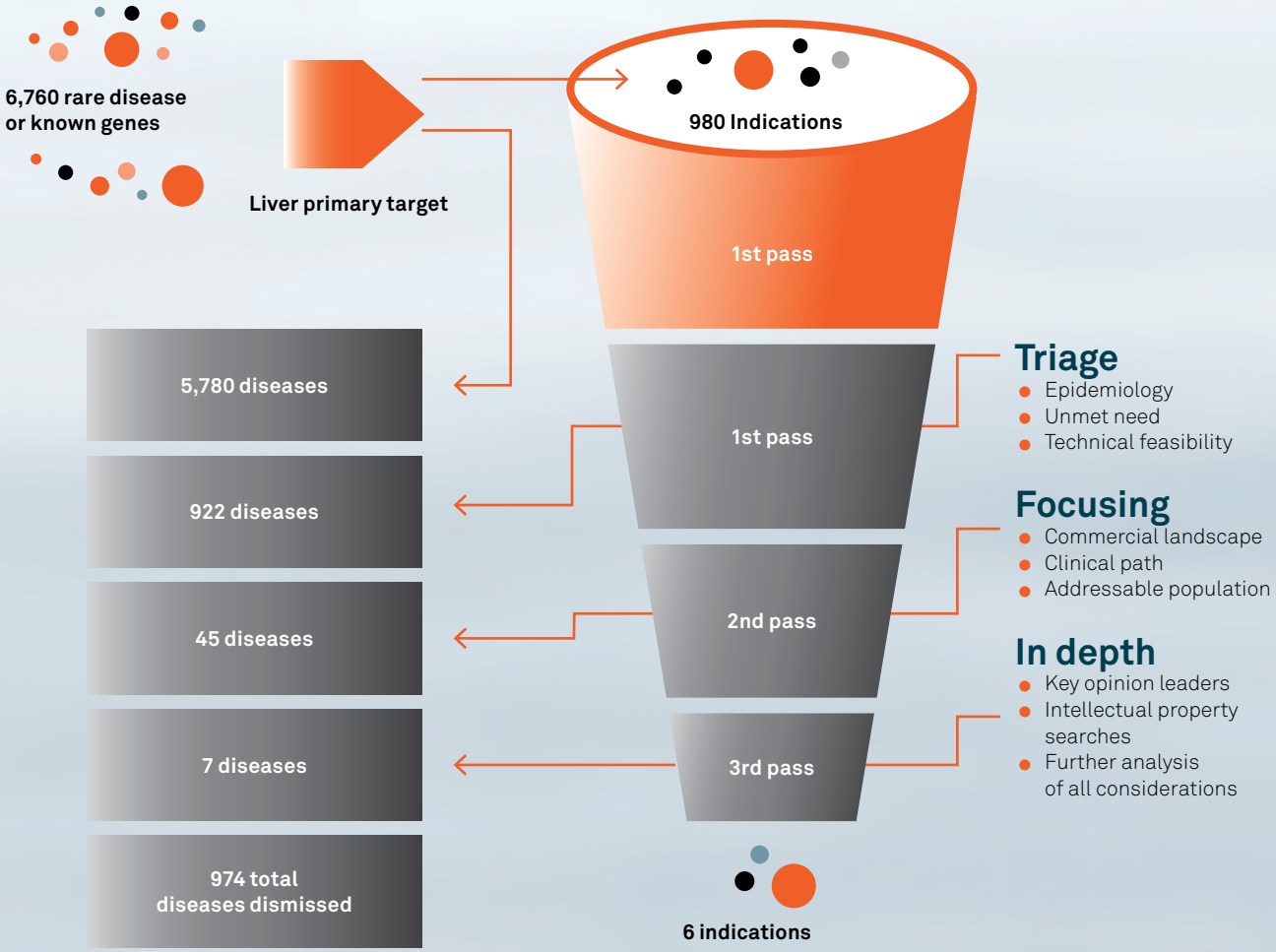
Business model

Target selection strategy

Silence has a rigorous target selection strategy, with a dedicated internal process that can be rerun to ensure a balanced pipeline across therapeutic areas, population sites and risk profiles.

Target selection is crucial to Silence's long-term business strategy. 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.

Indicative target selection process



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.

Financial review

Research and development expenditure included the manufacture of materials in preparation for a First in Human study for both Beta-Thalassemia and Myelodysplastic Syndrome (MDS) indications, with the first patient entered into the Phase Ib study anticipated in H2 2019.

Dr Rob Quinn
Interim Chief Financial Officer

Research and development expenditure

Research and development expenses increased by £1.8 million to £9.7 million for 2018 (2017: £7.9 million). Contract Research Organisation (CRO) costs increased by £2.0 million to £3.9 million (2017 (£1.9 million), reflecting increasing costs associated with the progression of lead programme SLN124 towards Clinical Trial Application (CTA) filing in Q1 2019. These costs include the manufacture of materials in preparation for a First in Human study for both Beta-Thalassemia and Myelodysplastic Syndrome (MDS) indications, with the first patient entering into the Phase Ib study anticipated in H2 2019. This increase in CRO costs was partly offset by people costs, which decreased by £0.2 million to £3.4 million (2017: £3.6 million) driven mainly by annualisation of headcount reduction in H1 2017. Material costs remained relatively steady, increasing £0.1 million to £0.9 million (2017: £0.8 million).

Administrative expenses

General and administration expenses increased by £4.3 million to £10.8 million for 2018 (2017: £6.5 million). The key driver for this increase was legal fees increasing by £3.2 million to £4.0 million (2017: £0.8 million), reflecting non-recurring costs incurred in relation to legal proceedings until the settlement agreement with Alnylam Pharmaceuticals, Inc (NASDAQ:ALNY) in December 2018. People costs increased by £0.5 million to £4.7 million (2017: £4.2 million), primarily due to Board changes during the year (see page 62 for more detail).

Finance and other income

The final tranche of the holding in Arrowhead Pharmaceuticals, Inc (NASDAQ:ARWR) was disposed of at the start of the year. As required on adoption of IFRS 9, £156k of previously unrecognised gains accumulated in reserves through Other Comprehensive Income were reclassified to Accumulated losses at 1 January 2018, with no further gains recognised in 2018. In contrast, £9.1 million of gains on disposal of Arrowhead shares were recognised in the income statement in 2017, prior to the adoption of IFRS 9. In 2017, a one-off credit of £1.3 million was recognised in the income statement 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 increased to £0.04 million (2017: nil) due to investment in low-risk term deposits. The foreign exchange gain in 2018 was nil (2017: £0.2 million), reflecting relatively stable Sterling exchange rates against the Euro and US Dollar.

Taxation

During the year, the Company received a research and development tax credit of £1.8 million in the UK in respect of R&D expenditure in 2017. The Company accrued £2.1 million recognising a current tax asset in respect of 2018 research and development tax credits.

Liquidity, cash and cash equivalents

The Group's cash and cash equivalents and term deposit at year end totalled £26.5 million (2017: £42.7 million). The cash spent on operations was £18.6 million (2017: £11.6 million) against an operating loss of £20.6 million (2017: £14.4 million). The Directors have reviewed the working capital requirements of the Group and Company for the twelve months from signing these financial statements and are confident that these can be met.

Other balance sheet items

Current trade and other payables increased by £1.1 million to £3.8 million at the end of 2018 (2017: £2.7 million). This reflects the increased payables and accruals associated with CRO costs and legal proceedings, in line with the increase in these expenses explained above.

With the prospective adoption of IFRS 9 Financial Instruments, the balance sheet classification of certain items changed from 2017 to 2018; however, the underlying balances have not changed significantly.

Dr Rob Quinn
Interim Chief Financial Officer
16 April 2019

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	It is possible that the Group's drugs may not be approved for clinical or regulatory reasons. The Group depends on contract research organisations (CROs) to manufacture drug product for its clinical trials. If CROs do not deliver as planned, there may be delays in conducting product development activities, as well as increased costs. 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, but not limited to, dosing and toxicology. The Group utilises innovation to lower dosing and minimise safety risks. CROs are selected based on track-record and experience, and the Group performs independent quality checks of CRO work. The Group has a subsidiary in Germany, which can be used for regulatory purposes in future, if needed.
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.

Principal risks	Impacts	Mitigating activities
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. The Group may not be able to raise additional funds that will be needed to support its drug development programmes, and additional funds raised could cause dilution to existing shareholders.	The Group will seek to secure risk sharing partnerships or out-licensing deals at appropriate stages depending on the product risk and investment profile. Additionally, contact is maintained with major shareholders to understand their views.
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 and term deposit position of £26.5 million 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 58.44% at 31 December 2018.

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.

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 2019, 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.

Technology Innovation team

Silence Therapeutics continuously invests in its technology platform. For liver targets the team has developed a GalNAc conjugate 'toolbox' for use in lead optimisation for novel liver targets. The 'toolbox' contains molecule design elements that can improve potency, safety, and ease of synthesis of siRNA therapeutics, all for the benefit of our future patients.

Marie Wikström Lindholm leads the team, bringing a strong background in RNA therapeutics as well as more than 15 years of international R&D management experience.

Adrien Weingärtner is a biophysicist leading a group dedicated to understanding and optimising delivery of our drugs into the intended target cells.

Lucas Bethge is a chemist leading in house synthesis and characterisation of new siRNA conjugates, as well as contributing to process development for our future lead molecules.

Judith Hauptmann is a biochemist leading a group focusing on optimisation of siRNA sequence design and oligonucleotide modification patterns, including refinement of in silico compound selection tools.

Marie Wikström Lindholm
VP, Head of Technology Innovation

Adrien Weingärtner
Principal Scientist, Group Leader – Drug Delivery

Stefan Rathjen
Scientist – Drug Delivery

Maria Sternberger
Senior Research Associate – Drug Delivery

Lisa Weiss
Senior Research Associate – Drug Delivery

Lucas Bethge
Senior Scientist, Group Leader – Chemistry

Jens Endruschat
Principal Research Associate – Chemistry

Pablo Lores Lareo
Scientist – Chemistry

Judith Hauptmann
Senior Scientist, Group Leader – Drug Design

Melanie Balzer
Senior Research Associate – Drug Design

Vivien Hehne
Research Associate – Drug Design

Board of Directors

Our Board is formed of five accomplished members, one 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 David Horn Solomon
Chief Executive Officer
Appointed July 2018

David is an experienced public company biotech CEO, board member and biotech investor. He was the CEO of Zealand Pharma A/S (NASDAQ:ZEAL) from 2008 to 2015. Under David's leadership the company went public on NASDAQ OMX and its lead product, Adlixin®, a GLP-1 receptor agonist for the treatment of type II diabetes, was approved in the US and globally and is now marketed by Sanofi as a monotherapy and in combination with Lantus as Soliqua®.

David has earlier served as a faculty member at Columbia University's College of Physicians and Surgeons in New York City. From 2003 to 2006, David headed healthcare investment at Carrot Capital Healthcare Ventures in New York. David is currently a member of the Board of Directors of TxCell SA (NYSE EURONEXT:TXCL), and was earlier a member of the Boards at Onxeo SA (NYSE EURONEXT:ONXEO) and Promosome, LLC. David studied at Weil Cornell Medicine of Cornell University and its Graduate School of Medical Science where he received his Ph.D.

Areas of expertise
Biotech corporate finance, pharmaceutical development, business development agreements, biotech governance.

Current external roles
Director of TxCell SA.

Dr Andy Richards CBE
Interim Non-Executive Chair
Appointed September 2016
Ceased to be a Director April 2019

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
Andy 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 adviser to Cambridge Innovation Capital and the UCL Technology Fund.

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 & 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. He 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 Stephen Parker
Non-Executive Director
Appointed September 2015

Stephen 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 30 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.

Dave Lemus
Non-Executive Director
Appointed June 2018

Dave has over 20 years of US and international business experience in the pharmaceutical and biotechnology industries, having served in executive management and non-executive board roles in multiple US and European private and publicly-traded companies. He was previously Executive Vice Chair, Chief Operating Officer and Chief Financial Officer of Proteros biostructures GmbH. Prior to that he served as Interim Chief Financial Officer and Chief Operating Officer of Medigene AG, a publicly-listed German biotechnology company focused on the research and development of T-Cell-Receptor based immunotherapies, and prior to this as Chief Executive Officer of Sigma Tau Pharmaceuticals, Inc. Dave was also Chief Financial Officer and Executive VP of MorphoSys AG, taking the Company public in 1999 in Germany's first biotech IPO and held various positions at leading pharma companies including at Hoffman La Roche.

Areas of expertise
Drug commercialisation, strategic partnerships, financing and transactions.

Current external roles
Non-Executive Director of Celularity Inc., Non-Executive Director of Sorrento Therapeutics Inc., Non-Executive Director of Biohealth Innovation Inc., and Trustee of MIT Club of Washington DC.

Corporate governance report

From July 2018, Silence Therapeutics applies The QCA Corporate Governance Code. The Directors support high standards of corporate governance and regard the QCA Code as appropriate for the stage of development of the Group.

Dr Andy Richards CBE
Interim Non-Executive Chair

What corporate governance standards does the Company follow?

On 19 July 2018, the Board approved the application of The Quoted Companies Alliance (QCA) Corporate Governance Code (2018 edition) ('the QCA Code'). As an AIM-listed Company, Silence has the choice of complying with either the UK Corporate Governance Code, the set of recommended corporate governance principles for UK main market public companies issued by the Financial Reporting Council, or The QCA Code, a practical, outcome-oriented approach to corporate governance that is tailored for small and mid-size quoted companies in the UK. The Board views this an appropriate corporate governance framework for Silence Therapeutics plc, and consideration has been given below to each of the ten principles set out in the QCA Code.

How frequently does the Board meet?

The Board holds four scheduled meetings per year, aligned with quarterly management reporting, with additional meetings and Board calls when circumstances and urgent business dictate. In the 12-month period under review, there were 15 meetings.

Type of meeting	Number of meetings
Board	15
Audit and Risk Committee	4
Remuneration Committee	10
Nomination Committee	5

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 Chief Executive Officer maintains 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.

How does the Board apply the ten principles set out in the QCA Code?

1. Establish a strategy and business model which promote long-term value for shareholders

The Board has a clear strategy which is set out in the Chair's Statement and Chief Executive Officer's Review, on pages 6 and 8, respectively. To support the execution of this strategy, the Board performs the following key tasks:

- 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 therapeutic 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;
- review progress towards and consider options and terms of business development and corporate development deals;
- 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.

2. Seek to understand and meet shareholder needs and expectations

Contact with major shareholders is principally maintained by the Chief Executive Officer, who ensures that their views are communicated to the Board as a whole. 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.

This year's Annual General Meeting of the Company will be held on 25 June 2019. 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.

3. Take into account wider stakeholder and social responsibilities and their implications for long-term success

The Board considers the Groups ability to help patients and their caregivers to be highly important and critical to the long-term success of Silence. For more information on how the Group's lead drug candidate, SLN124, can help iron overload disorder sufferers, refer to pages 12 to 15. For information on engagement with wider stakeholders, refer to Resources and Relationships on page 22.

4. Embed effective risk management, considering both opportunities and threats, throughout the organisation

A Risk Register is maintained for regular review by the Audit and Risk Committee and the Board. Principal risks are set out on pages 20 and 21, where mitigating activities are also explained. Additionally, the Audit and Risk Committee Report on pages 30 and 31 sets out how risks are reviewed.

5. Maintain the board as a well-functioning, balanced team led by the chair

The Board has a majority of Non-Executive Directors, consisting of four Non-Executive Directors (including the Interim Chair) and one Executive Director. The Board's composition is geared towards its current stage of development and priorities. The skill sets of the Board include 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, to be appointed as Chair, and a Senior Independent Director, to provide support for the Chair. Details of each of the Directors' experience and background are given in their biographies on pages 24 and 25.

Dr Andy Richards CBE, as Interim Chair of the Board, is responsible for leading the Board and ensuring its effectiveness. Dr David Horn Solomon, as Chief Executive Officer, is responsible for the operational management of the Group and implementation of Board strategy and policy.

Board structure

Audit and Risk Committee

Alistair Gray (Chair)
Dave Lemus
Dr Stephen Parker
Dr Andy Richards CBE

Remuneration Committee

Dr Andy Richards CBE (Chair)
Alistair Gray
Dave Lemus
Dr Stephen Parker

Nomination Committee

Dr Andy Richards CBE (Chair)
Alistair Gray
Dave Lemus
Dr Stephen Parker

The Board delegates certain activities to the Committees, with Terms of Reference which are available on the company website (www.silence-therapeutics.com). 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.

6. Ensure that between them the directors have the necessary up-to-date experience, skills and capabilities
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.

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 Officer;
- 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 appointments of Dave Lemus as a Non-Executive Director on 21 June 2018 and of Dr David Horn Solomon as Chief Executive Officer on 17 July 2018. This followed an extensive search for each. Dr David Horn Solomon has held senior management roles in both the US and Europe, bringing extensive international leadership experience in the biotech industry with a track record of successful pipeline delivery, financing and deal making. Dave Lemus brings a track record and proven leadership in corporate development, financing and building high performance management teams.

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. Dave Lemus and Dr David Horn Solomon will stand for election at the 2018 Annual General Meeting having been appointed since the last Annual General Meeting.

7. Evaluate board performance based on clear and relevant objectives, seeking continuous improvement
The Board is responsible for reviewing its own effectiveness, as well as that of the Committees and of individual Directors. The Board performance review process is currently an internal process, which considers matters such as the performance of the Executive Directors against the Board-approved corporate objectives. The Board considers a more formal, externally-facilitated review process has not been required in the past year, but will continue to consider whether such a review is necessary in future.

The Nominations Committee is responsible for succession planning and making recommendations to the Board in this respect, as set out above.

8. Promote a corporate culture that is based on ethical values and behaviours
Ethical values and behaviours are important to the Company, and the policies to implement this are explained on page 22. More information can be found on the Corporate Responsibility web page on the Company website.

9. Maintain governance structures and processes that are fit for purpose and support good decision-making by the board
The Board is supported by the Committees, explained above, in the task of maintaining governance processes and structures. Furthermore, the following governance matters support good decision-making by the Board.

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 pages 20 and 21.

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-year 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.

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.

Board advice
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.

10. Communicate how the company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders
Contact with major shareholders is principally maintained by the Chief Executive Officer, and additionally the Chair is available to discuss governance and other matters directly with major shareholders, both private and institutional.

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. Furthermore, the Company maintains its consideration of each of the ten QCA Code principles on its website.

Dr Andy Richards CBE
16 April 2019

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.

Alistair Gray
Chair of the Audit and Risk Committee

Who are the members and who do they interact with?

Alistair Gray is Chair of the Audit and Risk Committee. He has previously chaired the Audit and Remuneration committees of AorTech International PLC and Highland Distillers PLC. He currently chairs the Pension Trustee Boards of Edrington Group, Scottish Enterprise and Clyde Bergemann Ltd.

In addition to Alistair, the members of the committee comprise Dr Stephen Parker, Dr Andy Richards CBE and, from June 2018, Dave Lemus. The Committee met four times during 2018, 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 2018, the Committee reviewed the 2017 preliminary announcement, the 2017 annual report and the 2018 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 Group'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 Group does not have an internal audit function. Given the current size of the Group 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 December 2018. 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
16 April 2019

Remuneration Committee report

Having the right team to execute on an internationally competitive strategy in the fast-moving field of RNAi is a key issue for the Board and the Company.

Dr Andy Richards CBE
Interim Non-Executive Chair

Dear shareholder,
On behalf of the Remuneration Committee, I am pleased to present our Directors' Remuneration Report for the year ended 31 December 2018.

Having the right team to execute on an internationally competitive strategy in the fast-moving field of RNAi is a key issue for the Board and the Company. We initiated meaningful change in leadership by selecting a new Chief Executive Officer in July. Our new CEO, Dr David Horn Solomon brings to Silence extensive international leadership experience in the biotech industry with a track record of successful pipeline delivery, financing and deal making. Dr Annalisa Jenkins left her role as Chair and Director of the Company in August and Dr Andy Richards, CBE, a non-executive Director since September 2016, assumed the role of non-executive Chair in an interim capacity. Dave Lemus also joined the Board as a non-executive Director on 21 June 2018. David Ellam left his role as Chief Financial Officer on 8 January 2019 and Rob Quinn stepped up as Interim Chief Financial Officer.

We continue to deliver a remuneration programme that rewards 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 pre-set goals for that year; and a longer-term equity-based programme of share options, vesting over three 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.

We reduced the annual cash bonus maximum for Executive Directors to 50% of base salary for each Executive Director in line with market best practice.

We improved our benefits offering by increasing our employer pension contributions from 8% to a maximum employer contribution of 10%. Employee contributions are matched two-fold by employer contributions up to a maximum employer contribution of 10%.

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

In July 2018, under the Employee LTIP, Dr David Horn Solomon was granted nominal cost options over 401,338 shares with a share price hurdle of 157p. These options vest three years from grant. The Committee approved a base salary for Dr David Horn Solomon of £300,000 upon joining Silence on 16 July 2018. David Ellam's base salary was increased on 1 January 2019 by 3% from £203,000 to £209,090. Settlement agreement payments made to Ali Mortazavi in July 2018, and anticipated to be paid to David Ellam in 2019, are disclosed in note 6 to the financial statements on page 62.

On 2 February 2018, each Non-Executive Director was 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. In June 2018, Dave Lemus was granted RSUs over 1,626 shares under the same terms. We are comfortable that this does not impair the independence of the Non-Executive Directors, based on their size and restrictions.

The UK Corporate Governance 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. This percentage currently stands at 9.8%. 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
16 April 2019

Remuneration Committee report continued

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% for January 2019.

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.	Annual salaries from 1 January 2019 are as follows: CEO: £300,000 CFO: £209,090 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.
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 accommodation allowance, travel expenses, 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 10%. Employees may contribute more than 5% themselves, but the Company will not provide any further employer contributions above this level.	Not performance related.

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
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 2019, annual cash bonuses are limited to a maximum of 50% 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.
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 three 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

Fees			
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 and reimbursement of travel costs for attendance at Board meetings. 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 unless contractually longer, 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 performance conditions or hurdles; 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.

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 twelve 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.

Remuneration Committee report continued

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 2018.

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 – 2018

In 2018, 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 2018, 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 2018 corporate goals were weighted as follows:

	Target	2018 achievement
Pipeline development	40%	10%
IP strengthening	10%	10%
Financing & Investor Relations	20%	10%
New deals and strategic partnerships	15%	5%
Culture & People	10%	10%
Technology & Innovation	5%	5%
Total	100%	50%

Achievement against objectives is given careful consideration by the Committee prior to finalisation. The 2018 bonus award granted to Dr David Horn Solomon was £60,000, and to David Ellam was £58,870 (2017: £177,200). Dr David Horn Solomon also received a £40,000 sign-on bonus.

For 2018, the Executive Directors' annual cash bonus also comprised the split of 80% corporate goals (same as above), and 20% individual goals.

For 2019 the Executive Directors' annual cash bonus will be comprised of 50% corporate and 50% 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 2019 corporate objectives are weighted as follows:

	Target
Pipeline development	35%
Finance	40%
Business Development/Corporate Development	10%
Culture & People	5%
Investor Relations & Communications	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.

Executive Directors

	At 1 January 2018	Exercised[6]	Awarded	Forfeited	At 31 December 2018	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	–	–	(600,000)	1,400,000	117.0	06.07.18	05.01.20
Individual contract[1]	–	–	242,222	–	242,222	5.0	06.07.18	05.01.20
LTIP[3]	–	–	88,621	(88,621)	–	5.0	01.02.21	01.02.28
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
LTIP[4]	–	–	81,300	–	81,300	5.0	01.02.21	01.02.28
Dr David Horn Solomon								
LTIP[5]	–	–	401,338	–	401,338	5.0	16.07.21	16.07.28

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.

3 Options awarded 2 February 2018 with a nominal cost exercise price and will vest over 3 years. These options had the following hurdles: 30,131 at 270p; 29,245 at 300p; and 29,245 at 340p. Each hurdle price to be maintained for at least 30 continuous days.

4 Options awarded 2 February 2018 with a nominal cost exercise price and will vest over 3 years. These options had the following hurdles: 27,642 at 270p; 26,829 at 300p; and 26,829 at 340p. Each hurdle price to be maintained for at least 30 continuous days.

5 Options awarded 17 July 2018 with a nominal cost exercise price and will vest over 3 years. These options had a hurdle of 157p to be maintained for at least 30 continuous days.

6 1,000,000 share options granted to Ali Mortazavi under the EMI Scheme on 1 August 2012 with an exercise price of 25p were exercised on 21 September 2018 when the market price was 137.75p, generating a gain of £1,127,500.

Remuneration Committee report continued

Non-Executive Directors

Director	At 1 January 2018	Awarded	Forfeited	At 31 December 2018	Exercise price (pence)	Date of vesting
Dr Annalisa Jenkins						
Non-employee LTIP[1]	–	1,626	(1,626)	–	5.0	01.02.19
Dr Stephen Parker						
Non-employee LTIP[1]	–	1,626	–	1,626	5.0	01.02.19[2]
Alistair Gray						
Non-employee LTIP[1]	–	1,626	–	1,626	5.0	01.02.19[2]
Dr Andy Richards CBE						
Non-employee LTIP[1]	–	1,626	–	1,626	5.0	01.02.19[2]
Dave Lemus						
Non-employee LTIP[1]	–	1,626	–	1,626	5.0	21.06.19

1 RSUs with a nominal cost exercise price and will vest over one year. These share awards are conditional on having a contract for services at the date of vesting. They have no price hurdles and following vesting shares are automatically transferred to the Director.
2 Actual vesting date delayed due to Dealing Restrictions,

Directors' interests in shares at 31 December 2018

Director	Number of ordinary shares	Percentage of issued share capital
David Ellam	–	–
Dr David Horn Solomon	–	–
Dr Stephen Parker	6,478	0.01%
Alistair Gray	3,848	0.01%
Dave Lemus	–	–
Dr Andy Richards CBE	7,000	0.01%

The average share price for the year was 145.57p (2017: 135.4p).

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

Dr Andy Richards CBE
Chair of the Remuneration Committee

16 April 2019

Directors' report

The Directors present their report and the audited financial statements of the Group for the year ended 31 December 2018.

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 (2017: nil).

Research and development
In 2018, the Group spent £9.7 million on research and development (2017: £7.9 million). See the Chief Executive Officer's review on pages 8 and 9 for more information.

Subsequent events
On 16 April 2019, Silence Therapeutics plc announced that Dr Andy Richards, CBE, was leaving his role as interim non-executive Chair and a Director of the Company with immediate effect.

Financial risk management
A description of financial risk management is set out in note 26 to the financial statements.

Results and dividends
The Group recorded a loss for the year before taxation of £20.5 million (2017: £3.8 million). The loss after tax for the year was £18.4 million (2017: £1.6 million). 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 2018 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
Dr David Horn Solomon (appointed: 17 July 2018)	Chief Executive Officer
Ali Mortazavi (ceased to be a Director: 4 June 2018)	Chief Executive Officer
David Ellam (ceased to be a Director: 9 January 2019)	Chief Financial Officer
Dr Annalisa Jenkins (ceased to be a Director: 20 August 2018)	Executive Chair
Dr Andy Richards CBE (ceased to be a Director: 16 April 2019)	Non-Executive Chair
Alistair Gray	Non-Executive
Dr Stephen Parker	Non-Executive
Dave Lemus (appointed: 21 June 2018)	Non-Executive

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

Directors' report continued

Substantial interests

At 31 December 2018 the Company had been informed of the following substantial interests of over 3% in the issued share capital of the Company:

	Number	Percentage of issued share capital
Richard Griffiths	20,952,867	29.5%
Robert Keith	12,335,371	17.4%
Invesco Asset Management	8,230,461	11.6%
Aviva Investors	3,642,462	5.1%
Woodford Investment Management	3,424,047	4.8%
Ali Mortazavi	2,899,184	4.1%
Lombard Odier Asset Management	2,328,908	3.3%
ING Bank	1,700,000	2.4%

Going concern

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

Based on the Directors' current forecasts and plans and, considering the existing cash, cash equivalents and term deposit, the Group and Company have sufficient funding to continue their operations beyond H1 2020. Before then, the Group and Company will need to raise additional funding in order to support research and development efforts, as well as to support activities associated with operating as a public company. The Directors expect to finance the Group's and Company's cash needs through a combination of some, or all, of the following: equity offerings, collaborations, strategic alliances, or licensing arrangements.

The Directors are confident that it is appropriate to prepare these financial statements on the going concern basis. However, there is no guarantee that attempts to raise adequate additional financing on a timely basis will be successful and therefore this represents a material uncertainty, which may cast significant doubt about the Group's and Company's ability to continue as a going concern. These financial statements do not include the adjustments that would result if the Group or Company were unable to continue as a going concern.

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

Dr Andy Richards CBE
Chair
16 April 2019

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.

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

Dr David Horn Solomon
Chief Executive Officer
16 April 2019

3
Financial statements

Independent auditors' report

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 2018 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 International Financial Reporting Standards (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 2018; the consolidated income statement, the consolidated 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.

Material uncertainty relating to going concern – Group and Company

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 2.3 to the financial statements concerning the Group's and Company's ability to continue as a going concern. Based on the Directors' current forecasts and plans, and taking into account existing cash, cash equivalents and term deposits, the Group and Company have sufficient funding to continue their operations beyond H1 2020, but before then, the Group and Company will need to raise additional funding in order to support research and development efforts, as well as to support activities associated with operating as a public company. However, there is no guarantee that attempts to raise adequate additional financing on a timely basis will be successful. These conditions, along with the other matters explained in note 2.3 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Group's and Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group and Company were unable to continue as a going concern.

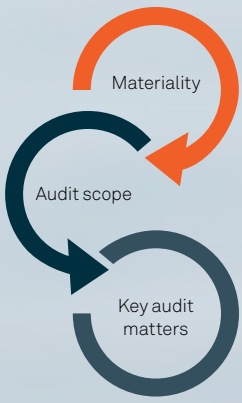
Audit procedures performed

In concluding that there was a material uncertainty, we reviewed the Directors' model supporting their going concern assumption, tested mathematical accuracy and considered the reasonableness of the assumptions made and the available headroom throughout the twelve month period from the date of approval of the financial statements. Our procedures included:

- considering whether the assumptions made indicate that material uncertainty exists in relation to going concern and considering how sensitive the model is to reasonably possible changes in those assumptions.
- reviewing the underlying base year back to supporting documentation (i.e. comparison with costs in current year).
- considering whether judgements/estimates are appropriately disclosed within the financial statements.

Our audit approach

Overview



- Overall group materiality: £1,025,000 (2017: £732,500), based on 5% of loss before tax.
- Overall company materiality: £923,000 (2017: £678,700), based on 5% of loss before tax.
- The scope of our work covered both of the Group's operating units being Silence Therapeutics plc and Silence Therapeutics GmbH.
- Our scope provided us with coverage of 100% of the Group loss before tax and 100% of Group net assets.
- Carrying value of goodwill (Group) and carrying value of investment (Company).
- Going Concern (Group and Company).

Independent auditors' report continued

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 the matter. 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 goodwill – Group; Carrying value of investments – Company We focused on this area because the determination of whether Silence Therapeutics plc's investment in Silence Therapeutics GmbH was impaired involved significant estimates by the Directors about the future results of the business. At 31 December 2018, the company's investment in Silence Therapeutics GmbH was carried at £21.6m. The Directors' impairment assessment is based on projected future cash flows from drug candidates under development, which have not yet been commercialised. In the consolidated financial statements, at 31 December 2018, there was goodwill of £8.1m. An impairment assessment has been performed by the Directors using the same projected future cash flows as used in the assessment of the carrying value of the investment.	We evaluated the appropriateness of the key assumptions underpinning the Directors' impairment assessment, including expected launch date, pricing, discount rates, probabilities of success and future royalty rates. We performed sensitivity analysis on certain key assumptions. As part of our work, in relation to the carrying value of goodwill, we also considered the market capitalisation of the group and the associated value that could be attributed to the Silence Therapeutics GmbH cash generating unit. We considered the carrying value of the investment and goodwill to be supported.

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.

The Group has two operating units (Silence Therapeutics plc and Silence Therapeutics GmbH) and we performed a full scope audit on each unit. The audit of both the units was performed by the group engagement team, with involvement of a team member based in Germany who assisted with certain aspects of the audit of Silence Therapeutics GmbH.

Our scope provided us with coverage of 100% of Group loss before tax and 100% of Group net assets.

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	£1,025,000 (2017: £732,500).	£923,000 (2017: £678,700).
How we determined it	5% of loss before tax.	5% of 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.	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.

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 £650,000 and £923,000. 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 £51,250 (Group audit) (2017: £35,000) and £46,000 (Company audit) (2017: £34,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

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 2018 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 in respect of the financial statements set out on page 43, 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.

Independent auditors' report continued

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)
– and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Cambridge
16 April 2019

Consolidated income statement

year ended 31 December 2018

	Note	2018 £000s	2017 £000s
Revenue	3	**–**	16
Research and development costs		**(9,743)**	(7,943)
Administrative expenses		**(10,828)**	(6,464)
Operating loss	5	**(20,571)**	(14,391)
Reclassification of fair value movements on disposal of available-for-sale financial assets	18	**–**	9,066
Reclassification of foreign exchange gains on liquidation of overseas subsidiary	13	**–**	1,344
Finance and other income	7	**45**	206
Loss for the year before taxation		**(20,526)**	(3,775)
Taxation	8	**2,115**	2,157
Loss for the year after taxation		**(18,411)**	(1,618)
Loss per ordinary equity share (basic and diluted)	9	**(26.2p)**	(2.3p)

Consolidated statement of comprehensive income

year ended 31 December 2018

	Note	2018 £000s	2017 £000s
Loss for the year after taxation		**(18,411)**	(1,618)
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		**94**	404
Reclassification of foreign exchange gains on liquidation of overseas subsidiary	13	**–**	(1,344)
Fair value movements on available-for-sale financial assets	18	**–**	9,104
Reclassification of fair value movements on disposal of available-for-sale financial assets	18	**–**	(9,066)
Total other comprehensive (expense)/income for the year		**94**	(902)
Total comprehensive expense for the year		**(18,317)**	(2,520)

Consolidated balance sheet

at 31 December 2018

	Note	2018 £000s	2017 £000s
Non-current assets			
Property, plant and equipment	10	**921**	1,170
Goodwill	11	**8,127**	8,029
Other intangible assets	12	**64**	28
Financial assets at amortised cost	15	**275**	–
Other receivables	17	**–**	233
		9,387	9,460
Current assets			
Cash and cash equivalents	14	**21,494**	42,745
Financial assets at amortised cost – term deposit	15	**5,000**	–
Financial asset at amortised cost – other	15	**43**	–
R&D tax credit receivable	8	**2,080**	1,750
Other current assets	16	**881**	–
Trade and other receivables	17	**–**	733
Available-for-sale financial assets	18	**–**	319
		29,498	45,547
Current liabilities			
Trade and other payables	19	**(3,830)**	(2,657)
Total assets less current liabilities		**35,055**	52,350
Net assets		**35,055**	52,350
Capital and reserves attributable to the owners of the parent			
Share capital	21	**3,554**	3,500
Capital reserves	23	**163,121**	163,215
Translation reserve		**2,157**	2,063
Accumulated losses		**(133,777)**	(116,428)
Total equity		**35,055**	52,350

The financial statements on pages 49 to 78 were approved by the Board on 16 April 2019 and signed on its behalf.

Dr David Horn Solomon
Chief Executive Officer

Company number: 02992058

Consolidated statement of changes in equity

year ended 31 December 2018

	Share capital £000s	Capital reserves £000s	Translation reserve £000s	Accumulated losses £000s	Total equity 000s
At 1 January 2017	3,490	162,878	3,003	(115,187)	54,184
Recognition of share-based payments	–	638	–	–	638
Lapse of vested options in the year	–	(252)	–	252	–
Options exercised in the year	–	(87)	–	87	–
Proceeds from shares issued	10	38	–	–	48
Transactions with owners recognised directly in equity	10	337	–	339	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 1 January 2018	3,500	163,215	2,063	(116,428)	52,350
Recognition of share-based payments	–	681	–	–	681
Lapse of vested options in the year	–	(297)	–	297	–
Options exercised in the year	–	(765)	–	765	–
Proceeds from shares issued	54	287	–	–	341
Transactions with owners recognised directly in equity	54	(94)	–	1,062	1,022
Loss for year	–	–	–	(18,411)	(18,411)
Other comprehensive income					
Foreign exchange differences arising on consolidation of foreign operations	–	–	94	–	94
Total comprehensive expense for the year	–	–	94	(18,411)	(18,317)
At 31 December 2018	**3,554**	**163,121**	**2,157**	**(133,777)**	**35,055**

Company balance sheet

at 31 December 2018

	Note	2018 £000s	2017 £000s
Non-current assets			
Property, plant and equipment	10	**320**	375
Other intangible assets		**56**	3
Investment in subsidiaries	13	**21,970**	21,492
Financial assets at amortised cost	15	**275**	–
Other receivables	17	**–**	233
		22,621	22,103
Current assets			
Cash and cash equivalents	14	**21,112**	41,525
Financial assets at amortised cost – term deposit	15	**5,000**	–
Financial asset at amortised cost – other	15	**43**	–
R&D tax credit receivable	8	**2,080**	1,750
Other current assets	16	**720**	–
Trade and other receivables	17	**–**	618
Available-for-sale financial assets	18	**–**	319
		28,955	44,212
Current liabilities			
Trade and other payables	19	**(4,970)**	(2,565)
Total assets less current liabilities		**46,606**	63,750
Net assets		**46,606**	63,750
Capital and reserves attributable to the Company's equity holders			
Share capital	21	**3,554**	3,500
Capital reserves	23	**162,937**	163,031
Accumulated losses		**(119,885)**	(102,781)
Total equity		**46,606**	63,750

The Company made a loss of £18,166k in the year ended 31 December 2018 (2017: £2,257k).

The financial statements on pages 49 to 78 were approved by the Board on 16 April 2019 and signed on its behalf.

Dr David Horn Solomon
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 2018

	Share capital £000s	Capital reserves £000s	Accumulated losses £000s	Total equity £000s
At 1 January 2017	3,490	162,694	(100,901)	65,283
Recognition of share-based payments	–	638	–	638
Lapse of vested options in the year	–	(252)	252	–
Options exercised in the year	–	(87)	87	–
Proceeds from shares issued	10	38	–	48
Transactions with owners recognised directly in equity	10	337	339	686
Loss for the year	–	–	(2,257)	(2,257)
Other comprehensive 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 1 January 2018	3,500	163,031	(102,781)	63,750
Recognition of share-based payments	–	681	–	681
Lapse of vested options in the year	–	(297)	297	–
Options exercised in the year	–	(765)	765	–
Proceeds from shares issued	54	287	–	341
Transactions with owners recognised directly in equity	54	(94)	1,062	1,022
Loss for the year	–	–	(18,166)	(18,166)
At 31 December 2018	**3,554**	**162,937**	**(119,885)**	**46,606**

Cash flow statements

year ended 31 December 2018

	Consolidated		Company	
	2018 £000s	2017 £000s	**2018 £000s**	2017 £000s
Cash flow from operating activities				
Loss before tax	**(20,526)**	(3,775)	**(20,308)**	(4,414)
Depreciation charges	**379**	414	**130**	107
Amortisation charges	**20**	19	**6**	1
Charge for the year in respect of share-based payments	**681**	638	**681**	638
Reclassification of fair value movements 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	**(45)**	(206)	**(508)**	(1,050)
Loss on disposal of property, plant and equipment	**6**	–	**2**	–
Impairment of investment	**–**	3	**–**	3
Decrease/(increase) in trade and other receivables	**691**	664	**576**	(159)
(Increase) in other current assets	**(881)**	–	**(720)**	–
(Increase) in current financial assets at amortised cost – other	**(43)**	–	**(43)**	–
Increase/(Decrease) in trade and other payables	**1,146**	1,047	**2,405**	(2,943)
Decrease in loan to subsidiary undertakings	**–**	–	**–**	4,504
Cash spent on operations	**(18,572)**	(11,606)	**(17,779)**	(12,379)
Corporation tax credits received	**1,812**	2,007	**1,812**	2,007
Net cash outflow from operating activities	**(16,760)**	(9,599)	**(15,967)**	(10,372)
Cash flow from investing activities				
Acquisition of financial assets available for sale	**–**	(4,921)	**–**	(4,921)
Disposal of financial assets available for sale	**319**	18,123	**319**	18,123
Purchase of financial asset at amortised cost – term deposit	**(5,000)**	–	**(5,000)**	–
Interest received/(paid)	**39**	(15)	**39**	(15)
Purchase of property, plant and equipment	**(130)**	(173)	**(78)**	(26)
Purchase of intangible assets	**(58)**	–	**(58)**	–
Net cash (outflow)/inflow from investing activities	**(4,830)**	13,014	**(4,778)**	13,161
Cash flow from financing activities				
Proceeds from issue of share capital	**341**	48	**341**	48
Net cash inflow from financing activities	**341**	48	**341**	48
(Decrease)/increase in cash and cash equivalents	**(21,249)**	3,463	**(20,404)**	2,837
Cash and cash equivalents at start of year	**42,745**	39,012	**41,525**	38,459
Net increase/(decrease) in the year	**(21,249)**	3,463	**(20,404)**	2,837
Effect of exchange rate fluctuations on cash and cash equivalents held	**(2)**	270	**(9)**	229
Cash and cash equivalents at end of year	**21,494**	42,745	**21,112**	41,525

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

Notes to the financial statements

year ended 31 December 2018

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 Therapeutics 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:

	2018 £000s	2017 £000s
	18,166	2,257

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 impact the Group and Company financial statements:

- IFRS 9 Financial Instruments was issued in its final form in July 2014 and was be implemented by the Group and Company prospectively from 1 January 2018. The Standard replaces 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 were:
  - Available-for-sale financial assets under the past framework will be classified under IFRS 9 in the new 'fair value through profit or loss' 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 Pharmaceuticals Inc shares which were previously classified financial assets available-for-sale subsequently had fair value movements go directly through profit or loss as an irrevocable election had not been made for this holding, given it was immaterial and fully disposed of on 2 January 2018. As no such equity instruments have been held subsequently, a new accounting policy is not presented. As required by IFRS 9, £156k of previously unrecognised gains accumulated in reserves through Other Comprehensive Income were reclassified to Accumulated losses at 1 January 2018.
  - The new model for calculating impairment of receivables did not have a material impact on the consolidated financial statements, as there these balances were immaterial on 1 January 2018 and as at 31 December 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 £12,948k owed by Silence Therapeutics GmbH. IFRS 9 introduced the concept of 'Expected Credit Losses' (ECLs). Since the loan was granted, there have not been any actual or expected significant adverse changes in the operations of Silence Therapeutics GmbH or other circumstances that would require lifetime expected credit losses. Therefore the 12-month expected credit losses model applies. The 12-month expected credit loss is not material, and therefore no impairment has been recognised. While repayment is not foreseen by the Company in the near-term (hence the quasi-equity classification), 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 implemented using the modified retrospective method by the Group and Company 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. In the year-ended 31 December 2018, no revenue was generated and the implementation of IFRS 15 therefore had no impact.
- IFRS 16 Leases was issued in January 2016 and will be implemented by the Group and Company 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 expected adoption methodology of IFRS 16 is the cumulative catch-up method, and the impact 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 2018. 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 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 which assumes that the Group and Company will continue in operational existence for the foreseeable future.

Based on the Directors' current forecasts and plans and, considering the existing cash, cash equivalents and term deposit, the Group and Company have sufficient funding to continue their operations beyond H1 2020. Before then, the Group and Company will need to raise additional funding in order to support research and development efforts, as well as to support activities associated with operating as a public company. The Directors expect to finance the Group's and Company's cash needs through a combination of some, or all, of the following: equity offerings, collaborations, strategic alliances, or licensing arrangements.

The Directors are confident that it is appropriate to prepare these financial statements on the going concern basis. However, there is no guarantee that attempts to raise adequate additional financing on a timely basis will be successful and therefore this represents a material uncertainty, which may cast significant doubt about the Group's and Company's ability to continue as a going concern. These financial statements do not include the adjustments that would result if the Group or Company were unable to continue as a going concern.

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the strategic report on pages 1 to 23.

2.4 Research and development

The Group and Company recognise 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, royalties, milestone and option payments, grant income and fees from research and development collaborations.

Revenue in the year ended 31 December 2017 was recognised under IAS 18, and comprised a receipt from one party for collaboration services. Such revenues from work or other research and testing carried out for third parties were recognised when the work to which they relate had been performed. The Group has no further obligations under this agreement.

IFRS 15 was implemented on 1 January 2018. No revenue was generated in the year-ended 31 December 2018; therefore an accounting policy is not required.

2.6 Foreign currency translation

The Group's consolidated financial statements are presented in sterling (£), which is also the functional currency of the 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 year. Exchange differences arising, if any, are recognised in equity. Cumulative translation differences are recognised in profit or loss in the year 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 2018 the Group had a defined contribution pension scheme in which it paid £131k (2017: £95k) 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 2017 or 2018.

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 and Company hold no property assets.

All equipment and furniture 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 furniture and equipment on a straight-line basis over their estimated useful lives. All equipment and furniture 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 is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash generating units and is not amortised but is tested for impairment annually or when an indication of impairment has been identified.

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 and Company 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 and Company 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 and Company'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 and Company 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 and Company 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 and Company 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). Quasi-equity loans are stated at amortised cost, net of expected credit losses in line with IFRS 9 (Classification and Measurement of Financial Instruments).

2.14 Financial instruments

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

For the periods presented in these financial statements, the Group and Company classified financial assets in the following categories: Loans and receivables, Financial assets at amortised cost, 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.

The 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. From 1 January 2018, impairment is assessed using the Expected Credit Losses (ECLs) model.

Financial assets at amortised cost

Financial assets at amortised cost include a term deposit held to collect solely payment of the principal and interest, and deposits on property operating leases and for the procurement of materials. These 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 the value is recognised in the income statement.

Available-for-sale financial assets

The following policy applies to the year-ended 31 December 2017 and earlier accounting periods. As explained in note 2.1, following the disposal of Arrowhead Pharmaceuticals Inc shares on 2 January 2018 no equity investments were held subsequently, and therefore no accounting policy is presented for the year-ended 31 December 2018.

For the year-ended 31 December 2017 and earlier accounting periods, 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 or Company 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 or Company 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 and Company assess 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 with original maturities of three months or less 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 and Company 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 and Company using its equity instruments. An equity instrument is any contract that evidences a residual interest in the assets of the Group or Company 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.

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 and Company have issued equity settled share-based payments to certain employees (see note 22). 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 and Company'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 charge 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 and Company 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:

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

The Group and Company expend considerable sums on its development projects, with Group total research and development costs for 2018 amounting to £9.7 million (2017: £7.9 million). 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 and Company's results and balance sheet.

Goodwill is carried in the financial statements at a value of £8.1 million (2017: £8.0 million). 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 value in use. The key assumptions used in the valuation models to determine the value in use have been set out in note 11.

The Group and Company's main activities are carried out by subsidiary companies which are financed by ongoing investment by the Company. These investments are carried in the books of the Company at cost less provisions for impairment. The carrying value at 31 December 2018 is £22.0 million (2017: £21.5 million). The key assumptions concerning the carrying value of the investments in, and loans to, subsidiaries have been set out in note 13.

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 ('CODM'), who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Group's Chief Executive Officer, Dr David Horn Solomon. The Group has a single reportable segment (see note 4).

3. Revenue

The revenue in 2018 was £nil (2017: £16k).

4. Segment reporting

In 2018, the Group operated in the specific technology field of RNA therapeutics.

Business segments

The Group has identified the Chief Executive Officer as the CODM. For the 12 months ended 31 December 2017 and 2018, the CODM determined the Group had one business segment, the development of RNAi based medicines. This is in line with reporting to 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 2018	**651**	**8,736**
As at 31 December 2017	611	8,849

Revenue analysis	2018 £000	2017 £000
Research collaboration	**–**	16

The revenue in 2018 was nil. In 2017, the country of registration of the single fee-paying party is United States of America. The revenue was billed and received in US Dollars.

5. Operating loss

This is stated after charging:

	2018 £000s	2017 £000s
Depreciation of property, plant and equipment	**379**	414
Amortisation of intangibles	**20**	19
Share-based payments charge	**681**	638
Loss on disposal of property, plant and equipment	**6**	–
Fees payable to the Company's auditors for the audit of the Company and the consolidation:		
• audit of these financial statements	**151**	127
• other assurance services[1]	**175**	13
• tax compliance services	**93**	37
Operating lease payments on premises	**416**	467

1 Other assurance services in 2018 were audit-related procedures performed under PCAOB standards.

6. Directors and staff costs

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

	2018 £000s	2017 £000s
Wages and salaries	**4,000**	3,896
Termination benefits	**246**	352
Social security costs	**237**	881
Charge in respect of share-based payments	**681**	638
Pension costs	**131**	95
	5,295	5,862

Directors' remuneration

Year-ended 31 December 2018	Base salary £000s	Taxable benefits £000s[6]	Bonus £000s	Pension £000s	Total £000s
Executive Directors					
Ali Mortazavi[1]	297	16	117	9	439
David Ellam[2]	212	12	59	17	300
Dr David Horn Solomon[3]	145	93	100	11	349
Non-Executive Directors					
Dr Annalisa Jenkins[4]	101	–	–	–	101
Dr Stephen Parker	40	2	–	–	42
Alistair Gray	40	10	–	–	50
Dr Andy Richards CBE	40	3	–	–	43
Dave Lemus[5]	21	4	–	–	25
Total	896	140	276	37	1,349

1 Ceased to be a Director on 4 June 2018. Base salary includes £180k for settlement agreement.
2 Ceased to be a Director on 9 January 2019. Settlement agreement payments totalling £138k are expected to be paid in 2019 and are not included above as this cost will be recognised in 2019. Base salary includes £9k in lieu of holiday not taken.
3 Appointed as a Director (Chief Executive Officer) on 17 July 2018. Base salary includes £8k in lieu of holiday not taken. Taxable benefits include £83k for accommodation allowance, including associated income tax and National Insurance Contributions of £43k which will be settled on behalf of the Director. Bonus includes £40k sign-on bonus.
4 Ceased to be a Director on 20 August 2018. Base salary includes £47k additional remuneration relating to duties as Interim Executive Chair.
5 Appointed as a Director on 21 June 2018.
6 For Non-Executive Directors, the taxable benefits comprise travel costs (and the gross-up for associated income tax and National Insurance Contributions which will be settled on behalf of the Non-Executive Directors) for attendance at Board meetings.

Year-ended 31 December 2017	Base salary £000s	Taxable benefits £000s	Bonus £000s	Pension £000s	Total £000s
Executive Directors					
Ali Mortazavi	217	14	182	17	430
David Ellam	193	7	177	15	392
Non-Executive Directors					
Dr Annalisa Jenkins[1]	17	–	–	–	17
Dr Stephen Parker[2]	100	11	–	5	116
Alistair Gray	40	11	–	–	51
Dr Andy Richards CBE	40	1	–	–	41
Total	607	44	359	37	1,047

1 Appointed as Non-Executive Chair on 16 October 2017 with an annual salary of £80k and no taxable benefits.
2 Following stepping down as Chair, effective 1 January 2018 annual salary is £40k consistent with other Non-Executive Directors.

The monthly average number of employees, including Executive Directors, during the year was 45 (2017: 50). Of these, the monthly average number of employees working in research and development and administration was 26 (2017: 33) and 19 (2017: 17), respectively.

Apart from the Executive Directors, the monthly average number of employees of the Company was 17 (2017: 13).

The expense recognised for Executive Directors' share-based payments is presented below. See page 39 for more details.

	Share options charge 2018 £000s	Share options charge 2017 £000s
Ali Mortazavi	217	309
David Ellam	127	83
Dr David Horn Solomon	93	–
Total	437	392

The expense recognised for Non-Executive Directors' RSUs is presented below. See page 40 for more details.

	RSU charge 2018 £000s	RSU charge 2017 £000s
Dr Annalisa Jenkins	–	–
Dr Stephen Parker	3	–
Alistair Gray	3	–
Dr Andy Richards CBE	3	–
Dave Lemus	1	–
Total	10	–

The Directors of the Group are considered by the Board to be the key management of the Group, for which the remuneration in the year ended 31 December 2018 totalled £1,796k (2017: £1,439k), comprising: £1,132k for short-term employee benefits (2017: £1,010k); £180k for termination benefits (2017: nil); £37k for employer pension contributions (2017: £37k); and £447k for share based payments (including RSUs) (2017: £392k).

7. Finance and other income

Finance and other income comprises:

	2018 £000s	2017 £000s
Bank interest receivable/(payable)	39	(15)
Net foreign exchange gains	6	221
Finance and other income	45	206

Net foreign exchange gains include exchange gains on foreign currency denominated bank accounts of £4k (2017: £270k).

8. Taxation

The deferred tax charge in 2018 was nil (2017: nil). Reconciliation of current tax credit at standard rate of UK corporation tax to the current tax credit:

	2018 £000s	2017 £000s
Loss before tax	(20,526)	(3,775)
Tax credit at the standard rate of UK corporation tax of 19% (2017: 19.25%)	3,900	727
Effect of overseas tax rate	10	25
Impact of unrelieved tax losses not recognised	(3,937)	(752)
Research and development tax credit in respect of prior year	62	407
Research and development tax credit in respect of current year	2,080	1,750
	2,115	2,157

Estimated tax losses of £102.6 million (2017: £64.8 million) 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 20. During the year, the Company received a research and development tax credit of £1,812k (2017: £2,007k). The Group and Company has accrued £2,080k recognising a current tax asset in respect of 2018 research and development tax credits.

The corporation tax main rate during 2018 was 19%.

9. Loss per share

The calculation of the loss per share is based on the loss for the financial year after taxation of £18.41 million (2017: loss of £1.62 million) and on the weighted average of 70,312,880 (2017: 69,942,558) ordinary shares in issue during the year.

The options outstanding at 31 December 2018 and 31 December 2017 are considered to be anti-dilutive as the Group is loss-making.

10. Property, plant and equipment

Equipment and furniture	Group £000s	Company £000s
Cost		
At 1 January 2017	4,791	616
Additions	173	26
Disposals	(303)	–
Translation adjustment	173	–
At 31 December 2017	4,834	642
Additions	130	77
Disposals	(1,436)	(13)
Translation adjustment	34	–
At 31 December 2018	**3,562**	**706**
Accumulated depreciation		
At 1 January 2017	3,416	160
Charge for the year	414	107
Eliminated on disposal	(303)	–
Translation adjustment	137	–
At 31 December 2017	3,664	267
Charge for the year	379	130
Eliminated on disposal	(1,430)	(11)
Translation adjustment	28	–
At 31 December 2018	**2,641**	**386**
Net book value		
As at 31 December 2017	1,170	375
As at 31 December 2018	**921**	**320**

11. Goodwill

	2018 £000s	2017 £000s
Balance at start of year	**8,029**	7,709
Translation adjustment	**98**	320
Balance at end of year	**8,127**	8,029

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 value in use.

The key assumptions used in the valuation models to determine the value in use are as follows:

- reported disease prevalence
- expected patent life
- clinical success probabilities
- expected drug launch dates
- market prices
- expected market share based on management's estimates
- cost of goods sold

The valuation models cover periods significantly longer than five years which is based on expected patent life, once filed, due to the length of the development cycle for these assets. A discount rate of 18% has been used over the forecast periods to determine the net present value of forecast cash flows.

Management has assessed that there is no reasonably possible change to a key assumption used in determining value in use that would cause the CGU's carrying amount to exceed its recoverable amount, and therefore a sensitivity analysis has not been presented. Notwithstanding, if it is not possible to obtain regulatory approval or to commercialise certain programmes, or significant delays are experienced in doing so, this could result in an impairment of goodwill.

12. Other intangible assets

Group	Licences & software £000s	Internally generated patents £000s	Total £000s
Cost			
At 1 January 2017	2,260	884	3,144
Additions	–	–	–
Disposals	–	–	–
Translation adjustment	94	–	94
At 31 December 2017	2,354	884	3,238
Additions	58	–	58
Disposals	(2,311)	(884)	(3,195)
Translation adjustment	3	–	3
At 31 December 2018	**104**	**–**	**104**
Accumulated amortisation			
At 1 January 2017	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
Charge for the year	20	–	20
Eliminated on disposal	(2,309)	(884)	(3,193)
Translation adjustment	3	–	3
At 31 December 2018	**40**	**–**	**40**
Net book value			
As at 31 December 2017	28	–	28
As at 31 December 2018	**64**	**–**	**64**

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. Investments in subsidiaries

Company	2018 £000s	2017 £000s
Investment in subsidiary undertakings	**21,970**	21,492

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 2017	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
Movement in the year	(24,137)	483	24,132	478
At 31 December 2018	**23,495**	**35,390**	**(36,915)**	**21,970**

At 31 December 2018, an interest bearing unsecured loan of £12.9 million (2017: £12.5 million) was outstanding from Silence Therapeutics plc to Silence Therapeutics GmbH. The movement in the year includes a foreign exchange gain of £0.2 million (2017: £0.5 million), and accrued interest of £0.3 million (2017: £0.3 million). At 31 December 2017, a £4.5 million (€5.3 million) 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.

An impairment provision of £14.3 million was recorded against the £23.3 million 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.

In accordance with IAS 36: Impairment of Assets, the carrying value of the net total investment and quasi-equity loan in Silence Therapeutics GmbH of £21.9 million has been assessed by comparing its carrying value to its recoverable amount. The recoverable amount is based on value in use. The valuation models used are the same as those used for the impairment test of goodwill, as described in note 11. Management has assessed that there is no reasonably possible change to a key assumption used in determining value in use that would cause the £21.9 million carrying amount to exceed its recoverable amount, and therefore a sensitivity analysis has not been presented.

At 31 December 2018, a non-interest-bearing unsecured loan of £22.4 million (2017: £22.4 million) was outstanding from Silence Therapeutics plc to Silence Therapeutics (London) Ltd (formerly Stanford Rook Ltd). This quasi-equity loan has been fully provided for.

Silence Therapeutics plc has made an impairment provision against the investments in Silence Therapeutics (London) Ltd and Innopeg Ltd to the extent that they are deemed to be not recoverable.

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. The movement in the investment at cost and impairment provision in the year of £24.1 million reflects the utilisation of the provision to eliminate the gross investment, following a review of intercompany balances in the year.

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%
Silence Therapeutics (London) Ltd (formerly Stanford Rook Ltd)	England	Not active	100%
Innopeg Ltd	England	Not active	100%

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

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 2017 (reclassification of foreign exchange gains on liquidation of overseas subsidiary).

14. Cash and cash equivalents

Cash at bank comprises balances held by the Group in current and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates to their fair value.

	2018		2017	
	Group £000s	**Company £000s**	Group £000s	Company £000s
Cash and cash equivalents	**21,494**	**21,112**	42,745	41,525

15. Financial assets at amortised cost

Non-current financial assets at amortised cost primarily relate to deposits for properties held on operating leases.

Current financial assets at amortised cost include a fixed interest £5,000k six-month term deposit due to mature in March 2019. The other current financial asset at amortised cost is a deposit relating to the procurement of clinical trial materials.

	2018		2017	
	Group £000s	**Company £000s**	Group £000s	Company £000s
Current financial assets at amortised cost – term deposit	**5,000**	**5,000**	–	–
Current financial assets at amortised cost – other	**43**	**43**	–	–
Total current financial assets at amortised cost	**5,043**	**5,043**	–	–
Non-current financial assets at amortised cost	**275**	**275**	–	–
Total financial assets at amortised cost	**5,318**	**5,318**	–	–

16. Other current assets

	2018		2017	
	Group £000s	**Company £000s**	Group £000s	Company £000s
Prepayments	**515**	**437**	–	–
VAT receivable	**366**	**283**	–	–
Total other current assets	**881**	**720**	–	–

17. Trade and other receivables

	2018		2017	
	Group £000s	Company £000s	Group £000s	Company £000s
Trade receivables	–	–	–	–
Other receivables	–	–	216	177
Prepayments	–	–	517	441
Trade and other receivables – current	–	–	733	618
Other receivables (non-current)	–	–	233	233
Total trade and other receivables	–	–	966	851

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.

18. Available-for-sale financial assets

The available-for-sale financial assets represent a shareholding in Arrowhead Pharmaceuticals Inc (NASDAQ:ARWR), a company incorporated in the USA and listed on NASDAQ. This stake represents nil% (2017: 0.1%) of the common share capital of Arrowhead Pharmaceuticals Inc.

	£000s	Shares
At 1 January 2017	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
Disposals (proceeds)	(319)	(116,614)
At 31 December 2018	–	–

As required by IFRS 9, £156k of previously unrecognised gains accumulated in reserves through Other Comprehensive Income were reclassified to Accumulated losses at 1 January 2018. No gain was recognised in 2018 in relation to the disposals, which occurred on 2 January 2018.

19. Trade and other payables

	2018		2017	
	Group £000s	Company £000s	Group £000s	Company £000s
Trade payables	1,147	1,004	462	407
Amount payable to subsidiary undertaking	–	1,667	–	489
Social security and other taxes	162	131	192	77
Current tax payable	27	–	–	–
Accruals and other payables	2,494	2,168	2,003	1,592
Total trade and other payables	3,830	4,970	2,657	2,565

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.

20. Deferred tax

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

	2018 £000s	2017 £000s
Deferred tax liability:		
• in respect of intangible assets	13	8
Less: offset of deferred tax asset below	(13)	(8)
Liability	–	–
Deferred tax asset:		
• in respect of available tax losses	24,411	12,683
• in respect of share-based payments	167	542
Less: offset against deferred tax liability	(13)	(8)
	24,565	13,217
• provision against asset	(24,565)	(13,217)
Asset	–	–

Due to the uncertainty of future profits, a deferred tax asset in respect of trading losses was not recognised at 31 December 2018 (2017: nil).

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

	2018 £000s	2017 £000s
Deferred tax asset in respect of capital losses	1,333	3,381
Capital gains tax realised in the year	(31)	(1,813)
	1,302	1,568
Provision against asset	(1,302)	(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 £163k were recognised during the year (2017: £9,066k) on the disposal of shares in Arrowhead Pharmaceuticals Inc. (NASDAQ:ARWR), utilising £31k of the deferred asset (2017: £1,813k). Due to the uncertainty of future capital gains, a deferred tax asset in respect of capital losses was not recognised at 31 December 2018 (2017: nil).

21. Share capital

	2018 £000s	2017 £000s
Allotted, called up and fully paid 71,069,933 (2017: 69,991,624) ordinary shares par value 5p	3,554	3,500

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 2017	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
Shares issued during the year	–
Options exercised at 25p	1,000,000
Options exercised at 117p	30,000
Options exercised at 115p	48,309
Number of shares in issue at 31 December 2018	**71,069,933**

At 31 December 2018, there were options outstanding over 4,718,302 (2017: 6,101,764) unissued ordinary shares. Details of the options outstanding are as follows:

Exercisable from	Exercisable until	Number	Exercise price
01/08/2015	31/07/2024	728,078	£0.25
31/12/2015	31/12/2024	80,000	£1.25
28/06/2016	26/06/2026	80,000	£1.25
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
31/08/2017	01/09/2024	9,000	£1.06
15/11/2017	15/11/2024	6,000	£1.06
05/07/2018	06/07/2025	10,000	£1.06
06/07/2018	05/01/2020	242,222	£0.05
06/07/2018	06/07/2026	100,000	£1.00
06/07/2018	05/01/2020	1,400,000	£1.17
15/11/2018	16/11/2025	6,000	£1.06
05/01/2019	05/01/2026	10,736	£1.63
01/02/2019	01/02/2028	4,878	£0.05
04/04/2019	04/04/2026	13,672	£1.28
23/05/2019	23/05/2026	13,839	£1.12
21/06/2019	21/06/2028	1,626	£0.05
02/07/2019	02/07/2026	16,968	£1.04
18/07/2019	18/07/2026	200,000	£1.10
01/09/2019	01/09/2026	21,986	£1.06
01/02/2020	01/02/2027	128,712	£1.01
03/04/2020	03/04/2027	312,375	£0.05
04/04/2020	04/04/2027	92,000	£0.90
18/04/2020	18/04/2027	56,470	£0.85
03/07/2020	03/07/2027	27,500	£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
01/02/2021	01/02/2028	318,869	£0.05
21/06/2021	21/06/2028	26,000	£0.05
16/07/2021	16/07/2028	401,338	£0.05
22/07/2021	22/07/2028	19,000	£0.05
12/08/2021	12/08/2028	8,200	£0.05
02/09/2021	02/09/2028	19,000	£0.05
30/09/2021	30/09/2028	22,068	£0.05
14/10/2021	14/10/2028	14,800	£0.05
31/10/2021	31/10/2028	23,625	£0.05
04/11/2021	04/11/2028	11,340	£0.05
25/11/2021	25/11/2028	10,000	£0.05
Total options outstanding		**4,718,302**	

The market price of Company shares at the year-end was 52.3p (2017: 194.5p). During the year the minimum and maximum prices were 51.0p and 206p, respectively (2017: 72.8p and 245.5p).

22. Equity-settled share-based payments

The Company has issued share options under the 2018 Long Term Incentive Plan (LTIP), 2018 Non-Employee Long Term Inventive Plan (Non-Employee LTIP), and individual share option contracts, open to all employees of the Group, as well as EMI shares (none of which remain outstanding at 31 December 2018). Under the LTIP, Non-Employee LTIP, 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.

	2018		2017	
	Number	Weighted average exercise price pence	Number	Weighted average exercise price pence
Options				
Outstanding at the beginning of the year	**6,101,764**	**82.68**	5,284,375	93.73
Granted during the year	**1,036,523**	**0.05**	1,370,279	71.72
Lapsed or forfeited during the year	**(1,341,676)**	**109.78**	(362,890)	190.62
Exercised during the year	**(1,078,309)**	**31.59**	(190,000)	25.00
Outstanding at the year-end	**4,718,302**	**70.17**	6,101,764	82.68
Exercisable at the year-end	**2,689,300**	**81.60**	2,230,930	52.23

The options outstanding at the year-end have a weighted average remaining contractual life of 5.5 years (2017: 7.8 years).

The weighted average share price at the time of exercise during the year was 141.16p (2017: 89.00p).

The Group granted 1,036,523 options during the year (2017: 1,370,279). 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	2018	2017
Weighted average fair value at grant (pence)	**147.1p**	60.8p
Weighted average share price (pence)	**171.7p**	109.2p
Weighted average hurdle price	**187.1p**	see below[1]
Expected volatility	**48%-51%**	53%-58%
Risk free rate	**1.37%-1.62%**	1.10%-1.53%
Expected dividend yield	**nil**	nil

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.

The Group recognised total charges of £681k (2017: £638k) related to equity settled share-based payment transactions during the year.

23. Capital reserves

Group	Share premium account £000s	Merger reserve £000s	Share-based payment reserve £000s	Capital redemption reserve £000s	Total £000s
At 1 January 2017[1]	132,917	22,248	2,519	5,194	162,878
On options in issue during the year	38	–	638	–	676
On vested options lapsed during the year	–	–	(252)	–	(252)
On options exercised during the year	–	–	(87)	–	(87)
Movement in the year	38	–	299	–	337
At 31 December 2017	132,955	22,248	2,818	5,194	163,215
On options in issue during the year	287	–	681	–	968
On vested options lapsed during the year	–	–	(297)	–	(297)
Options exercised in the year	–	–	(765)	–	(765)
Movement in the year	287	–	(381)	–	(94)
At 31 December 2018	**133,242**	**22,248**	**2,437**	**5,194**	**163,121**

Company	Share premium account £000s	Merger reserve £000s	Share-based payment reserve £000s	Capital redemption reserve £000s	Total £000s
At 1 January 2017[1]	132,917	22,064	2,519	5,194	162,694
On options in issue during the year	38	–	638	–	676
On vested options lapsed during the year	–	–	(252)	–	(252)
On options exercised during the year	–	–	(87)	–	(87)
Movement in the year	38	–	299	–	337
At 31 December 2017	132,955	22,064	2,818	5,194	163,031
On options in issue during the year	287	–	681	–	968
On vested options lapsed during the year	–	–	(297)	–	(297)
Options exercised in the year	–	–	(765)	–	(765)
Movement in the year	287	–	(381)	–	(94)
At 31 December 2018	**133,242**	**22,064**	**2,437**	**5,194**	**162,937**

1 Following a review of the share-based payment reserve in 2017, £763k was identified as relating to options that had lapsed in prior years. This has been represented above to reclassify the amount to Accumulated losses in the opening balance as at 1 January 2017.

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.

24. Capital commitments and contingent liabilities

There were no capital commitments or contingent liabilities at 31 December 2018 (2017: nil).

25. Commitments under operating leases

At 31 December 2018, the Group and Company had a gross commitment on its office rental and service charge at 72 Hammersmith Road, London equal to £0.2 million (2017: £0.2 million) in the next year. £0.1 million (2017: £0.2 million) in total is payable between one to five years. No amounts are payable after more than five years.

At 31 December 2018, the Group had a gross commitment on its office rental and service charge at Robert-Rössle-Strasse 10, 13125 Berlin equal to £0.1 million (2017: £0.1 million) in the next year. No amounts are payable after more than one year.

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 disclosure above.

26. Financial instruments and risk management

The Group's financial instruments comprise primarily cash and other financial assets and various items such as 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 included in the balance sheet and the heading in which they are included are as follows:

	2018		2017	
Loans and receivables	Group £000s	Company £000s	Group £000s	Company £000s
Trade and other receivables	–	–	449	410
Cash and cash equivalents	21,494	21,112	42,745	41,525
Loans to subsidiary undertakings – non-current	–	12,948	–	12,464
Total	21,494	34,060	43,194	54,399

All amounts are current, except for loans to subsidiary undertakings which are non-current in their entirety, and £233k of receivables at 31 December 2017 which are non-current.

	2018		2017	
Financial assets at amortised cost	Group £000s	Company £000s	Group £000s	Company £000s
Non-current	275	275	–	–
Term deposit	5,000	5,000	–	–
Current – other	43	43	–	–
Total	5,318	5,318	–	–

All amounts are current, except for £275k (2017: nil) which is non-current).

	2018		2017	
Available-for-sale	Group £000s	Company £000s	Group £000s	Company £000s
Available-for-sale financial assets	–	–	319	319

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

	2018		2017	
Other financial liabilities at amortised cost	Group £000s	Company £000s	Group £000s	Company £000s
Trade and other payables	3,641	3,172	2,465	1,999

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:

	2018		2017	
	Group £000s	Company £000s	Group £000s	Company £000s
Loans and receivables	–	12,948	449	12,874
Financial assets at amortised cost – non-current	275	275	–	–
Financial assets at amortised cost – current	43	43	–	–
Total	318	13,266	449	12,874

Cash and cash equivalents and term deposits are not considered to be exposed to credit risk due to the fact they sit with 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 pre-clinical 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.

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 (2017: nil).

Currency risk

The Group operates in a global market with income possibly arising in a number of different currencies, principally in US dollars, sterling or euros. Additionally, the Group held available-for-sale financial assets at 31 December 2017 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:

	2018		2017	
	Group £000s	Company £000s	Group £000s	Company £000s
Financial assets	1,481	14,072	6,066	17,332
Financial liabilities	(1,043)	(2,142)	(1,388)	(708)
Net financial assets	438	11,930	4,678	16,624

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

	2018		2017	
	Group £000s	Company £000s	Group £000s	Company £000s
Financial assets	711	687	7,924	7,865
Financial liabilities	(86)	(86)	(4)	(4)
Net financial assets	625	601	7,920	7,861

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 1% against the euro. The table shows the impact of an additional weakening or strengthening of sterling against the euro by 20%.

2018	As reported £000s	If sterling rose 20% £000s	If sterling fell 20% £000s
Group result for the year	(18,411)	(17,259)	(20,140)
Euro denominated net financial assets	438	364	546
Total equity at 31 December 2018	35,055	32,667	38,637

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

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 depreciated by 6% against the US dollar. The table shows the impact of an additional weakening or strengthening of sterling against the US dollar by 20%.

2018	As reported £000s	If sterling rose 20% £000s	If sterling fell 20% £000s
Group result for the year	(18,411)	(18,203)	(18,723)
US dollar denominated net financial assets	625	522	782
Total equity at 31 December 2018	35,055	34,951	35,211

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

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.

27. 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:

	2018		2017	
	Group £000s	Company £000s	Group £000s	Company 000s
Silence Therapeutics GmbH				
Expenses charge for services	–	4,233	–	4,971
Balance owed at 31 December	–	1,667	–	489

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.

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.

28. 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 2018 are disclosed below.

All subsidiaries are wholly owned.

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

29. 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 asked the Court to determine whether the Group was entitled to 'supplementary protection certificates' (SPCs) on several late stage Alnylam products, which include Patisiran ('Onpattro™'), Fitusiran, Givosiran, and Inclisiran and could result in the extension of Silence's European patent protection on EP 2 258 847 on these products. SPCs are national intellectual property rights which can give up to five years of exclusivity after a patent expires.

On 10 December 2018, a Settlement and License Agreement with Alnylam Pharmaceuticals, Inc (Alnylam) was announced. Alnylam will license patents from Silence and will pay Silence a tiered royalty on net sales of ONPATTRO™ in the EU only, ranging from 0.33 percent to 1.0 percent through 2023. All legal proceedings in all jurisdictions between the companies are resolved under the settlement.

Following settlement, no liabilities have been recognised at 31 December 2018, except for legal professional fees for time already incurred.

Glossary

AKI
Acute kidney injury

AtuRNAi
Proprietary siRNA modification pattern

DGF
Delayed graft function

DNA
Deoxyribonucleic acid

EMA
European Medicines Agency

FDA
Food and Drug Administration

GalNAc
N-Acetylgalactosamine

IND
Investigational New Drug application

IP
Intellectual property

mRNA
Messenger RNA

RNA
Ribonucleic acid

siRNA
Short interfering RNA

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Silence trademarks
Silence
Silence Therapeutics
The Silence Therapeutics logo
AtuRNAi

Design and art direction
Mervyn Kurlansky Design

Production
Luminous

SHHH...

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