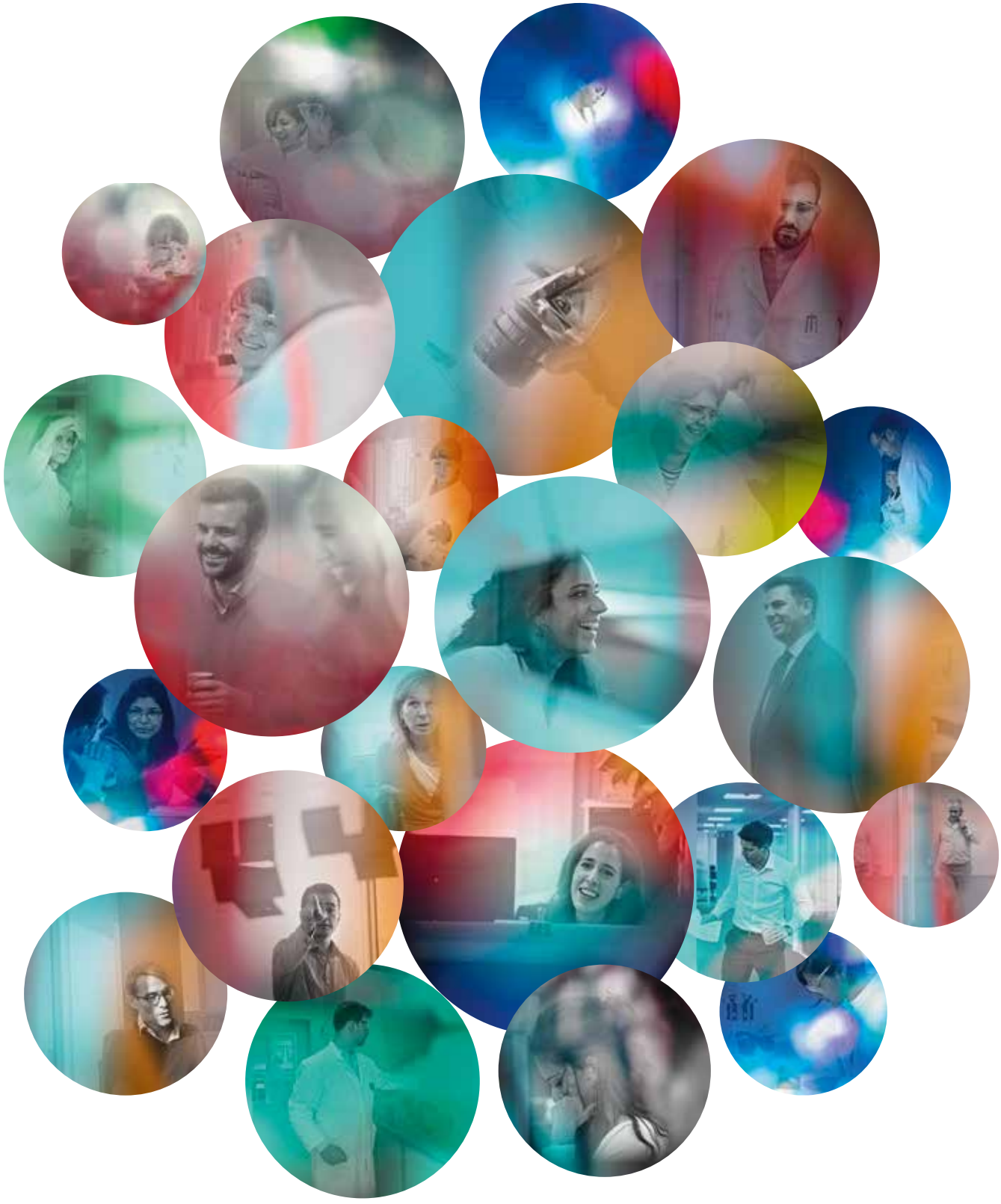
SILENCE THERAPEUTICS

# Silencing genes to cure disease



Annual Report and Accounts 2019

# 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

- Continued advancement of two late stage near-clinical stage programmes (SLN124 and SLN360), with SLN360 now positioned as Silence's highest priority development programme
- Research and collaboration agreement with Mallinckrodt Pharmaceuticals with an exclusive worldwide licence for SLN500 (targeting C3 in the complement pathway) and an option for up to two additional assets with different complement targets. As part of this collaboration Silence received a **$20m upfront payment**, **$5m equity investment** and **a further $2m on successful completion of the first milestone**
- Recognised first revenue under Settlement and Licence Agreement with Alnylam Pharmaceuticals for tiered royalty on net sales of ONPATTRO™ in the EU
- New leadership team in place with a number of high-profile appointments made during the year: Dr. Giles Campion, Head of R&D and Chief Medical Officer; Dr. Rob Quinn, Chief Financial Officer; Dr. Barbara Ruskin, General Counsel; Dr. John Strafford, Head of Business Development; Jorgen Wittendorff, Head of Manufacturing; and Linnea Elrington, Head of HR

## Financial highlights for the financial year ending 31 December 2019

**Cash and cash equivalents and term-deposits**

**£33.5m**

2018: £26.5m

**Net cash inflow from operating activities**

**£1.7m**

2018: £16.8m outflow

**Loss after tax**

**£19.6m**

2018: £18.4m

- 2019 net cash inflow from operating activities was driven primarily by receipts from Mallinckrodt totalling $22m ($20m upfront and $2m milestone payments) offset by increased outflows in 2019 corresponding to increased activity on SLN124 and SLN360
- 2019 loss was higher primarily due to increased research and development spend in relation to SLN124 and SLN360 offset by a decrease in general and admin expenses (driven by non-recurring exceptional expenditure relating to legal proceedings in 2018)

## Post year end

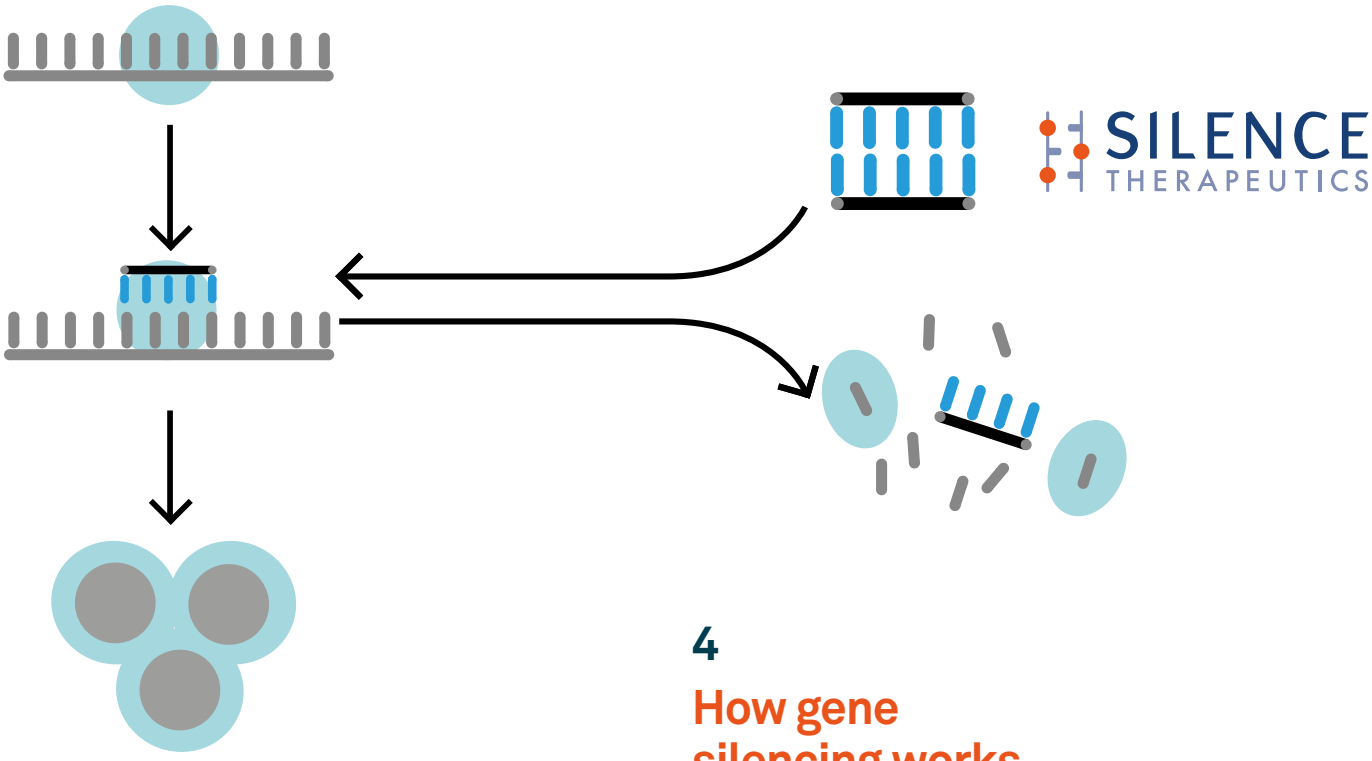
- On 25 March 2020, Silence announced a collaboration with AstraZeneca to discover and develop siRNA therapeutics for cardiovascular, renal, metabolic and respiratory diseases. AstraZeneca made an **equity investment of $20m** in Silence with a further **upfront cash amount of $60m**. Following investment, the Group cash, cash equivalents and term-deposits position at the end of March 2020 was £41m which, in addition to the unconditional $60m upfront payment, totals **available resources of >£90m**
- On 7 January 2020, Silence announced a Technology Evaluation Agreement with Takeda to explore the potential of utilising Silence's platform to generate siRNA molecules against a novel, undisclosed target discovered by Takeda
- During January 2020, Silence established a US subsidiary, Silence Therapeutics Inc, to support the Group's increased focus on the US
- On 17 February 2020 Silence announced the formation of a Scientific Advisory Board (SAB) comprising world-leading experts in drug discovery and clinical development with particular expertise in the rare disease space. The SAB will help steer Silence's research programmes

**Total available resources at 31 March 2020**

**£90m**

# Contents





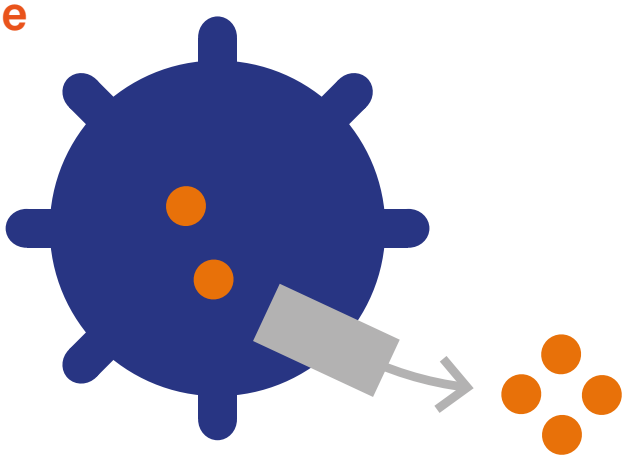

4
How gene silencing works

**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.**

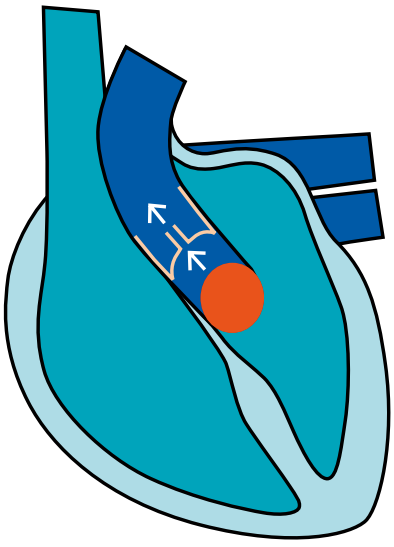
**This technology is called RNA interference, or RNAi. It is through the application of such technology that we can offer opportunities to partners and investors that were undreamt of just a few years ago. Ultimately, our RNAi-based drugs are designed to provide new hope to patients suffering from diseases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

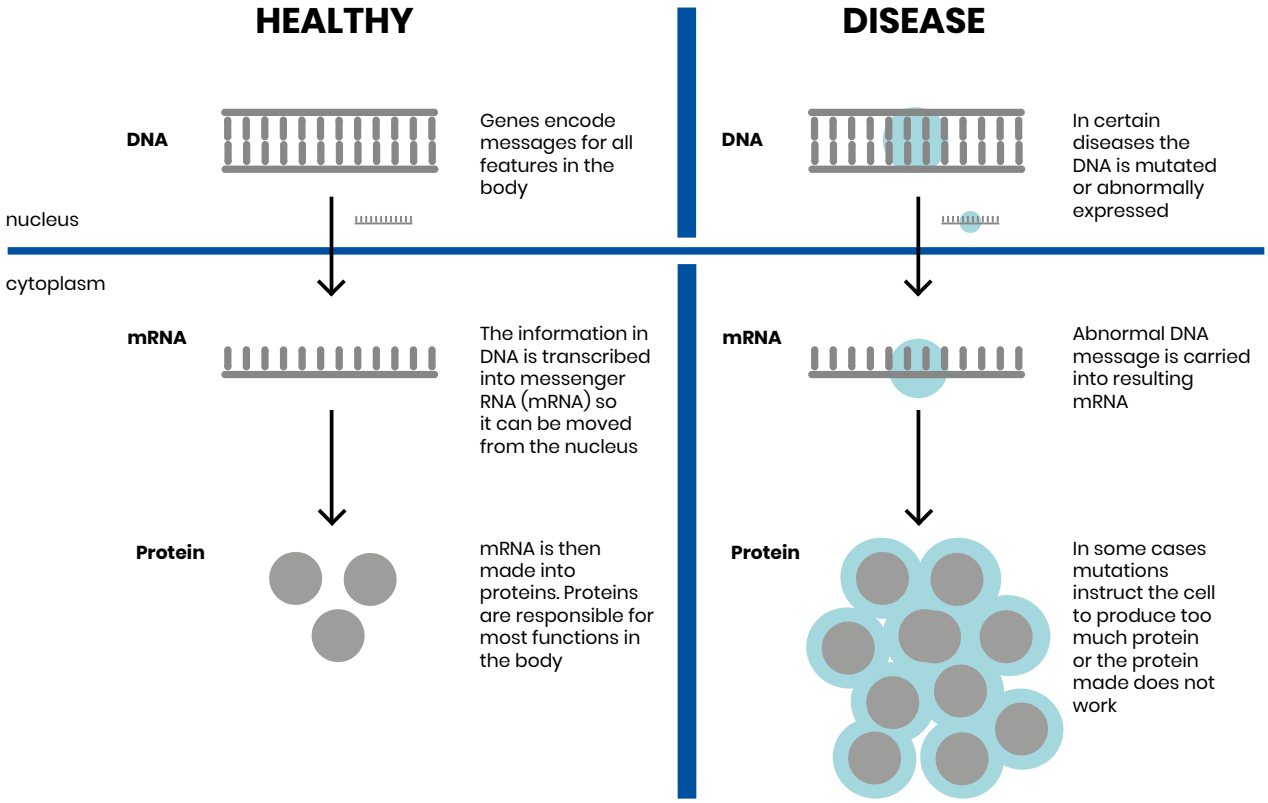








# How gene silencing works



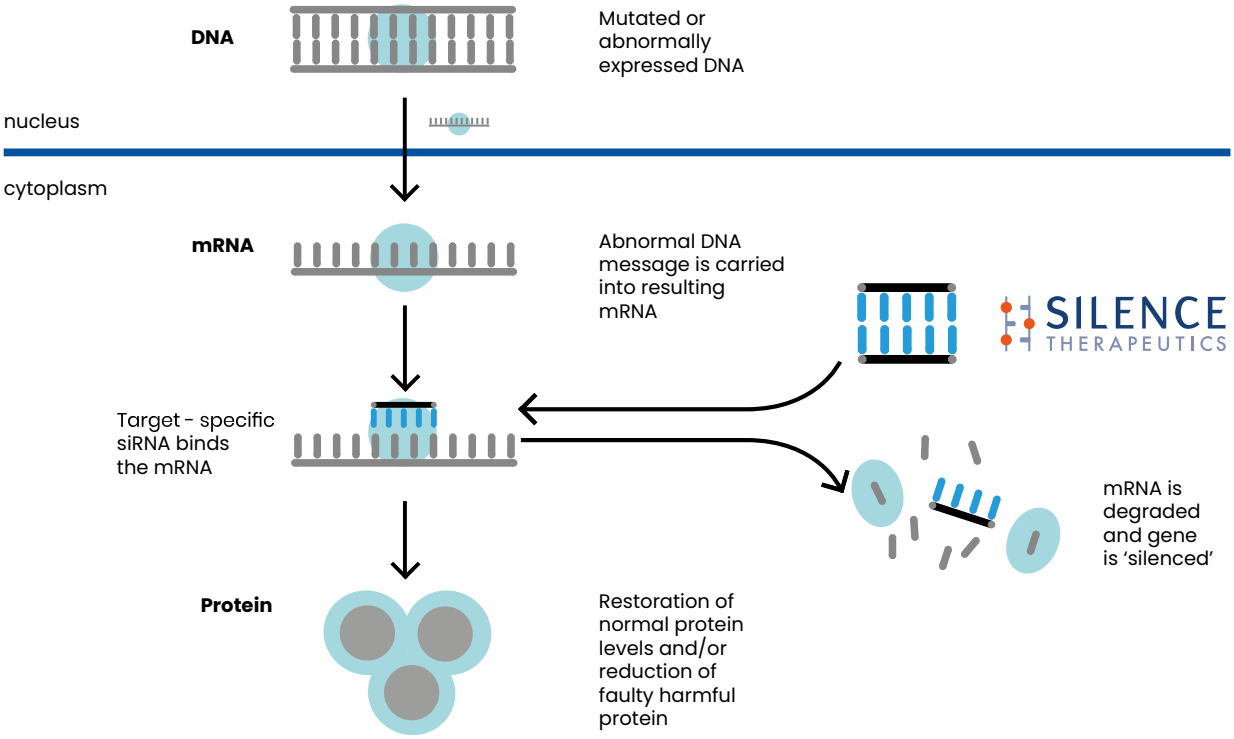

## How does gene silencing work

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

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.

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.

# RNAi TECHNOLOGY




**Natural** Harnesses natural cellular mechanisms present in every cell in the human body. Transient mechanism – does not produce permanent changes to DNA (unlike gene therapy)

**Durable** Long-lasting gene knockdown possible for > 2 months following a single injection

**Safe** siRNA specifically designed to bind only to target sequence

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 healthy state.

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.

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.

# Executive Chairman's statement

*Since the start of 2019 we have restructured, reorganised, and progressed the development of our in-house programmes. In addition, we have formed meaningful partnerships with Mallinckrodt, Takeda and AstraZeneca.*

**Iain Ross**
Executive Chairman

## Dear shareholder,

**We are fit for purpose…**
I was delighted to return to the Silence Board as Chairman in April 2019. The Company has clearly come of age: our proprietary RNAi technology platform has been refined, strengthened and further protected, and the Board and management team reinvigorated with exceptional expertise. They say timing is everything and I could not have returned at a more exciting time, as I believe Silence is now well positioned to realise its full potential.

**With unique assets, skills, competencies and validating partnerships…**
We find ourselves in a unique position with the product and technology assets, skills and competencies required to build and grow an exciting and sustainable biotech business. We can create increasing and sustainable value through the development of our in-house product portfolio comprising SLN124 for iron overload disorders and SLN360 for cardiovascular disease associated with raised Lp(a), a condition for which there are no specific treatments. We are committed to building the infrastructure and resources required to execute our ambitious operational plans. Alongside this, we continue to form productive industry partnerships around our proprietary RNAi platform, as evidenced by the announcement mid-year of our collaboration on SLN500 with Mallinckrodt and the post-period announcement of our new collaboration with Takeda and the multi-target collaboration announced with AstraZeneca in March 2020. We intend to explore further non-dilutive transactions over the next 12 months and plan to build stronger relationships with the US investor community where our story and science is beginning to resonate.

**Progressing towards clinical development and becoming financially sound…**
In 2019 whilst we not only continued to progress our RNAi programmes closer towards clinical development, with both SLN124 and SLN360 scheduled for first patient dosing in 2020, we also, through judicious financial management and the consummation of collaboration deals that provide non-dilutive funding, significantly strengthened our financial position, ending the year with approximately £33.5 million of cash, cash equivalents and term deposits.

**Tightening all aspects of corporate governance and creating a strong leadership team…**
During 2019 the Company made several high-profile appointments including:

- Dr. Rob Quinn, Chief Financial Officer;
- Dr. Giles Campion, Head of Research & Development and Chief Medical Officer;
- Dr. Barbara Ruskin, General Counsel and Chief Patent Officer;
- Dr. John Strafford, Head of Business Development;
- Jorgen Wittendorff, Head of Manufacturing; and
- Linnea Elrington, Head of HR.

Currently, the Board is firmly focused on appointing a new CEO to lead this world-class management team and we intend to make an announcement in the near term. Since I re-joined the Board in April 2019 it has been further strengthened with the appointment of James Ede-Golightly and Steve Romano as non-executive directors. We will look to augment this team over the next 12 months.

We recognise that there were a number of changes at the Board and management level over the past 18 months and, whilst that is not unusual for a company in a growth phase, we are now optimally placed. I would like to thank Andy Richards and Stephen Parker for their contribution to the business. On behalf of the Board, I would also like to express my gratitude to David Horn Solomon, who resigned as CEO in December and who played a key role in the development of Silence during his time at the Company.

**With a Board that provides transparency, controls and strategic oversight…**
The Directors as a whole remain committed to maintaining the highest standards of transparency, ethics and corporate governance, whilst also providing the leadership, controls and strategic oversight to ensure that we deliver value to all of the Company's stakeholders. Each Director brings independence of character and judgement to the role. The Board and Committees have been refocused and all meetings are characterised by robust constructive debate based upon high quality reporting from management, and the Board keeps its performance and core governance under regular review. Silence has created and aims to sustain an entrepreneurial, international and commercial culture that is befitting of a biotechnology company, which is at the forefront of innovation and development of new medicines for patients globally.

The new Board takes the view that the long-term success of the Company will depend on leveraging scientific excellence to build a diversified portfolio of high-quality preclinical and clinical-stage pharmaceutical assets. This, coupled with an evolving proprietary technology platform that will be prized by both potential investors and partners, will enable us to drive the long-term value of the business.

**A clear vision and outlook…**
In the next 12 to 18 months the Company expects to see further validation of the pre-eminence of its RNAi platform capability and the progression of its in-house programmes. The strategy will be to continue to focus on creating potentially 'best-in-class' drugs for Silence and its partners, the intention being to ensure that our programmes will be highly valued by the market and pharmaceutical industry alike.

The Board and management team will aim to create value through organic growth, but will also remain alert to external opportunities to accelerate the development of the business, including forming validating partnerships with third parties. In addition to securing value-generating partnerships and collaborations, the Company will look to broaden its share register and seek a wider following from North American healthcare institutions.

**Whilst always being realistic and professional.**
Prudent financial management will continue to be a key driver and accordingly, realism and professionalism will be key to determining the way in which the business is managed going forward. Results should be transparent, measurable and time-related and, as a consequence, the Board has established clear timelines for achieving partnering and pipeline objectives in order to achieve a sustainable increase in market value.

On behalf of the Board, I would like to thank the management team and all the Silence employees for their tireless efforts during the past year, my colleagues on the Board, our shareholders for their support and all stakeholders with an interest in making Silence Therapeutics a success.

**Iain Ross**
Executive Chairman

# R&D Scientific review

*These are unprecedented times for biotech, gene silencing and science at Silence. External deals have validated our technology, new tools are in the process of transforming our approach to disease and we are about to initiate clinical trials to address the most important untreated risk to cardiovascular health.*

**Dr. Giles Campion**
Head of R&D and Chief Medical Officer

## siRNA-mediated gene silencing has come of age

August 2018 marked the FDA approval of the first small interfering RNA drug, patisiran, for a rare disease, hereditary transthyretin-mediated amyloidosis. This was followed by approval of givosiran for patients with hepatic porphyria in late 2019. In November, Novartis acquired The Medicines Company for $9.7 billion to gain access to inclisiran – an investigational siRNA drug to reduce low-density lipoprotein cholesterol.

## GalNAc-conjugated siRNA – the optimal embodiment of oligonucleotide therapy

The discovery of RNA interference by Andrew Fire and Craig Mello gained them the 2006 Nobel Prize in Physiology or Medicine.

The latest line of oligonucleotide drugs shows impressive safety, potency and durability of action. Inclisiran is a twice-yearly therapy with potent knockdown of the PCSK9 mRNA leading to important reduction of LDL-C.

However, applying a new discovery in medicine into ground-breaking therapeutics requires the coupling of specialist expertise in molecular engineering together with painstaking experimentation and learning from missteps. The molecules must be potent to ensure effective drug action, stable against enzymatic and chemical degradation to ensure durability of action to result in a molecule with an optimized safety profile.

Silence is particularly well placed to add to the validation of this therapeutic modality. Our scientists have almost 20 years' experience of working with therapeutic oligonucleotides and have filed foundational patents in this area.

## GalNAc conjugation – the importance of drug delivery

Key to ensuring potency and safety is precision delivery. At the genetic level, this is obtained through the exquisite specificity of Watson-Crick base pairing. At the tissue level, this depends on the location of the targeted gene and specific delivery to the gene-containing host cell – the hepatocyte.

GalNAc is an amino-modified monosaccharide that binds to asialoglycoprotein receptors on the hepatocyte – there are 0.5-1 million of them per cell. Conjugation of siRNA to GalNAc causes rapid uptake into the hepatocyte, where it can bind and degrade the target mRNA and therefore silence the respective gene.

The next transformative step will be delivery of siRNA s to other tissues. To make this possible, we are actively pursuing collaborative partnerships in this area as well as gaining insights from our platform partners such as AstraZeneca.

## Is gene silencing gene therapy?

The advantage of siRNA compared to gene therapy is that permanent changes are not made to the cell's genome. Effects are therefore reversible once the drug is no longer present.

## The Silence molecular engineering toolbox is continuously evolving

Several critical elements are needed for the precision design of our siRNA molecules. This includes sequence selection, the nature and extent of chemical modifications to optimise activity, stability and safety of the siRNA, linkers and receptor-specific ligands. As our scientists design increasing numbers of molecules, so new discoveries are made and patent applications filed to secure a competitive position in this area.

## The quality of our science has been validated by important partnership deals

We have been very pleased to announce platform-based deals with Mallinckrodt in the complement area, Takeda and very recently a technology deal with AstraZeneca (total potential deal value over $4 billion). Not only do these deals demonstrate external confidence in our technology platform but also provide a valuable non-dilutive form of funding for our pipeline – allowing us to continue to progress our wholly-owned clinical candidates.

## New tools have the potential to transform our business

The increasing availability of large clinical datasets offers unprecedented opportunity to discover and validate new disease targets. Last year we announced a collaboration with Genomics England. This organisation has sequenced over 100,000 genomes with linked clinical data, with the ambition to expand this to 5 million genomes by 2025.

Our collaboration allows us to screen the database for causal associations between genes expressed in the hepatocyte (there are over 7,000 of them) and disease manifestations in humans. This is the first step in our growing exploitation of human genomics for identifying the most important and safest targets for our drugs.

## Scientific governance

To ensure that our science is conducted at the highest level, scientific oversight and direction is critically important. To that end, we have announced the formation of our Scientific Advisory Board to be chaired by Sir Gordon Duff, currently pro-Vice Chancellor at Oxford University. Not only does he have an outstanding record in human genetics, but he has been involved at the highest levels of UK drug regulatory policy, having been Chairman of the UK Medicines and Healthcare Products Regulatory Agency. He is joined by outstanding scientists in the oligonucleotide community, who will be supported by leading clinicians.

## A strong emerging pipeline with two candidates to enter the clinic in 2020

We have two late-stage preclinical programmes (SLN124 and SLN360), both scheduled for first dosing this year. SLN124 is a GalNAc-conjugated siRNA targeting TMPRSS6, a negative regulator of hepcidin. Hepcidin is the master controller of iron flux in the body and reduced levels are associated with iron loading anaemias, such as β-Thalassaemia and Myelodysplastic Syndrome. We will examine the ability of SLN124 to improve blood count and reduce iron overload – an important cause of liver and heart complications. We anticipate initial clinical results for SLN124 in H1 2021.

SLN500 is an early preclinical candidate being developed in collaboration with Mallinckrodt for complement-mediated disorders. The commercial potential of this area has been demonstrated by eculizumab, with revenues of almost $4 billion per year for rare disease indications.

## SLN360 – the jewel in the crown

SLN360 is a GalNAc-conjugated siRNA designed to knock down LPA mRNA and its product, Lp(a) lipoprotein. This protein has recently been recognised as the most potent modifiable, independent genetic risk factor for cardiovascular disease for which no specific treatment is available. It is estimated that 20% of people globally have inherited high Lp(a), which cannot be influenced by lifestyle choices. This is a therapeutic area with huge unmet need. The results of our preclinical data were recently given as an oral presentation at the American Heart Association annual conference. Data show an extremely competitive profile with potent, long-lasting knockdown of Lp(a) protein together with excellent safety. Proof of concept has been shown in a recent NEJM publication of a Phase II trial with a single stranded oligonucleotide against this target.

## A transformational year

We anticipate this year will be transformational for Silence Therapeutics with advances in the clinic and early pipeline underpinned by deals that validate and further exploit our technology platform.

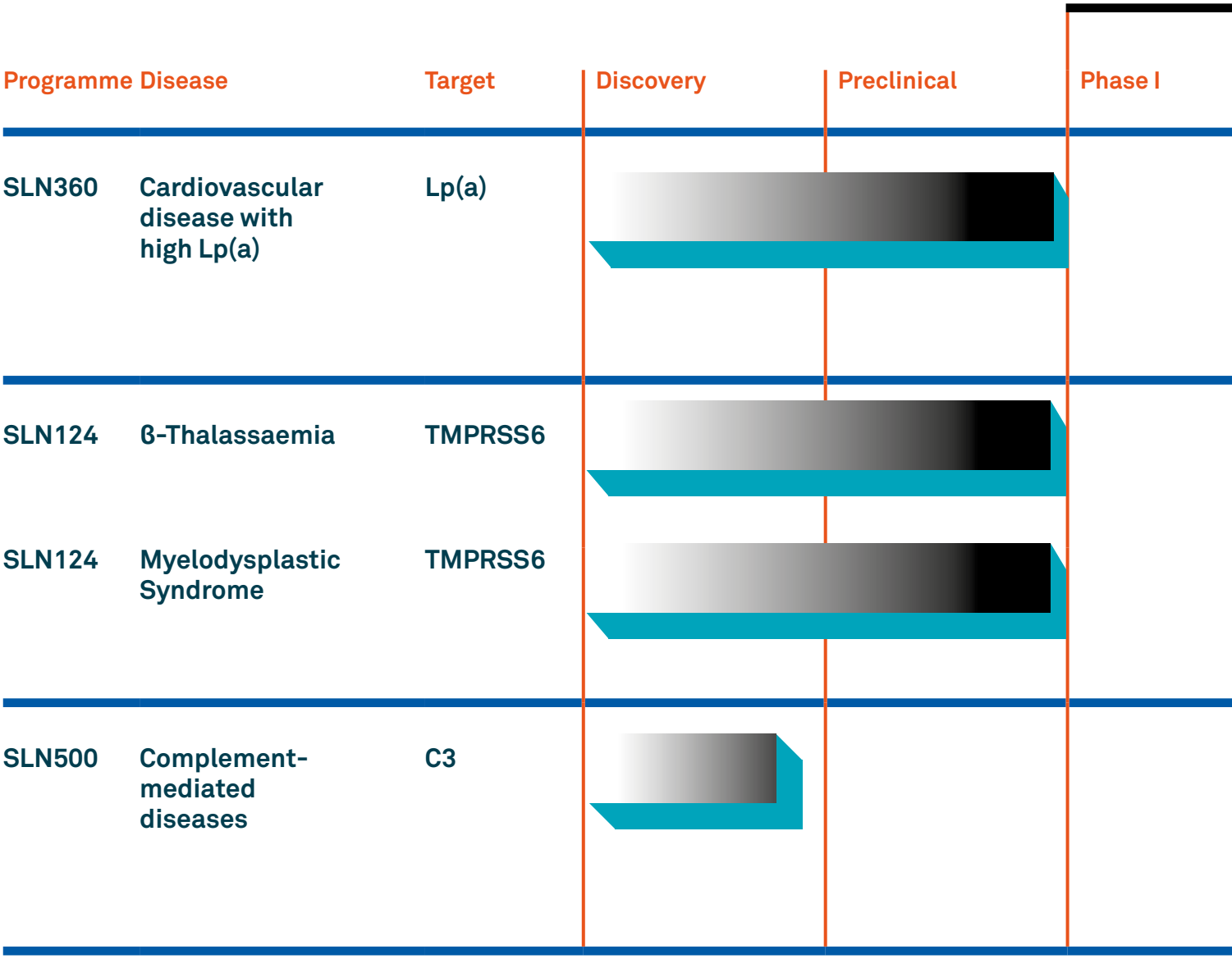
**Dr. Giles Campion**
Head of R&D and Chief Medical Officer

# 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 centred around our liver-targeting GalNAc-siRNA platform technology. Our pipeline consists of a diversified set of therapeutic areas, including rare and metabolic indications.

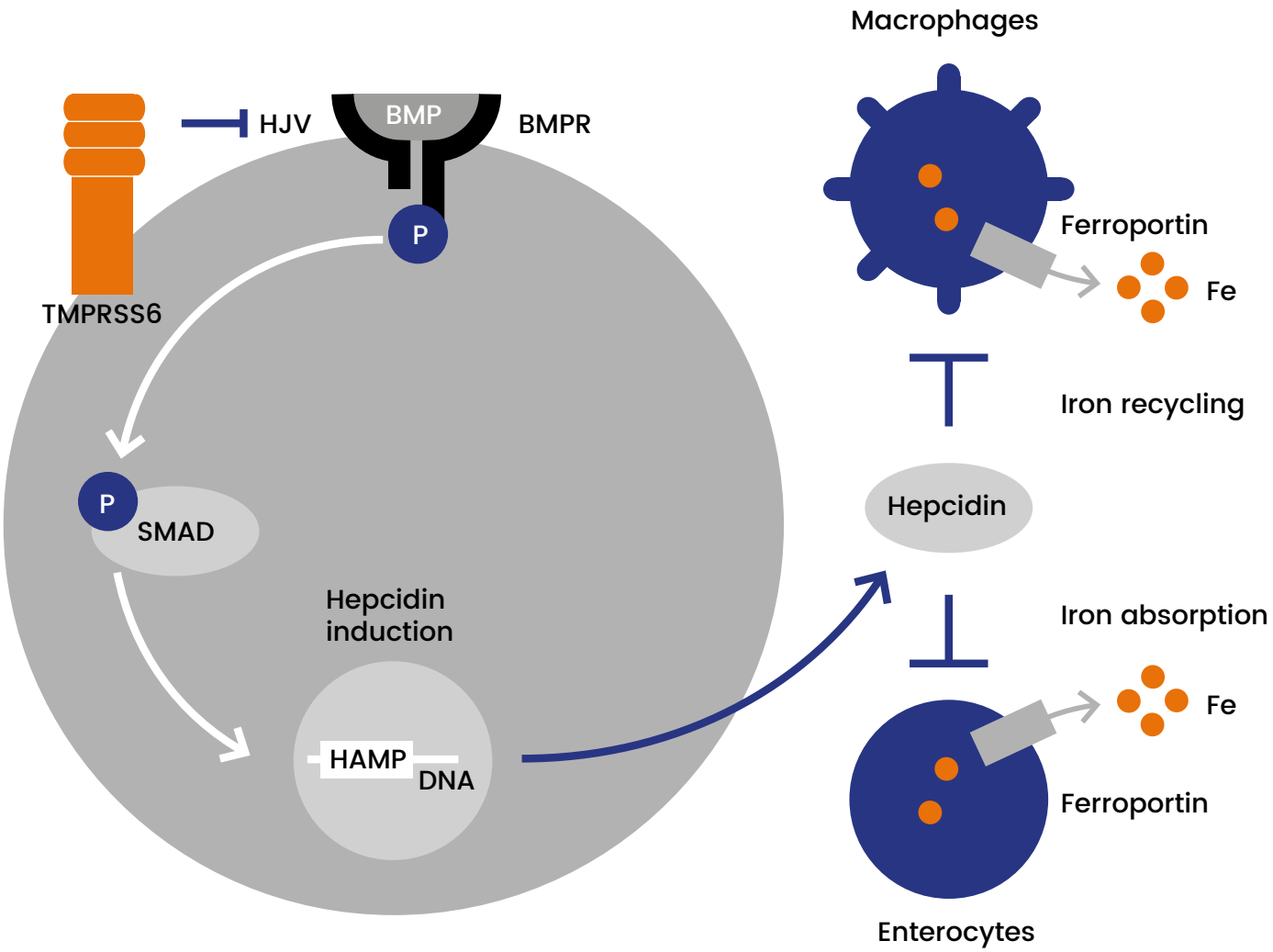
With regard to our out-licensed programmes, the drug candidates being developed by our licensee Quark Pharmaceuticals continue to progress and are currently advancing through Phase III trials.



## Clinical

| Phase II | Phase III | Proprietary/Partnered | Status |
|---|---|---|---|
| | | SILENCE THERAPEUTICS | Phase I interim data expected around the middle of 2021 |
| | | SILENCE THERAPEUTICS | Phase I interim data expected in H1 2021 |
| | | Mallinckrodt | Lead candidate in H1 2020<br>IND/CTA in 2021 |

# SLN124 for the treatment of Iron Overload Disease




SLN124 mechanism of action: Increasing hepcidin by silencing its repressor TMPRSS6

## TMPRSS6

TMPRSS6 (Transmembrane Protease Serine 6) is a negative regulator of the BMP/SMAD signalling pathway. Inhibition of TMPRSS6 in hepatocytes induces hepcidin expression. Hepcidin reduces absorption of dietary iron and the release of iron from cellular storage, thereby reducing circulatory iron levels. The liver is the predominant source of hepcidin.

**Silencing TMPRSS6**

1. Increases hepcidin levels
2. Reduces iron levels

| Advantages | V | Competition |
|---|---|---|
| Improved Quality of Life | | SoC: Transfusions + Chelators |
| Benign safety profile | | Antisense RNA |
| Reduced organ iron levels | | Luspatercept |
| Better compliance | | Gene therapy |
| Infrequent dosing | | Hepcidin mimetics |

Iron overload disorders are characterised by an imbalance in iron homeostasis resulting in the toxic accumulation of iron in patients' tissues. It can affect the pituitary glands, thyroid gland, heart and circulation, liver, pancreas, adrenal gland, ovaries and testes. In iron-loading anaemias such as β-Thalassaemia, the imbalance in iron homeostasis is inextricably linked to ineffective erythropoiesis. Correction of iron homeostasis improves ineffective erythropoiesis and reduces anaemia in animal models of disease.

# Iron overload disorders in US and EU patients

**β-Thalassemia**
**40,000 TDT**
**20,000 NTDT**

**MDS**
**100,000**

## β-Thalassaemia unmet need

Quality of Life – β-Thalassaemia patients are managed through regular blood transfusions and iron chelation to address anaemia and iron overload respectively. The burden associated with regular visits to hospital as well as the side effects associated with daily iron chelators negatively impact patient QoL.

Management of Iron Overload – Poor management of iron overload remains a major cause of morbidity and mortality in β-Thalassaemia. Despite availability of chelators, side effects (e.g. ocular and auditory toxicity, GI issues, weekly monitoring for neutropenia) have a direct impact on patient compliance with therapy.

## Myelodysplastic Syndrome unmet need

Durable Responses – Treatment options for lower risk MDS include ESAs and Revlimid. However, many patients don't respond to ESAs, and the durability of benefit in responders rarely extends beyond two years. Second line treatment options are lacking and patients are often managed with best supportive care.

ESA = Erythropoiesis stimulating agent

MDS = Myelodysplastic syndrome

NTDT = Non-transfusion dependent Thalassemia

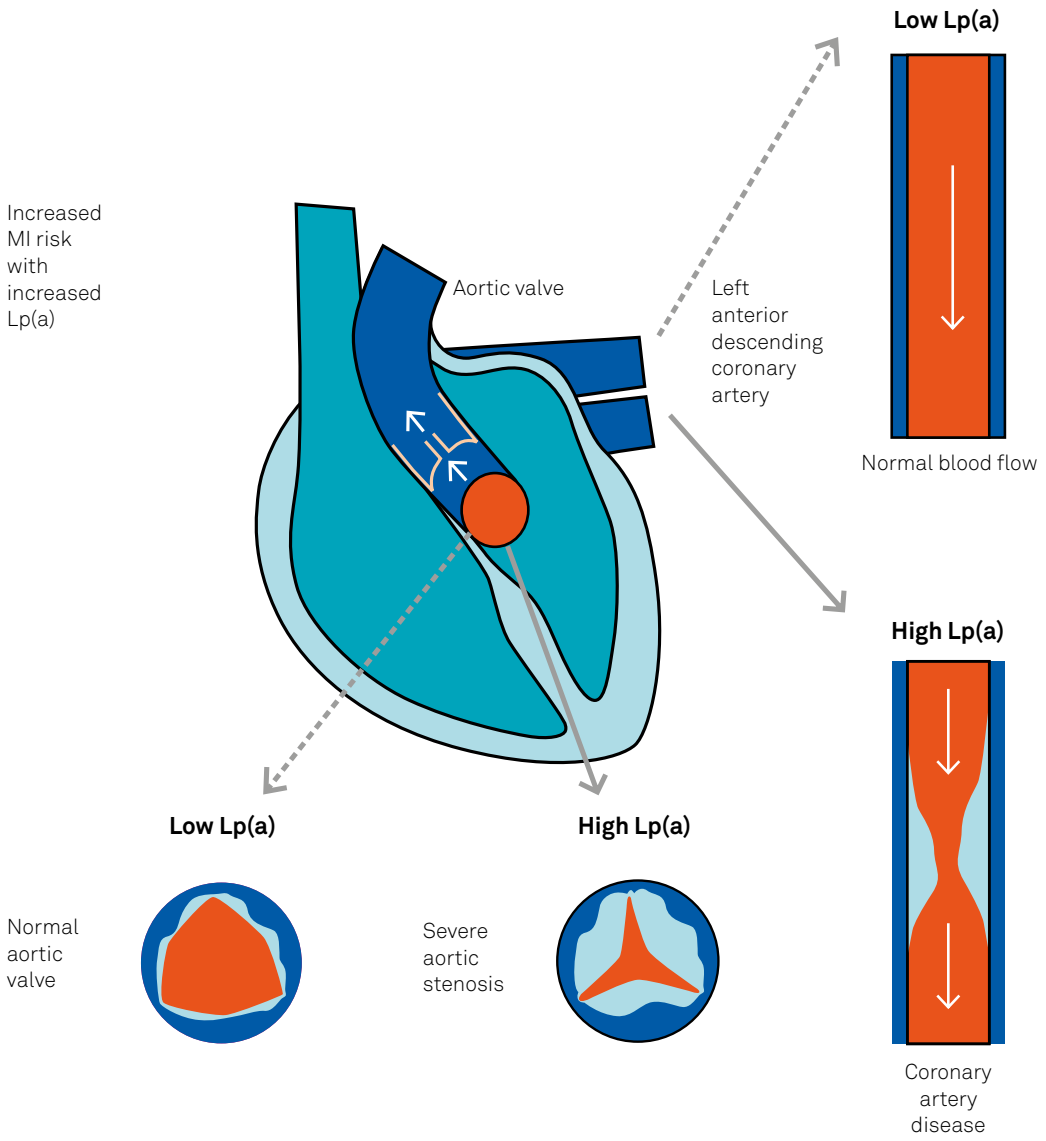
QoL = Quality of life

TDT = Transfusion-dependent Thalassemia

3 Improves erythropoiesis

4 Reduces anaemia & iron overload

# SLN360 for cardiovascular disease with high lipoprotein(a)




Targeting Lp(a) with SLN360 has the potential to address major unmet needs in cardiovascular disease

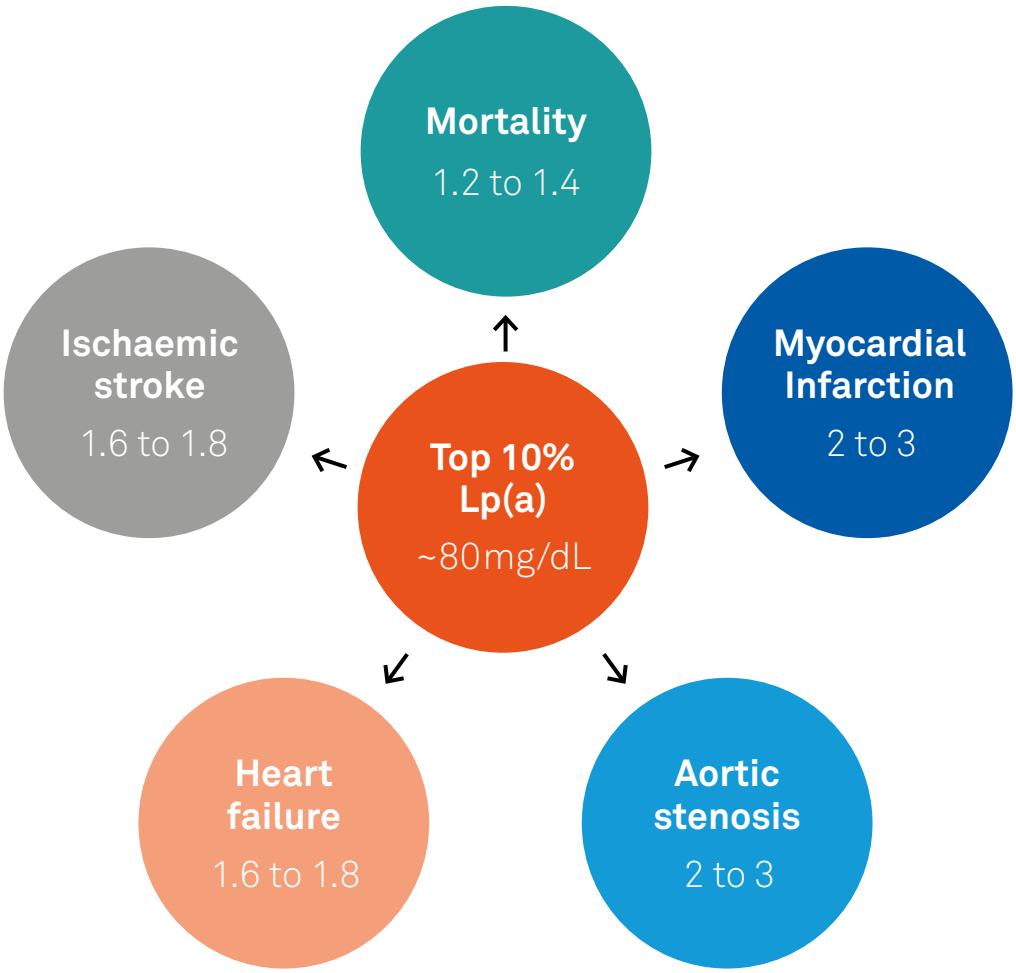
## Rationale

Lp(a) levels are genetically determined. Recognised as a major untreated risk factor in cardiovascular disease. Lp(a) levels are not significantly modifiable through approved pharmacological therapies. Large population worldwide with up to 10% with >80mg/dL (2x increased MI risk). Multiple mechanisms by which Lp(a) causes CVD.

Lp(a) is a low-density lipoprotein produced predominantly by the liver and composed of Apo(a) and Apo B, both hepatocyte expressed genes. Genetically defined high Lp(a) serum levels are unaffected by diet and exercise and are an independent risk factor for CVD. There is no specific Lp(a) targeting therapy available at the moment.

MI = Myocardial Infarction CVD = Cardiovascular Disease

# Fold increase in risk with high Lp(a)




**Risk Ratio:**

The probability of one outcome versus another

A risk ratio of 2 is double the risk

A risk level of 0.5 is half the risk

## Our Programme

An LPA silencing siRNA would provide a specific, safe and durable approach for reducing Lp(a) levels in high risk patients.

A potent lead sequence has been selected and tested in vivo in non-human primates (NHP).

Proof of mechanism has been achieved in NHP: dose dependent reduction in both LPA (liver mRNA) and Lp(a) (serum protein) observed, with max 95% KD observed after multiple dosing.

Our drug compares positively against published data by competitors, suggesting a superior performance.

NHP = Non-Human Primate

IND/CTA is planned for H2 2020

# Business model

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

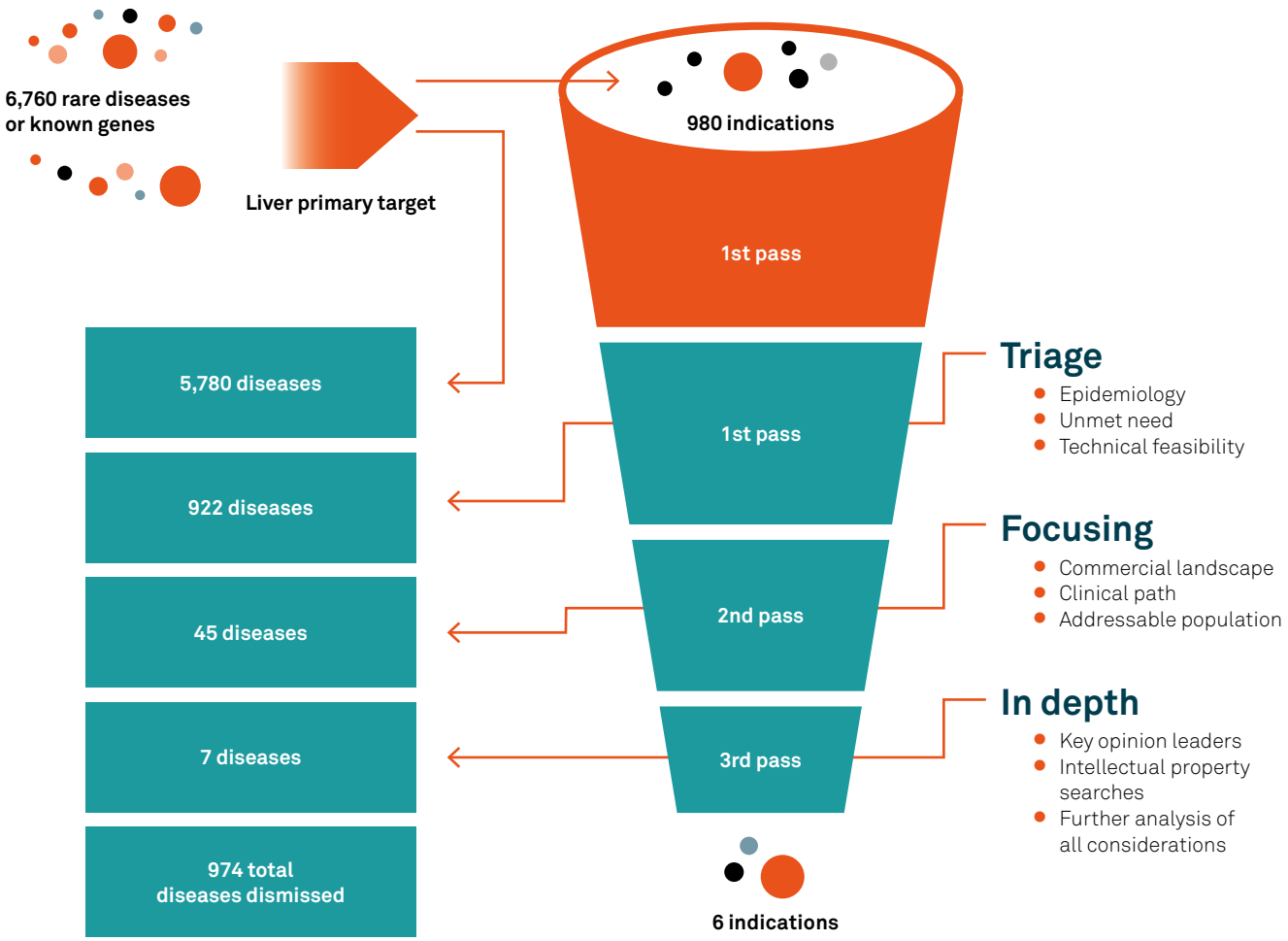
Once target genes have been identified through our established screening process, candidate sequences can be rapidly generated and validated by way of in vitro and in vivo model systems. This has enabled us to assemble a portfolio of development projects that includes rare disease indications suitable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

# Target selection strategy

Silence has a rigorous target selection strategy, with a dedicated internal process that can be re – run 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



# Financial review

*Investment in research and development grew strongly in the year to £13.3 million, reflecting the excellent progress made in moving our two lead programmes, SLN124 and SLN360, forward towards the clinic. We ended the year with £33.5 million in cash, cash equivalents and term deposits (up from £26.5 million 2018), giving us sufficient resources to deliver clinical data using our proprietary GalNAc-siRNA platform.*

**Dr. Rob Quinn**
Chief Financial Officer

## Revenue

Revenue recognised for 2019 was £0.2 million (2018: nil), driven by partial recognition of upfront and milestone payments relating to the collaboration with Mallinckrodt Pharmaceuticals, and also by royalty income from Alnylam Pharmaceuticals. We expect to recognise the balance of the $20 million upfront and $2 million milestone, already received from Mallinckrodt Pharmaceuticals, in line with the time period over which services are envisaged to be provided.

## Research and development expenditure

Research and development spend increased by £3.6 million to £13.3 million (2018: £9.7 million), reflecting the advancement of both SLN124 and SLN360. SLN124 progressed towards a First-in-Human Phase Ib clinical trial for β -Thalassaemia and Myelodysplastic Syndrome, and SLN360 (for cardiovascular disease with high Lp(a)) was moved forward into IND-Enabling studies, in preparation for the expected start of clinical activity in 2020. The largest contributor to the increase in R&D spend are R&D people costs (payroll, consultants, travel, recruitment fees) which increased from £3.4 million in 2018 to £4.8 million in 2019, largely driven by consultant spend, relating to SLN124 and SLN360.

## Administrative expenses

General and administration expenses decreased by £1.2 million to £9.6 million for 2019 (2018: £10.8 million). The key driver for the decrease is that 2018 included non-recurring costs incurred in relation to legal proceedings with Alnylam Pharmaceuticals, which are now settled.

## Finance and other expenses

The Company recognised a loss of £0.1 million for 2019 (2018: £nil) due to foreign exchange movements on Euro cash balances.

## Taxation

During the year, the Company received a research and development tax credit of £2.3 million in the UK in respect of R&D expenditure in 2018. The Company accrued £3.1 million, recognising a current tax asset in respect of 2019 research and development tax credits.

## Liquidity, cash and cash equivalents

The Group's cash and cash equivalents and term deposit at year end totalled £33.5 million (2018: £26.5 million). The cash flow from operating activities was £1.7 million inflow (2018: £16.7 million outflow) against an operating loss of £22.7 million (2018: £20.6 million). 2019 included receipts of $22 million from Mallinckrodt Pharmaceuticals ($20 million upfront and a further $2 million research milestone announced in September 2019). 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 from existing funds.

## Other balance sheet items

Current trade and other payables increased by £3.2 million to £6.9 million at the end of 2019 (2018: £3.8 million). This was driven by increased payables and accruals associated with contract research organisation (CRO) costs, the growth of which was particularly pronounced in Q4 2019, as we ramped up activity on SLN124 and SLN360.

**Dr. Rob Quinn**
Chief Financial Officer and
Company Secretary
14 April 2020

# 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.<br><br>The Group depends on contract research organisations (CROs) to support with clinical trials and contract manufacturing organisations (CMOs) to manufacture drug product for its clinical trials. If CROs or CMOs do not deliver as planned, there may be delays in conducting drug development activities, as well as increased costs.<br><br>Following the departure of the United Kingdom from the European Union on 31 January 2020 (commonly referred to as 'Brexit'), the regulatory framework covering the development of pharmaceutical products will continue to be derived from the European Union directives and regulations for the duration of the transition period ending on 31 December 2020. Following this transition period (and further negotiations between the UK and the EU), new rules will take effect from 1 January 2021 which 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.<br><br>CROs and CMOs are selected based on track record and experience, and the Group performs independent quality checks of their work.<br><br>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 that 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. Other companies may 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 Group'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 is 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 regarding the raising of equity. |
| **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. |

# Corporate social responsibility

**Silence strives to conduct its business in an ethical, responsible and transparent manner. In 2019, our focus areas were the environment, animal welfare, and our relationships with partners and collaborator, employees, suppliers, and the life sciences marketplace.**

## Partners and collaborators

- Delivering high quality, innovative scientific research to ultimately address unmet medical needs
- Working collaboratively with academic institutions and commercial partners

## Employees

- Operating clear and fair terms of employment and remuneration policies
- Enhancing the performance of management and staff through ongoing training and knowledge development

## Suppliers

- Building excellent long-term relationships with our suppliers by being a responsible purchaser of goods and services at market competitive prices
- Engaging with our principal suppliers on their own commitment to environmental and social responsibility, seeking wherever appropriate to influence them to adopt our approach

## Life sciences marketplace

- Adhering to a strict policy on bribery and corruption
- Ensuring that all advertising and marketing materials are truthful and not misleading
- Promoting competitive behaviour that is socially and environmentally beneficial

## Environment

Silence aims to reduce its direct adverse environmental impacts, wherever it has managerial control, and to influence others to reduce those that are indirect. As a minimum standard, we will fully comply with all relevant legislation and, wherever possible, look for opportunities to make a positive contribution to the environments in which we operate.

## 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.

## In 2020 we aim to expand and deepen our social responsibility through initiatives in healthcare and the environment:

- Supporting healthcare charities aligned to the patients we seek to serve
- Supporting blood donations
- Measuring carbon emissions and formulating ambitious targets to reduce emissions per employee
- Committing to immediate carbon neutrality, through the use of responsible carbon offsetting schemes
- Supporting sustainable transport through low carbon commuting and business travel

# 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, cash equivalents and term deposits of £33.5 million will allow the company to progress its pipeline of preclinical candidates towards the clinic.

### Stock information

The Company is listed on AIM with the sticker SLN. The percentage of AIM securities that is not in public hands was 59.29% at 31 December 2019.

### 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. Post-year end we opened an office in New York.

### Our patent estate

We recognise that IP is a complex matter; our dedicated in-house Chief Patent Officer 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 Mallinckrodt 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 that 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 enhanced our incentive provisions based on goal achievement, to ensure that our remuneration package remains competitive and attractive. We plan to make further progress in 2020, including increased focus on performance management.

# Resources and relationships continued

## Companies Act 2006, s.172 compliance

During 2019 the directors carried out their duties in compliance with s.172 of the Companies Act 2006, acting in good faith to promote the success of the business for the benefit of all stakeholders. To this end there were a number of initiatives undertaken which the Directors believe were in the best interests of the Company and all its stakeholders as follows:

- The Board was strengthened with appointment of a permanent independent Chairman and two new non-executive directors to replace the outgoing interim Chairman and outgoing non-executive director. In April 2019 after appropriate consultation with the major shareholders and advisers Mr Iain Ross was appointed as non executive Chairman of the Silence Board. Mr Ross not only brings >40 years experience of the pharmaceutical and biotech sector but also specific experience in the field of RNAi having been the Chairman of Silence `Therapeutics from 2004 – 2010 and a non-executive director of Benitec Biopharma from 2010 – 2016. Mr James Ede-Golightly, an experienced financial executive and Dr. Steve Romano with extensive R&D experience in the pharmaceutical industry joined as non-executive directors during the period.
- Following intensive negotiations, during which the Board had full oversight, the Company signed a Licence & Research and Development Collaboration with Mallinckrodt Pharmaceuticals which included an immediate upfront payment of $20m plus an equity investment of $5m which further validated the Company's technology platform and strengthened the balance sheet. The Board considered this transaction in the best interests of all stakeholders.
- Throughout the period the Board had full oversight of ongoing discussions/ negotiations with third parties in respect of potential business development transactions which could further strengthen the Company's financial position and as result two further transactions were announced post period - namely a Research evaluation with Takeda and a Licence & Research Collaboration with AstraZeneca which will bring in in excess of $80 million in the form of upfront cash and equity investment.
- During the period under review the Board has continued to review the strategic options for increasing the investor base to include US and European investment funds that can provide the Company with additional investment capital to allow the Company not only to fulfil its collaboration obligations but also full fund the development of its product pipeline through to commercialisation. The Board has worked closely with Management on this aspect of the business throughout the period.

Other s.172 considerations are demonstrated elsewhere in the accounts – namely, the impact of Silence's operations on environment and community (p. 23) and consideration of the employees of the company including their remuneration (p. 34).

**Iain Ross**
Executive Chairman
14 April 2020

# 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.**

### Iain Ross

**Executive Chairman**

Appointed April 2019

Iain was appointed Executive Chairman of Silence Therapeutics plc in December 2019 after serving as Non-Executive Chairman since April 2019. Iain has over 40 years' experience in the international life sciences and technology sectors, where he has completed multiple financing transactions, and over 25 years in cross-border management as chairman and CEO. He has led and participated in six Initial Public Offerings (IPOs) and has direct experience of M&A transactions in Europe, the USA and the Pacific Rim. Currently he is non-executive chairman of Redx Pharma plc (LSE), and Kazia Therapeutics Limited (ASX & NASDAQ), and was responsible for leading the turnaround of both these companies before appointing new executive management. He is a qualified Chartered Director and former Vice Chairman of the Council of Royal Holloway, London University. Previously, he has held significant roles in multi-national companies including Sandoz, Hoffman La Roche, Reed Business Publishing and Celltech Group plc. He has advised banks and private equity groups on numerous company turnarounds including, as CEO of Quadrant Healthcare (1996 – 2000), taking the company public and signing numerous collaborations before selling the business to Elan in 2001. As chairman and CEO at Allergy Therapeutics (2001 – 2002) he restructured the company prior to its IPO and as Chairman at Silence Therapeutics plc (2004 – 2010) he turned the business around through M&A and established numerous big pharma collaborations. As executive chairman at Ark Therapeutics plc (2010 – 2015) he successfully restructured the business and disposed of the manufacturing assets, and reversed in Premier Veterinary Group.

#### Areas of expertise

Corporate strategy, M&A, business development and governance

#### Current external roles

Kazia Therapeutics Limited and Redx Pharma plc

### 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 C-level executive management and non-executive board roles in multiple US and European private and publicly traded companies. Dave is currently CEO of LEMAX LLC and CFO of Ironshore Pharmaceuticals Inc. He also serves as a non-executive board member of Sorrento Therapeutics Inc. (NASDAQ: SRNE) and BioHealth Innovation, Inc. Previously he served as chief operating officer and chief financial officer of Medigene AG, a publicly-listed German biotech company and prior to this as Chief Executive Officer of the rare-disease focused speciality pharma company, Sigma Tau Pharmaceuticals, Inc. Dave was also chief financial officer and executive VP of MorphoSys AG, taking the company public in Germany's first biotech IPO and held various other positions at other leading companies including Hoffman La Roche in Switzerland. Dave is a Certified Public Accountant (C.P.A.) in the USA.

#### Areas of expertise

Drug commercialisation, strategic partnerships, financing and transactions

#### Current external roles

CEO LEMAX LLC and CFO Ironshore Pharmaceuticals Inc, non-executive director of Sorrento Therapeutics Inc., non-executive director of BioHealth Innovation Inc., and trustee of MIT Club of Washington DC

# **Board of Directors** continued

### James Ede-Golightly
**Non-Executive Director**
Appointed April 2019

James Ede-Golightly is chairman of DeepMatter Group plc, Gulfsands Petroleum plc, East Balkan Properties plc and Oxford Advanced Surfaces Limited and has extensive experience as a non-executive on the boards of AIM-quoted companies with international business interests. James was a founder of ORA Capital Partners in 2006, having previously worked as an analyst at Merrill Lynch Investment Managers and Commerzbank. He is a CFA Charterholder and holds an MA in economics from Cambridge University. In 2012, he was awarded New Chartered Director of the Year by the Institute of Directors.

**Areas of expertise**
Investment and corporate finance

**Current external roles**
DeepMatter Group plc, Dunheved Limited, East Balkan Properties plc, Gulfsands Petroleum plc, Oxehealth Limited, Oxford Advanced Surfaces Limited, Sarossa plc, and Serendipity Capital Limited

### Alistair Gray
**Senior Independent Non-Executive Director**
Appointed November 2015

Alistair brings a wealth of strategic consultancy and business experience. Having trained as an accountant, his early career was in senior management positions with Unilever and John Wood Group plc. Alistair was a director of Arthur Young (now Ernst and Young) Management Consultants and PA Consulting Group for over ten years. Alistair previously chaired the audit and remuneration committees of AorTech International plc and Highland Distillers plc, as well as the Pension Trustee Board. Having previously chaired the Audit and Risk Committee at Silence, as of December 2019 Alistair has taken on the key role of Senior Independent Director at the Company.

**Areas of expertise**
Strategic management, governance

**Current external roles**
Non-executive Director/Chair of Edrington Benefit Trust and Chair of Scottish Enterprise Pension and Life Assurance Scheme and Clyde Bergemann Pension Scheme as well as a Trustee of Calachem (former ICI subsidiary) Pension Scheme. Alistair is a member of the faculty of Strathclyde Business School and a Visiting Professor at the University's Design, Manufacturing and Engineering department.

### Dr. Steven Romano
**Non-Executive Director**
Appointed July 2019

Dr. Steven Romano is a board-certified psychiatrist and seasoned pharmaceutical executive with 25 years of research and development experience across a wide range of therapeutic and disease areas. Dr. Romano currently serves as executive vice president and chief scientific officer at Mallinckrodt Pharmaceuticals, where he has responsibility for research and development, regulatory and medical affairs, pharmacovigilance and device engineering. Prior to joining Mallinckrodt, Dr. Romano spent 16 years at Pfizer, Inc., where he held a series of senior R&D and medical roles of increasing responsibility, culminating in his most recent position as SVP, Head, Global Medicines Development, Global Innovative Pharmaceuticals Business. Prior to joining Pfizer, he spent four years at Eli Lilly.

**Areas of expertise**
Research and development, regulatory, and medical affairs

**Current external roles**
Chief scientific officer at Mallinckrodt Pharmaceuticals and board member of the National Pharmaceutical Council (NPC)

# Corporate governance report

*The Directors remain committed to maintaining high standards of transparency, ethics and corporate governance.*

**Iain Ross**
Executive Chairman

# Corporate governance report continued

## What corporate governance standards does the Company follow?

In July 2018, the Board approved the application of The Quoted Companies Alliance (QCA) Corporate Governance Code (2018 edition) (the QCA Code) and the Company has continued to comply through the reporting period. The QCA Code is 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 as 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 in person meetings per year, aligned with quarterly management reporting; regular monthly Board update calls and additional meetings and Board calls when circumstances and urgent business dictate. In the 12-month period under review, there were 16 meetings. The high number of Board meetings was driven by the introduction of regular monthly Board update calls so as to keep Board members fully updated on business developments. There were also a number of Board and executive changes in the year which required the Board to convene.

| Type of meeting | Number of meetings |
|---|---|
| Board | 16 |
| Audit and Risk Committee | 6 |
| Remuneration Committee | 13 |
| Nomination Committee | 3 |

All Board and Committee meetings were fully attended by the relevant Directors throughout the year. All Directors receive the agenda and Board papers in advance of Board meetings to enable them to make an effective contribution. Between Board meetings, the Executive Chairman maintains regular informal contact with Non-Executive Directors. The Board continues 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 Executive Chairman's statement on page 7.

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 that 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 that any necessary corrective actions are taken;
- review progress towards and consider options and terms of business development and corporate collaboration and 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 has been principally maintained by the Executive Chairman during the reporting period, and he has ensured 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.

Whilst we are aiming to hold our Annual General Meeting in May or June, we may need to delay the AGM in response to the COVID-19 pandemic. A Notice of Annual General Meeting will be issued in due course and will be available on our website. Separate resolutions will be 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 Group's 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 candidates, SLN124 and SLN360, can help patients, 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 31 and 32 sets out how risks are reviewed.

**5. Maintain the Board as a well-functioning, balanced team led by the Chairman**
Currently the Board has a majority of Non-Executive Directors, consisting of four Non-Executive Directors and one Executive Chairman. 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 Nomination Committee is currently chaired by the Senior Independent Non-Executive Director Alistair Gray, whilst in the absence of a CEO, Iain Ross has taken on the role of Executive Chairman. A new CEO is expected to be appointed during the first half of 2020. Details of each of the Directors' experience and background are given in their biographies on pages 24 and 25.

Iain Ross, as Executive Chairman, is responsible for leading the Board and ensuring its effectiveness and, until a new CEO is appointed, is responsible for the operational management of the Group and implementation of Board strategy and policy.

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 comprises a Non-Executive Chair and at least two other 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.

# Board structure

**Audit and Risk Committee**

Dave Lemus (Chair)
Alistair Gray
James Ede-Golightly

**Remuneration Committee**

James Ede-Golightly (Chair)
Alistair Gray
Dave Lemus
Dr. Steven Romano

**Nomination Committee**

Alistair Gray (Temporary Chair)
Iain Ross
Dave Lemus
James Ede-Golightly
Dr. Steven Romano

**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 Nomination Committee is normally chaired by the Chairman of the Company, but currently the Senior Independent Non-Executive Director, Alistair Gray, is chairing the Nomination Committee whilst the Company Chairman, Iain Ross, in the absence of a CEO, is fulfilling the role of Interim Executive Chairman.

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 Iain Ross as Chairman of the Board and James Ede-Golightly and Dr. Steven Romano as Non-Executive Directors of the Company. Currently the Company has implemented a worldwide search for a new CEO following the resignation of Dr. David Horn Solomon in December 2019. In the interim, Iain Ross has taken on the role of Executive Chairman until a new CEO is appointed. Iain has held board management roles in Europe, the US and Australia and brings extensive international leadership experience in the biotech industry, with a track record of successful pipeline delivery, financing and deal making. James Ede-Golightly brings a track record and proven leadership in corporate development and financing and Dr. Steven Romano has extensive leadership experience in research and development in the pharmaceutical industry having worked for Lilly, Pfizer and with his continuing role at Mallinckrodt.

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. Dr. Steven Romano will stand for election at the 2020 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 Silence Therapeutics plc Board remains mindful that it needs to continually monitor and identify ways in which it might improve its performance and recognises that board evaluation is a useful tool for enhancing a board's effectiveness. Alongside the formal annual evaluation, the Chairman routinely assesses the performance of the Board and its members and discusses any problems or shortcomings with the relevant Directors.

Under normal circumstances the Chairman is responsible for the annual performance assessment of the CEO and this will be the case following the appointment of a new CEO. The CEO reviews the performance of the CFO. Any performance-related remuneration is determined by the Remuneration Committee. The CEO and the Non-Executive Directors are responsible for evaluating my performance as Executive Chairman.

In conducting the formal annual evaluation, the Board undertakes a rigorous assessment of its own performance, balance of skills, experience, independence, diversity (including gender diversity) and other factors relevant to its effectiveness (and also of that of its Committees) and the performance of its individual Directors. In late 2019 the Board undertook a formal evaluation of its performance. In conducting this review, the Executive Chairman undertook a formal discussion with each of the other Non-Executive Directors and the CEO regarding the performance of the Board, its Committees and the other Non-Executive Directors' own individual contribution and performance. In preparation, the Chairman solicited the views of the other Directors, including the completion by each Director and the CEO of a confidential questionnaire.

# Corporate governance report continued

Following the reviews, the Executive Chairman shared his observations with the other Directors. These individual evaluations aimed to confirm that each Director continues both to contribute effectively and to demonstrate commitment to the role (including the allocation of necessary time for preparation and attendance at Board and Committee meetings and any other duties).

The performance of the Executive Chairman (in both his Executive and Non-Executive roles) was reviewed through a separate exercise conducted on behalf of the Board by Alistair Gray, the Senior Independent Non-Executive Director.

The results of the 2019 review were satisfactory overall, but a number of minor actions emerged from it, summarised as follows:

- Ongoing training of Directors will be improved and a more structured approach taken for their broader development.
- The Non-Executive Directors will visit the operating unit of the business and receive presentations by senior management on a more frequent basis to enhance their knowledge and understanding of the business as it evolves.

The Nomination 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 23. 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, controls in place for one-off accounting items 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, full 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 Executive Chairman, and additionally the Senior Independent Non-Executive Director 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.

**Iain Ross**
Executive Chairman
14 April 2020

# Audit and Risk Committee report

*Mirroring Silence's rapid growth and increasing financial complexity are the Committee's efforts and activities to monitor and ensure the highest levels of integrity in the Group's financial reporting, internal controls and risk management.*

**Dave Lemus**
Chair of the Audit and Risk Committee

# Audit and Risk Committee report continued

## Who are the members and who do they interact with?

Dave Lemus is Chair of the Audit and Risk Committee.

Dave currently serves as audit committee chair of Sorrento Therapeutics, Inc. (NASDAQ: SRNE) and is treasurer of BioHealth Innovation, Inc. He has previously served as COO and CFO of Medigene AG, CEO of Sigma Tau Pharmaceuticals, Inc., and CFO & executive VP of MorphoSys AG. Dave is also a Certified Public Accountant in the USA.

In addition to Dave, the members of the committee comprise Alistair Gray and, from April 2019, James Ede-Golightly (Dr. Stephen Parker and Dr. Andy Richards CBE were also members until April 2019). The Committee met five times during 2019, including prior to results announcements.

## What does the Audit and Risk Committee do?

- Monitors the integrity of the Group's financial and narrative reporting
- Monitors risk
- Reviews accounting policies and key estimates and judgements
- 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 auditors
- Meets with the external auditors, ensuring that 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 2019, the Committee reviewed the 2018 preliminary announcement, the 2018 annual report and the 2019 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 (notably in respect of revenue recognition, the carrying value of goodwill and the impairment of investments in subsidiaries), taking into account the views of the external auditors, 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 auditors 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 auditors' independence and performance, the Committee is recommending that PricewaterhouseCoopers LLP be re-appointed as the Company's auditors 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 auditors.

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

The Committee oversees the relationship with the external auditors, 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 auditors, 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 auditors prepare an Audit Plan for the audit of the full year financial statements, which was presented to the Committee and discussed in October 2019. The Audit Plan sets out the scope of the audit, areas to be targeted and the audit timetable. Following the audit, the auditors present their findings to the Committee for discussion.

**Dave Lemus**
Chair of the Audit and Risk Committee
14 April 2020

# Remuneration Committee report

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

**James Ede-Golightly**
Chair of the Remuneration Committee

# Remuneration Committee report continued

## Dear shareholder,

On behalf of the Remuneration Committee, I am pleased to present our Directors' remuneration report for the year ended 31 December 2019.

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 regretfully accepted the resignation of Dr. David Horn Solomon as CEO in December 2019 but have initiated an executive search with a high calibre search firm and are confident of securing a top-class CEO in the near future. During the year Dr. Andy Richards, CBE, left his position as interim Non-Executive Chairman and Dr. Stephen Parker stepped down as Non-Executive Director. David Ellam left his role as Chief Financial Officer and Executive Director in January and Dr. Rob Quinn was made Chief Financial Officer, but did not join the Board. Iain Ross joined as Non-Executive Chairman in April and was made Executive Chairman in December. Iain brings over 40 years of experience across life sciences and biotechnology, and brings extensive experience with financing transactions. I joined as Non-Executive Director in April and we further strengthened the Board in July with the appointment of Dr. Steven Romano, chief scientific officer of Mallinckrodt Pharmaceuticals. Alistair Gray, a long-standing Non-Executive Director, was made Senior Independent Director in December 2019.

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 Executive Directors and the 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 Executive Directors to work toward achievement of the corporate strategy.

In October 2019 we issued a total of 2,635,000 new options to Dr. David Horn Solomon, Iain Ross and Dr. Rob Quinn, under the Silence Therapeutics plc 2018 Long Term Incentive Plan. Options vest quarterly and all issuances will have tranches that will vest subject to different milestones being met. 1,672,750 options were granted with a strike price of £1.90 and 962,250 options were granted with a strike price of 60p. 1,951,338 options awarded to Dr. David Horn Solomon have now been forfeited and will be returned to the options pool.

Settlement agreement payments determined in respect of David Ellam and Dr. David Horn Solomon totalled £136k and £290k respectively (with the latter to be paid in 2020 following Dr. David Horn Solomon's resignation in December 2019). Further detail is disclosed later in this remuneration report.

While in accordance with the QCA Code (the code), Non-Executive Directors do not normally participate in the performance-related remuneration or have a significant participation in a Company share option scheme, an exception has been made in light of the substantial contribution of the Executive Chairman in performance of executive responsibilities. Also in accordance with the Code, the Remuneration Committee has aligned its policies with a long-term focus on Company strategy and risk management, having regard for the views of shareholders.

This remuneration report has the intention of ensuring that Silence is in line with Biotech industry normal practices and providing transparency around executive-level remuneration.

**James Ede-Golightly**
Chair of the Remuneration Committee
14 April 2020

## 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.<br>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.<br>Under the Silence Therapeutics plc 2018 employee 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 our Executive Director 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 Director, and uses this information to ensure consistency of approach throughout the Group. The target base salary increase for both the Executive Director and all employees was 3% for January 2020.

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.

# Remuneration Committee report continued

The following table and accompanying notes set out the main principles of reward for the Executive Directors of the Group as have been historically applied by the business and will again be applied following the appointment of a new CEO.

## Executive Director

| 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.<br><br>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.<br><br>Salaries are normally reviewed annually and changes are generally effective from 1 January.<br><br>The annual salary review of the Executive Director takes into consideration a number of factors, including:<br>• business performance;<br>• salary increases awarded to the overall employee population;<br>• skills and experience of the individual over time;<br>• scope of the individual's responsibilities;<br>• changes in the size and complexity of the Group;<br>• market competitiveness; and<br>• the underlying rate of inflation. | Annual CEO salary from 1 January 2020 will be determined on appointment of a new CEO.<br><br>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.<br><br>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 Director are provided on a market-competitive basis, to assist with their recruitment and retention. | The Company aims to offer benefits that are in line with market practice. | 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 the Executive Director, 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.<br><br>Different performance measures and weightings may be used each year, as agreed with the Committee, to take into account changes in the business strategy.<br><br>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.<br><br>Bonuses are normally paid in cash, typically in January or February.<br><br>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. | Annual cash bonuses are limited to a maximum of 50% of base salary for the 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.<br><br>Goals set are specific, measurable and are linked to the Group's longer-term strategy. |
| **Long Term Incentive Plan (LTIP)** | | | |
| 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. | Previously granted nominal cost options vest according to performance conditions measured over at least three years.<br><br>October 2019 options vest over three and a half years, with equal sub-tranches vesting every three months.<br><br>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. | Aggregate options outstanding will vest at up to a maximum of 250% of annual salary within a single a financial year (with an exceptional limit of 300% at the discretion of the Board). | For the October 2019 options, there are performance targets based on achieving a US listing and attaining a share price hurdle of 285p.<br><br>These conditions must be met within a period of 3 years from the award date.<br><br>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.<br><br>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.<br><br>Additionally, a number of additional options awarded in October 2019 under the Silence Therapeutics plc 2018 Employee Long Term Incentive Plan have performance conditions attached to them (US listing). These options also vest in sub-tranches over time. |

# Remuneration Committee report continued

## Chair and Non-Executive Directors

| Purpose and link to strategy | Operation | Maximum opportunity | Performance metrics |
|---|---|---|---|
| **Fees** | | | |
| 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.<br><br>Furthermore, in addition to fees for his Non-Executive Chair role, Iain Ross was paid an additional £9k (including VAT) through a consultancy company for services provided in December 2019 as Executive Chairman. The Executive Chairman will continue to be paid until 1 month after new CEO appointment at which point he will return to his position as Non-Executive Chairman.<br><br>Fees are paid monthly and reviewed annually.<br><br>With the exception of Iain Ross (details of which are presented in the Executive Directors' Share Options table on page 41), 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.<br><br>The Non-Executive Directors may be 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.

All Executive Directors who left the Group during 2019 were considered 'good leavers'.

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

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

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

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

In April 2019, Dr. Rob Quinn was appointed as CFO. This was a non-Board role in 2019.

## Remuneration Committee (the Committee)

### Governance

The Committee takes account of information from both internal and independent sources and Radford surveys.

The Group's Head of HR 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 thirteen times in 2019.

### 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 Director 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 Director and Senior Executives, including recruitment and retention terms;
- approving the design and performance targets of any annual incentive schemes that include the Executive Director 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 advisers to the Committee to provide independent remuneration advice where necessary.

### Annual performance bonus – 2019

In 2019, 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 8% to 40% of salary, depending on grade. Bonus payments are not pensionable.

For 2019, 50% of the annual bonus was by reference to corporate goals, and 50% to individual goals. In the future, the Committee expects the percentage attributable to individual goals to increase for employees (excluding the Executive Directors).

The 2019 corporate goals were weighted as follows:

| | Target | 2019 achievement |
|---|---|---|
| Pipeline | 35% | **25%** |
| Finance | 40% | **35%** |
| Business development/ Corporate development | 10% | **20%*** |
| Culture & people | 5% | **5%** |
| Investor relations/ Communications | 10% | **10%** |
| **Total** | 100% | **95%** |

* In view of the completion of the Mallinckrodt deal, it was concluded that the target had been exceeded.

Achievement against objectives is given careful consideration by the Committee prior to finalisation. No bonus award was granted to either the Executive Chairman nor the Non-Executive Directors of the Board in respect of 2019.

For 2020, the Executive Directors' annual cash bonus will comprise 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 an Executive Director. The Company's 2020 corporate objectives are weighted as follows:

# Remuneration Committee report continued

| | Target |
|---|---|
| Pipeline | 35% |
| Finance | 25% |
| Business development | 25% |
| Build a professional, compliant, scalable and high performing organisation | 7.5% |
| Investor relations/Communications | 7.5% |
| **Total** | 100% |

The bonus scheme is also offered to all staff below Board level and maximum bonus opportunities will range from 8% to 40% of salary, depending on grade. Bonus payments are not pensionable.

**Annual remuneration report**
Please see below for Directors' remuneration for the year.

**Directors' remuneration**

| Year ended 31 December 2019 | Base salary £000s | Taxable benefits £000s[8] | Bonus £000s | Pension £000s | Total £000s |
|---|---|---|---|---|---|
| **Executive Directors** | | | | | |
| Iain Ross[1] | **91** | **1** | **–** | **–** | **92** |
| Dr. David Horn Solomon[2] | **316** | **283** | **–** | **24** | **623** |
| David Ellam[3] | **5** | **2** | **–** | **–** | **7** |
| **Non-Executive Directors** | | | | | |
| Alistair Gray | **40** | **13** | **–** | **–** | **53** |
| Dave Lemus | **40** | **2** | **–** | **–** | **42** |
| James Ede-Golightly[4] | **27** | **–** | **–** | **–** | **27** |
| Dr. Steven Romano[5] | **17** | **–** | **–** | **–** | **17** |
| Dr. Stephen Parker[6] | **13** | **1** | **–** | **–** | **14** |
| Dr. Andy Richards CBE[7] | **12** | **–** | **–** | **–** | **12** |
| Total | **561** | **302** | **–** | **24** | **887** |

1 Appointed as a Director (Non-Executive Chairman) on 25 April 2019. Subsequently appointed as Executive Chairman on 17 December 2019. Base salary includes additional remuneration of £9k (exclusive of VAT) relating to duties undertaken in December 2019 as Executive Chairman. This amount was billed by Iain Ross' consultancy company (Gladstone Consulting Partnership) in January 2020. Iain Ross will continue to be paid £15k (exclusive of VAT) on a monthly basis until one month following the appointment of a new CEO.
2. Ceased to be a director on 17 December 2019. Base salary includes £16k in lieu of holiday not taken. Base salary does not include settlement agreement payments of £355k comprising £290k pay in lieu of notice and £65k for committed accommodation benefits both of which are accrued at 31 December 2019.
3 Ceased to be a Director on 9 January 2019. Base salary does not include settlement agreement payments totalling £136k paid in 2019.
4 Appointed as a Director on 25 April 2019.
5 Appointed as a Director on 29 July 2019.
6 Ceased to be a Director on 25 April 2019. Base salary does not include settlement agreement payments totalling £10k paid in 2019.
7 Ceased to be a Director on 16 April 2019.
8 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. For Dr David Horn Solomon, taxable benefits in 2019 (inclusive of accommodation allowance) totalled £283k of which £141k relates to the gross-up for associated income tax and National Insurance Contributions which will be settled on the individual's behalf.

| 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. 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.

Information in respect of share awards and Directors' shareholdings during the year is set out below.

**Executive Directors share awards**

| | At 1 January 2019 | Exercised | Awarded | Forfeited | At 31 December 2019 | Exercise price (pence) | Gain on exercises during the year (£000s) | Earliest date of exercise | Last date of exercise |
|---|---|---|---|---|---|---|---|---|---|
| **Iain Ross** | | | | | | | | | |
| LTIP[1] | – | – | 250,000 | – | 250,000 | 60.0 | – | 06.01.20 | 06.10.29 |
| LTIP[2] | – | – | 250,000 | – | 250,000 | 190.0 | – | 06.01.20 | 06.10.29 |
| **Dr. David Horn Solomon** | | | | | | | | | |
| LTIP[3] | 401,338 | – | – | (401,338) | – | 5.0 | – | 16.07.21 | 16.07.28 |
| LTIP[4] | – | – | 517,500 | (517,500) | – | 60.0 | – | 06.01.20 | 06.10.29 |
| LTIP[5] | – | – | 1,032,500 | (1,032,500) | – | 190.0 | – | 06.01.20 | 06.10.29 |
| **David Ellam** | | | | | | | | | |
| Individual contract | 200,000 | (200,000) | – | – | – | 110.6 | 172 | 08.01.19 | 18.07.26 |
| Individual contract | 312,375 | (312,375) | – | – | – | 5.0 | 347 | 08.01.19 | 03.04.27 |
| LTIP[6] | 81,300 | – | – | (81,300) | – | 5.0 | – | 01.02.21 | 01.02.28 |

1 250,000 share options granted to Iain Ross under the Silence Therapeutics plc 2018 Non-Employee Long Term Incentive Plan in two tranches. Tranche A comprises 125,000 share options. These options vest in 13 sub-tranches of 9,615 options (9,620 in final sub-tranche) on a quarterly basis over 3.25 years commencing three months after the award date of 6th October 2019. Tranche A is subject to a single performance condition such that these options may only be exercised in the event that shares in the Company or securities representing shares in the Company are admitted to listing or trading on a stock exchange based in the United States of America. Tranche B comprises 125,000 share options. These options vest in 13 sub-tranches of 9,615 options (9,620 in final sub-tranche) on a quarterly basis over 3.25 years commencing three months after the award date of 6th October 2019. Tranche B is subject to two performance conditions such that they may only be exercised in the event that i) shares in the Company or securities representing shares in the Company are admitted to listing or trading on a stock exchange based in the United States of America; and ii) a hurdle price of 285p is to be achieved and maintained for at least 30 continuous days from award date.
2 250,000 share options granted to Iain Ross under the Silence Therapeutics plc 2018 Non-Employee Long Term Incentive Plan in two tranches. Tranche A comprises 125,000 share options. These options vest in 13 sub-tranches of 9,615 options (9,620 in final sub-tranche) on a quarterly basis over 3.25 years commencing three months after the award date of 6th October 2019. These options are not subject to any performance conditions. Tranche B comprises 125,000 share options. These options vest in sub-tranches of 9,615 options (9,620 in final sub-tranche) on a quarterly basis over 3.25 years commencing three months after the award date of 6th October 2019. Tranche B is subject to two performance conditions such that they may only be exercised in the event that i) shares in the Company or securities representing shares in the Company are admitted to listing or trading on a stock exchange based in the United States of America; and ii) a hurdle price of 285p is to be achieved and maintained for at least 30 continuous days from award date.
3 Options awarded 17 July 2018. These options were forfeited following Dr. David Horn Solomon's resignation as a Director in December 2019.
4 517,500 share options granted to Dr. David Horn Solomon under the Silence Therapeutics plc 2018 Employee Long Term Incentive Plan on 6 October 2019. These options were forfeited following Dr. David Horn Solomon's resignation as a Director in December 2019.
5 1,032,500 share options granted to Dr. David Horn Solomon under the Silence Therapeutics plc 2018 Employee Long Term Incentive Plan on 6 October 2019. These options were forfeited following Dr. David Horn Solomon's resignation as a Director in December 2019.
6 Option awarded 2 February 2018 were forfeited following David Ellam's resignation as a Director in January 2019.

# Remuneration Committee report continued

**Non-Executive Directors**

| Director | At 1 January 2019 | Exercised | Awarded | Forfeited | At 31 December 2019 | Exercise price (pence) | Gain on exercises during the year (£) | Date of vesting |
|---|---|---|---|---|---|---|---|---|
| **Dr. Andy Richards CBE** | | | | | | | | |
| Non-employee LTIP[1] | 1,626 | (1,626) | – | – | – | 5.0 | 1,215 | 01.02.19 |
| **Alistair Gray** | | | | | | | | |
| Non-employee LTIP[1] | 1,626 | (1,626) | – | – | – | 5.0 | 2,602 | 01.02.19 |
| **Dave Lemus** | | | | | | | | |
| Non-employee LTIP[1] | 1,626 | (1,626) | – | – | – | 5.0 | 2,813 | 21.06.19 |
| **Dr. Stephen Parker** | | | | | | | | |
| Non-employee LTIP[1] | 1,626 | (1,626) | – | – | – | 5.0 | 1,057 | 01.02.19 |

1 RSUs with a nominal cost exercise price and vesting over one year. These share awards were conditional on having a contract for services at the date of vesting. They had no price hurdles and following vesting shares were automatically transferred to the Director.

**Directors' interests in shares at 31 December 2019**

| Director | Number of ordinary shares | Percentage of issued share capital |
|---|---|---|
| Iain Ross | 25,000 | 0.03% |
| Alistair Gray | 8,645 | 0.01% |
| Dave Lemus | 5,626 | 0.01% |
| James Ede-Golightly | – | – |
| Dr. Steven Romano | 10,000 | 0.01% |

The average share price for the year was 165.85p (2018: 145.57p).

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

**James Ede-Golightly**
Chair of the Remuneration Committee
14 April 2020

# Directors' report

The Directors present their report and the audited financial statements of the Group for the year ended 31 December 2019.

## 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 (2018: nil).

## Research and development

In 2019, the Group spent £13.3 million on research and development (2018: £9.7 million). See the Financial review on pages 18 and 19 for more information.

## Subsequent events

On 7 January 2020, Silence Therapeutics Plc announced a Technology Evaluation Agreement with Takeda to explore the potential of utilising Silence's platform to generate siRNA molecules against a novel, undisclosed target discovered by Takeda.

During January 2020, Silence Therapeutics Plc established a US subsidiary, Silence Therapeutics Inc, to support the Group's increased focus on the US.

On 25 March 2020, Silence Therapeutics Plc announced a collaboration with AstraZeneca to Discover and Develop siRNA Therapeutics for Cardiovascular, Renal, Metabolic and Respiratory Diseases. AstraZeneca made an equity investment of $20 million in Silence with a further upfront amount of $60 million payable under the agreement, of which $20 million was invoiced in March 2020 with the remaining unconditional amount of $40 million expected in the first half of 2021.

During March 2020, the 2019-20 coronavirus (COVID-19) pandemic became increasingly prevalent in Europe and the US where the Group's principal operations are conducted. Significant restrictions have now been imposed by the governments of those countries where the Group has operations, as well as the countries of external parties with which we conduct our business. In compliance with these restrictions, the Group and its employees have adapted to new working arrangements to ensure business continuity as far as is reasonably practicable in the short to medium term. This has so far proven to be effective, with Management maintaining a strong line of communication with all employees during this period.

The main risk posed to the Group by the pandemic is the potential slowing of Research & Development activities including possible knock-on delays in clinical trial data and sustained fixed costs during periods of relative inactivity. Whilst this would result in a lengthening of the Group's cash runway in the medium term, in the longer term these factors could limit the Group's ability to meet its corporate objectives. This risk is mitigated by the receipt, in March 2020, of investment and unconditional upfront payments in respect of the AstraZeneca collaboration, significantly increasing the Group's baseline cash runway.

## Financial risk management

A description of financial risk management is set out in note 28 to the financial statements.

## Results and dividends

The Group recorded a loss for the year before taxation of £22.9 million (2018: £20.5 million). The loss after tax for the year was £19.6 million (2018: £18.4 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 2019 and up to the signing of the annual report.

# Directors' report continued

## Directors

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

| Director | Job title |
|---|---|
| Iain Ross (appointed: 17 December 2019) (formerly Non-Executive Chairman (appointed: 25 April 2019)) | Executive Chairman |
| Dr. David Horn Solomon (resigned as a Director: 17 December 2019) | Chief Executive Officer |
| David Ellam (resigned as a Director: 9 January 2019) | Chief Financial Officer |
| Dr. Andy Richards CBE (resigned as a Director: 16 April 2019) | Interim Non-Executive Chair |
| Alistair Gray | Non-Executive |
| Dave Lemus | Non-Executive |
| James Ede-Golightly (appointed: 25 April 2019) | Non-Executive |
| Dr. Steven Romano (appointed: 29 July 2019) | Non-Executive |
| Dr. Stephen Parker (resigned as a Director: 25 April 2019) | Non-Executive |

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

## Substantial interests

At 31 December 2019 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 | 18,637,085 | 23.8% |
| Robert Keith | 12,307,924 | 15.7% |
| Lombard Odier Asset Management | 9,466,673 | 12.1% |
| Robert Quested | 8,874,417 | 11.3% |
| Société Générale | 7,782,237 | 9.9% |
| Mallinckrodt | 5,062,167 | 6.5% |

## Going concern

Based on the Directors' current forecasts and plans and, considering the cash, cash equivalents and term deposit at 31 December 2019 together with the cash receipt of $20 million in March 2020 following the AstraZeneca agreement (and a further $60 million still to be received), the Group and Company have sufficient funding for the foreseeable future and at least one year from the date of approval of the financial statements. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

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

**Iain Ross**
Executive Chairman
14 April 2020

# 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 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 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 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 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

**Iain Ross**
Executive Chairman
14 April 2020

# 3
# Financial statements

# Independent auditors' report to the members of Silence Therapeutics plc

## Report on the audit of the financial statements

### Opinion

In our opinion, Silence Therapeutics plc's group financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2019 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 2019 (the "Annual Report"), which comprise: the consolidated and company balance sheets as at 31 December 2019; 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.

### Our audit approach

**Overview**


- Overall group materiality: £1,145,000 (2018: £1,025,000), based on 5% of loss before tax.
- Overall company materiality: £1,085,000 (2018: £923,000), 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's loss before tax and 100% of the Group's net assets.

- Accounting for the collaboration agreement with Mallinckrodt – Group and Company
- Accounting for research and development expenditure – Group and Company
- Risk posed by COVID-19 – Group and Company

**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.

# Independent auditors' report continued

**Key audit matters**

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

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| *Accounting for the collaboration agreement with Mallinckrodt – Group and Company*<br><br>The Group entered into a collaboration agreement with Mallinckrodt in July 2019. Under the agreement Mallinckrodt obtained an exclusive worldwide licence for SLN500, with options to license up to two additional complement-target assets.<br><br>The agreement included an upfront receipt of $20 million plus receipts due: on subsequent milestones being achieved, in relation to the re-imbursement of FTE costs and for the recharge of direct costs associated with certain research activities.<br><br>At the same time Mallinckrodt entered into an investment agreement with the Group, subscribing for new ordinary shares in the Company for total consideration of $5 million.<br><br>The main areas of judgement were the assessment of the performance obligations included in the contract and the allocation of the upfront consideration between the performance obligations (including assessing whether any of the amounts received for the issue of ordinary shares related to the performance obligations). In addition, there is an estimate of the total expected costs required to complete the contract and therefore the amount of revenue recognised in the year given that revenue has been assessed as being recognised over time on the input method. | We obtained and reviewed the collaboration and investment agreements and the associated accounting paper prepared by management. We agreed the upfront and subsequent receipts for milestones to bank statements.<br><br>We assessed management's paper setting out the accounting for the collaboration agreement under IFRS 15 specifically, we:<br>• assessed the judgement that the licence for SLN500 and the options to license two additional assets and the performance of related research and development activities are not distinct performance obligations and therefore that there are three performance obligations in total (one for each asset);<br>• assessed the allocation of the upfront receipt between the three performance obligations, by holding discussions with management to understand how the contract was negotiated, considered similar multi-asset licensing deals in the industry and agreed the amounts paid to supporting documentation; and<br>• assessed whether the amounts received for the ordinary shares represented their fair value by considering the market price at the time, along with other rights they provided to Mallinckrodt as part of the investment.<br><br>We obtained management's calculations of how the revenue relating to the collaboration agreement had been recognised for the year to 31 December 2019, verifying the mathematical accuracy of the calculation used.<br><br>In addition we:<br>• agreed the costs incurred since July 2019 for SLN500 to the overall listing of research and development spend in the year; and<br>• held discussions with research and development project manager to understand the basis for determining the future anticipated costs on SLN500 project.<br><br>We found no material exceptions during our testing. |

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| *Accounting for research and development expenditure – Group and Company*<br><br>The Group's research and development spend in the year amounted to £13,336,000. A significant portion of the expense arises through the Company outsourcing research to third party research organisations. At the year-end management are required to calculate the costs recognised based on the progress of the research organisations contract versus the amounts billed to date.<br><br>Due to the nature of the research it is often difficult to estimate the length of time a particular project is going to take. Outsourcing to research organisations restricts visibility and the ability to monitor the progression of a piece of research, or a project's stage of completion.<br><br>As a result, it can be difficult for the Company to measure what costs have been incurred in relation to a project at a particular point in time and as such, based on billings received, whether project accruals and prepayments recorded are reasonably estimated. Our audit risk is focussed on whether the relevant expenditure has been appropriately included in the income statement and whether prepayments and accruals are appropriately calculated and recognised. | For a sample of project costs we obtained management's calculations of how the costs had been recognised as at 31 December 2019 verifying the mathematical calculation used.<br><br>For the selected sample of project costs we obtained the underlying contracts and understood the basis on which management had recognised costs, assessing assumptions used. We obtained management's calculation of the accrual and prepayment position and verified the mathematical calculation.<br><br>We sampled invoices detailed in management's calculation and tested back to the invoice and verified that the cost description in the invoice matched costs included in management's schedule.<br><br>We verified the status of sampled projects through discussions with the relevant research and development project manager.<br><br>For a sample of projects we contacted the relevant research organisations to confirm the status of the project to determine the stage of completion and verify that the charge recognised in the income statement and the prepayment or accrual amounts calculated are appropriate.<br><br>We verified completeness of management's calculation of the accruals and prepayments position by:<br>• obtaining research organisations contracts entered into post year end to verify that no work had commenced pre year end;<br>• verifying that for sample of research organisations contracts assessed by management as completed during the year, and hence no accrual or prepayment was recorded, that there was evidence of a final report having been issued;<br>• testing a sample of invoices received pre year end to ensure that these had been included in management's calculations;<br>• reading board minutes to assess whether there is any evidence to suggest additional research organisations contracts had been entered into which were not included in management's calculation.<br><br>In addition, we performed look-back procedures to assess the outcome of prior year accruals.<br><br>We found no material exceptions during our testing. |
| *Risks posed by COVID-19 – Group and Company*<br><br>The Directors have considered the risks posed by COVID-19, as set out in the Directors' report. Given the nature of the Group's operations, the risks are assessed as being in relation to the potential slowing of Research & Development activities including possible knock-on delays in clinical trial data and sustained fixed costs during periods of relative inactivity | We read relevant disclosures in the annual report and checked consistency our knowledge of the business based on our audit. No exceptions were noted from our testing. |

**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's loss before tax and 100% of Group's net assets.

# Independent auditors' report continued

**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 | £1,145,000 (2018: £1,025,000). | £1,085,000 (2018: £923,000). |
| How we determined it | 5% of loss before tax. | 5% of loss before tax. |
| Rationale for benchmark applied | Although the Group is currently loss making its goal is to be a profit making business and therefore we applied a profit related benchmark. | Although the 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 £725,000 and £1,085,000. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We agreed with the Audit and Risk Committee that we would report to them misstatements identified during our audit above £57,000 (Group audit) (2018: £51,250) and £54,000 (Company audit) (2018: £46,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

## Conclusions relating to going concern

ISAs (UK) require us to report to you when:

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

We have nothing to report in respect of the above matters.

## 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 2019 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, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

## Other required reporting

### Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

**Sam Taylor (Senior Statutory Auditor)**
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Cambridge
14 April 2020

# Consolidated income statement

## year ended 31 December 2019

| | Note | 2019 £000s | 2018 £000s |
|---|---|---|---|
| **Revenue** | 3 | **244** | – |
| Research and development costs | | **(13,336)** | (9,743) |
| Administrative expenses | | **(9,642)** | (10,828) |
| Operating loss | 5 | **(22,734)** | (20,571) |
| Finance and other expenses | 7 | **(163)** | – |
| Finance and other income | 8 | **27** | 45 |
| **Loss for the year before taxation** | | **(22,870)** | (20,526) |
| Taxation | 9 | **3,288** | 2,115 |
| **Loss for the year after taxation** | | **(19,582)** | (18,411) |
| **Loss per ordinary equity share (basic and diluted)** | 10 | **(26.1p)** | (26.2p) |

# Consolidated statement of comprehensive income

## year ended 31 December 2019

| | Note | 2019 £000s | 2018 £000s |
|---|---|---|---|
| Loss for the year after taxation | | **(19,582)** | (18,411) |
| **Other comprehensive (expense)/income, net of tax:** | | | |
| **Items that may subsequently be reclassified to profit and loss:** | | | |
| Foreign exchange differences arising on consolidation of foreign operations | | **(411)** | 94 |
| Total other comprehensive (expense)/income for the year | | **(411)** | 94 |
| **Total comprehensive expense for the year** | | **(19,993)** | (18,317) |

# Consolidated balance sheet

## at 31 December 2019

| | Note | 2019 £000s | 2018 £000s |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 11 | **611** | 921 |
| Goodwill | 12 | **7,692** | 8,127 |
| Other intangible assets | 13 | **34** | 64 |
| Financial assets at amortised cost | 16 | **275** | 275 |
| | | **8,612** | 9,387 |
| **Current assets** | | | |
| Cash and cash equivalents | 15 | **13,515** | 21,494 |
| Financial assets at amortised cost – term deposit | 16 | **20,000** | 5,000 |
| Financial asset at amortised cost – other | 16 | **1** | 43 |
| R&D tax credit receivable | | **3,060** | 2,080 |
| Other current assets | 17 | **885** | 881 |
| Trade and other receivables | 18 | **4** | – |
| | | **37,465** | 29,498 |
| **Non-current liabilities** | | | |
| Contract liabilities | 21 | **(15,515)** | – |
| | | **(15,515)** | – |
| **Current liabilities** | | | |
| Contract liabilities | 21 | **(2,478)** | – |
| Trade and other payables | 19 | **(6,888)** | (3,830) |
| Lease liability | 20 | **(287)** | – |
| | | **(9,653)** | (3,830) |
| **Total assets less liabilities** | | **20,909** | 35,055 |
| **Net assets** | | **20,909** | 35,055 |
| **Capital and reserves attributable to the owners of the parent** | | | |
| Share capital | 23 | **3,919** | 3,554 |
| Capital reserves | 25 | **167,243** | 163,121 |
| Translation reserve | | **1,746** | 2,157 |
| Accumulated losses | | **(151,999)** | (133,777) |
| **Total equity** | | **20,909** | 35,055 |

The financial statements on pages 52 to 86 were approved by the Board on 14 April 2020 and signed on its behalf.

**Iain Ross**
Executive Chairman

Company number: 02992058

# Consolidated statement of changes in equity

## year ended 31 December 2019

| | Share capital £000s | Capital reserves £000s | Translation reserve £000s | Accumulated losses £000s | Total equity £000s |
|---|---|---|---|---|---|
| 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 as previously stated** | 3,554 | 163,121 | 2,157 | (133,777) | 35,055 |
| Adoption of IFRS 16 | – | – | – | (10) | (10) |
| **At 1 January 2019 adjusted** | 3,554 | 163,121 | 2,157 | (133,787) | 35,045 |
| Recognition of share-based payments | – | 584 | – | – | 584 |
| Lapse of vested options in the year | – | – | – | – | – |
| Options exercised in the year | – | (1,370) | – | 1,370 | – |
| Proceeds from shares issued | 365 | 4,908 | – | – | 5,273 |
| **Transactions with owners recognised directly in equity** | 365 | 4,122 | – | 1,370 | 5,857 |
| Loss for year | – | – | – | (19,582) | (19,582) |
| **Other comprehensive (expense)/income** | | | | | |
| Foreign exchange differences arising on consolidation of foreign operations | – | – | (411) | – | (411) |
| **Total comprehensive expense for the year** | – | – | (411) | (19,582) | (19,993) |
| **At 31 December 2019** | **3,919** | **167,243** | **1,746** | **(151,999)** | **20,909** |

# Company balance sheet

## at 31 December 2019

| | Note | 2019 £000s | 2018 £000s |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 11 | **248** | 320 |
| Other intangible assets | | **34** | 56 |
| Investment in subsidiaries | 14 | **21,596** | 21,970 |
| Financial assets at amortised cost | 16 | **275** | 275 |
| | | **22,153** | 22,621 |
| **Current assets** | | | |
| Cash and cash equivalents | 15 | **12,980** | 21,112 |
| Financial assets at amortised cost – term deposit | 16 | **20,000** | 5,000 |
| Financial asset at amortised cost – other | 16 | **1** | 43 |
| R&D tax credit receivable | | **3,060** | 2,080 |
| Other current assets | 17 | **791** | 720 |
| Trade and other receivables | 18 | **4** | – |
| | | **36,836** | 28,955 |
| **Non-current liabilities** | | | |
| Contract liabilities | 21 | **(15,515)** | – |
| | | **(15,515)** | – |
| **Current liabilities** | | | |
| Contract liabilities | 21 | **(2,478)** | – |
| Trade and other payables | 19 | **(8,348)** | (4,970) |
| Lease liability | 20 | **(287)** | – |
| | | **(11,113)** | (4,970) |
| **Total assets less liabilities** | | **32,361** | 46,606 |
| **Net assets** | | **32,361** | 46,606 |
| **Capital and reserves attributable to the Company's equity holders** | | | |
| Share capital | 23 | **3,919** | 3,554 |
| Capital reserves | 25 | **167,059** | 162,937 |
| Accumulated losses | | **(138,617)** | (119,885) |
| **Total equity** | | **32,361** | 46,606 |

The Company made a loss of £20,092k in the year ended 31 December 2019 (2018: £18,166k).

The financial statements on pages 52 to 86 were approved by the Board on 14 April 2020 and signed on its behalf.

**Iain Ross**
Executive Chairman

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 2019

| | Share capital £000s | Capital reserves £000s | Accumulated losses £000s | Total equity £000s |
|---|---|---|---|---|
| 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 as previously stated** | 3,554 | 162,937 | (119,885) | 46,606 |
| Adoption of IFRS 16 | – | – | (10) | (10) |
| **At 1 January 2019 adjusted** | 3,554 | 162,937 | (119,895) | 46,596 |
| Recognition of share-based payments | – | 584 | – | 584 |
| Lapse of vested options in the year | – | – | – | – |
| Options exercised in the year | – | (1,370) | 1,370 | – |
| Proceeds from shares issued | 365 | 4,908 | – | 5,273 |
| **Transactions with owners recognised directly in equity** | 365 | 4,122 | 1,370 | 5,857 |
| Loss for the year | – | – | (20,092) | (20,092) |
| **At 31 December 2019** | **3,919** | **167,059** | **(138,617)** | **32,361** |

# Cash flow statements

## year ended 31 December 2019

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2019 £000s** | 2018 £000s | **2019 £000s** | 2018 £000s |
| **Cash flow from operating activities** | | | | |
| **Loss before tax** | **(22,870)** | (20,526) | **(23,380)** | (20,308) |
| Depreciation charges | **452** | 379 | **238** | 130 |
| Amortisation charges | **30** | 20 | **21** | 6 |
| Charge for the year in respect of share-based payments | **584** | 681 | **584** | 681 |
| Finance and other expense/(income) | **136** | (45) | **435** | (508) |
| Loss on disposal of property, plant and equipment | **2** | 6 | **1** | 2 |
| Increase/(decrease) in trade and other receivables | **(4)** | 691 | **(4)** | 576 |
| Increase in other current assets | **(4)** | (881) | **(71)** | (720) |
| Decrease/(increase) in current financial assets at amortised cost – other | **42** | (43) | **42** | (43) |
| Increase in trade and other payables | **3,058** | 1,146 | **3,378** | 2,405 |
| Increase in contract liabilities | **17,993** | – | **17,993** | – |
| Cash spent on operations | **(581)** | (18,572) | **(763)** | (17,779) |
| Corporation tax credits received | **2,308** | 1,812 | **2,308** | 1,812 |
| **Net cash inflow/(outflow) from operating activities** | **1,727** | (16,760) | **1,545** | (15,967) |
| **Cash flow from investing activities** | | | | |
| Disposal of financial assets available for sale | **–** | 319 | **–** | 319 |
| Purchase of financial asset at amortised cost – term deposit | **(15,000)** | (5,000) | **(15,000)** | (5,000) |
| Repayment of leasing liabilities | **–** | – | **–** | – |
| Interest (paid)/received | **(6)** | 39 | **(5)** | 39 |
| Purchase of property, plant and equipment | **(9)** | (130) | **(8)** | (78) |
| Purchase of intangible assets | **–** | (58) | **–** | (58) |
| **Net cash outflow from investing activities** | **(15,015)** | (4,830) | **(15,013)** | (4,778) |
| **Cash flow from financing activities** | | | | |
| Proceeds from issue of share capital | **5,273** | 341 | **5,273** | 341 |
| **Net cash inflow from financing activities** | **5,273** | 341 | **5,273** | 341 |
| **Decrease in cash and cash equivalents** | **(8,015)** | (21,249) | **(8,195)** | (20,404) |
| Cash and cash equivalents at start of year | **21,494** | 42,745 | **21,112** | 41,525 |
| Net decrease in the year | **(8,015)** | (21,249) | **(8,195)** | (20,404) |
| Effect of exchange rate fluctuations on cash and cash equivalents held | **36** | (2) | **63** | (9) |
| **Cash and cash equivalents at end of year** | **13,515** | 21,494 | **12,980** | 21,112 |

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

# Notes to the financial statements

## year ended 31 December 2019

### 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 the United Kingdom, 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:

| | **2019 £000s** | 2018 £000s |
|---|---|---|
| | **20,092** | 18,166 |

### 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.

- 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 have been considered for each revenue-generating contract from 1 January 2018, however, in the year ended 31 December 2018, no revenue was generated and the implementation of IFRS 15 therefore had no impact. As such, the year ended 31 December 2019 is the first year that IFRS 15 does have an impact on the financial statements. The most relevant impacts of the application of this standard during the year ended 31 December 2019 were:

  - The Group began to recognise royalty income from Alnylam Pharmaceuticals Inc ("Alnylam") on the net sales of ONPATTRO™ in the European Union under the settlement and licence agreement between the two parties. Invoicing for these royalties takes place quarterly in arrears based on sales data for that quarter as reported by Alnylam. Alnylam is obliged to provide this sales data no later than 75 days after the end of the period in question. Revenue totalling £73k has been recognised.
  - In July 2019 the Group entered into a Research collaboration with Mallinckrodt Pharmaceuticals (Mallinckrodt) to develop and commercialise RNAi therapeutics for complement-mediated diseases. Under the contract, Mallinckrodt obtained an exclusive worldwide licence for SLN500, with options to license up to two additional complement-targeted assets in Silence's preclinical complement-directed RNAi development programme. Mallinckrodt made an upfront payment of $20 million to the Group as part of the agreement, with further amounts payable on subsequent completion of contractual milestones. The Group is responsible for preclinical activities, and for executing the development programme of each asset until the end of Phase I, after which Mallinckrodt will assume clinical development and responsibility for global commercialisation. Certain costs are recharged by the Group to Mallinckrodt. For the year end 31 December 2019, total revenue corresponding to this contract was £171k.
  - These changes in business activity significantly impact the primary financial statements with both royalty income and income from contracts with customers being recognised on the face of the Income Statement for the first time. Further detail regarding accounting treatment is disclosed in section 2.5 and further detail regarding amounts recognised is disclosed in note 3.

## 2. Principal accounting policies continued

### 2.1 Basis of preparation continued

- IFRS 16 Leases was issued in January 2016 and was implemented by the Group and Company from 1 January 2019. The Standard replaces IAS 17 and requires lease liabilities and right-of-use assets to be recognised on the balance sheet for applicable leases. The adoption methodology of IFRS 16 is the simplified approach with the cumulative effect of adopting IFRS 16 being recognised in equity as an adjustment to the opening balance of retained earnings for the current period. Prior periods have not been restated.

  On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets, the Group has applied the optional exemptions to not recognise right-of-use assets but to account for the lease expense on a straight line basis over the remaining lease term.

  On transition to IFRS 16, the weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 was 18.5%.

  The most relevant impacts of the application of this standard for the year ended 31 December 2019 were as follows:

  - Only a single lease has been considered to fall within the scope of IFRS 16 (when taking into consideration the practical expedients referred to above), this being the lease for the Group's London offices.
  - The Group has elected not to present the right-of-use asset separately on the face of the balance sheet. However, the right-of-use asset must be presented in the same line item that would be used if the underlying asset were owned. As the right-of-use asset relates to property, the applicable line item is property, plant and equipment. The total amount recognised following the simplified approach is £160k. Depreciation on this right-of-use asset is included in the operating loss figure in the income statement, consistent with the presentation of depreciation for other property, plant and equipment. For the year end 31 December, this is £96k (see note 11).
  - A lease liability is recognised on the face of the balance sheet. At 1 January 2019, a liability of £254k was recognised. As at 31 December 2019, this was £287k.
  - An interest expense in respect of the lease liability is recognised in the income statement within finance and other income. For the year ended 31 December 2019, the interest expense was £33k (see note 7).
  - This interest expense and repayment of the principal portion of the lease liability are both presented in the cash flow statement, classified as financing activities. The repayment of the principal portion of the lease liability for the year ended 31 December 2019 was £nil.
  - An adjustment for the adoption of IFRS 16 is recognised in the statement of changes in equity. This one-time adoption adjustment amounted to a £10k increase in accumulated losses.

**New Standards, amendments and interpretations not yet adopted**

At the date of these financial statements there were no standards and interpretations in issue but not yet implemented.

### 2.2 Basis of consolidation

The Group financial statements consolidate those of the Company and its controlled subsidiary undertakings drawn up to 31 December 2019. 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

Based on the Directors' current forecasts and plans and, considering the cash, cash equivalents and term deposit at 31 December 2019 together with the cash receipt of $20 million in March 2020 following the AstraZeneca agreement (and a further $60 million still to be received), the Group and Company have sufficient funding for the foreseeable future and at least one year from the date of approval of the financial statements. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the strategic report on pages 1 to 24.

# Notes to the financial statements continued

## 2. Principal accounting policies continued

### 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 revenue for the year ended 31 December 2019 consists of royalty income and revenue from collaboration agreements.

**Royalty income**

The Group's royalty income is generated by a settlement and licence agreement with Alnylam. Under this contract, Alnylam is obliged to pay royalties to the Group on the net sales of ONPATTRO™ in the European Union in a manner commensurate with the contractual terms. Invoices are raised in arrears on a quarterly basis based on sales information provided by Alnylam no later than 75 days after the quarter end.

The royalty exemption under IFRS 15 requires sales-based data. Royalty revenue is recognised only when final sales data is provided by Alnylam.

**Revenue from collaboration agreements**

Revenue from collaboration agreements for the year ended 31 December 2019 relates to the Research collaboration agreement the Group entered into with Mallinckrodt in July 2019. Under the contract, Mallinckrodt obtained an exclusive worldwide licence for SLN500, with options to license up to two additional complement-targeted assets in Silence's preclinical complement-directed RNAi development program, (three assets in total).

Despite the separation of the development and licence activities in the contract, it is considered that the licence of the IP and the R&D services are not distinct as Mallinckrodt cannot benefit from the IP until the R&D services are rendered, thus implying that the two are highly interrelated. On this basis, it has been concluded that there is only one single performance obligation covering both the R&D services and licence of the IP in respect of each asset (i.e. three in total for the contract – one for SLN500 and one each for the two optioned additional complement-targeted assets). Revenue is recognised over the duration of the contract based on an input method.

The contract has four elements of consideration, namely:

- Upfront payment of $20 million (fixed)
- Subsequent milestone payments (variable)
- FTE costs (variable);
- Recharges of direct costs for certain research activities (variable)

Mallinckrodt paid the Group $20 million upfront under the contract, considered to be the transaction price. This $20 million has been allocated evenly over SLN500 and the two optioned complement assets on the basis of a benchmarking exercise considering the value per asset of past deals announced to the market. This amount will be recognised in line with the time period over which services are envisaged to be provided.

Separately, Mallinckrodt subscribed for a total of 5,062,167 new ordinary shares in Silence at an issue price of 79p per share representing a 10% premium to Silence's 20-day, volume-weighted average price. This was subject to a separate equity subscription agreement and is not considered part of the transaction price.

The Group's effort under the contract continues throughout its entire duration. On this basis and given that there is only one single performance obligation, revenue for each element of consideration is recognised over the contract period based on cost (as the best available measure of the Group's effort across the contract). Other variable elements of consideration should only begin to be recognised when the respective constraints for each fall away.

Revenue has been calculated on the following ongoing basis for the year ended 31 December 2019:

- Actual costs for the year ended 31 December 2019 and forecast costs for the remainder of the contract determined by month
- Total contract costs across contract term are calculated
- Costs for each month are calculated as a percentage of total contract costs
- This percentage is then multiplied by the element of consideration in question, thus calculating the revenue in relation to that component to be recognised in that month (for variable consideration, a catch-up in revenue will be required at the point of invoicing to reflect efforts expended by the Group up to that point)

Forecast costs are monitored each month, with monthly revenue recognised reflecting any changes in forecast or over/under spend in actuals.

Further details of the revenue amounts recognised in the year ended 31 December 2019 can be found in note 3.

## 2. Principal accounting policies continued

### 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

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 2018 or 2019.

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 other than leased property assets classified as right-of-use assets. See note 2.15 for further details.

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 a useful economic life 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 sooner 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.

# Notes to the financial statements continued

## 2. Principal accounting policies continued

### 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, software 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 to do so;
- 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. Principal accounting policies continued

### 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, and financial assets at amortised cost. 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. Any 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.

**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 Leased assets

For any new contracts entered into on or after 1 January 2019, the Group considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition, the Group assesses whether the contract meets two key evaluations, which are whether:

- the contract contains an identifiable asset;
- the Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use

**Measurement and recognition**

At lease commencement date, the Group recognises a right-of-use asset (as part of the appropriate underlying class of assets in property, plant and equipment) and a lease liability on the balance sheet.

The right-of-use asset is measured at cost. The Group depreciates the right-of-use assets on a straight line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Group also assesses the right-of-use asset for impairment when such indicators exist.

At the commencement date, the Group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the Group's incremental borrowing rate. Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised. Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest.

# Notes to the financial statements continued

## 2. Principal accounting policies continued

The Group has elected to account for short-term leases (leases with a duration of <12 months) and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight line basis over the lease term.

**Lease break clauses and extension options**

When the Group has the option to extend a lease, management uses its judgement to determine whether or not an option would be reasonably certain to be exercised. Management considers all facts and circumstances including past practice and any cost that will be incurred to change the asset if an option to extend is not taken, to help determine the lease term.

Similarly, when a break clause exists in the lease agreement, management must consider the likelihood of this option to curtail the lease being exercised. In respect to the Group's leased Berlin facility, £150k of potential lease payments have been excluded from the lease liabilities as it was assessed at 1 January 2019 that the break clause pertaining to the lease could reasonably be exercised at any point (as remains the case) – thus allowing continued exemption using the practical expedients referred to above.

### 2.16 Share-based payments

Historically the Group and Company have issued equity settled share-based payments to certain employees (see note 24). 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.

## 2. Principal accounting policies continued

**2.18 Taxation** continued

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 judgements 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 judgements 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 application of IFRS 15 in determining revenue from contracts with customers specifically:
  - the determination of the number of performance obligations (judgement);
  - the allocation of the $20m upfront payment between the performance obligations (judgement);
  - the estimate of the future costs to be incurred;
- estimated future recoverability of goodwill; and
- estimated impairment of carrying value of the Company's investment in its subsidiaries.

Goodwill is carried in the financial statements at a value of £7.7m (2018: £8.1m). 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 considered to be the higher of fair value less cost of disposal and value in use. The key assumptions used in the valuation models to determine the value in use have been set out in note 12.

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 2019 is £21.6m (2018: £22.0m). The key assumptions concerning the carrying value of the investments in, and loans to, subsidiaries have been set out in note 14.

**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 Executive Chairman Iain Ross. The Group has a single reportable segment (see note 4).

# Notes to the financial statements continued

## 3. Revenue

Revenue in 2019 was £244k (2018: £nil). Revenue comprised £73k of royalty income (2018: £nil) and £171k of Research collaboration income (2018: £nil). Disaggregation of Revenue from Contracts with Customers is as follows:

| Revenue from Contracts with Customers | 2019 £000 | 2018 £000 |
|---|---|---|
| Research collaboration – Mallinckrodt | **171** | – |
| Royalties | **73** | – |
| Total revenue from contracts with customers | **244** | – |

The £171k of Research collaboration income comprised £130k being the unwind of the upfront payment received from Mallinckrodt in July 2019 of $20m, £39k being the unwind of revenue corresponding to the achievement of contractual milestones, and £2k being the unwind of amounts invoiced in respect of FTEs. See note 2 for further details regarding the methodology underlying the recognition of these revenue components.

## 4. Segment reporting

In 2019, the Group operated in the specific technology field of RNA therapeutics.

**Business segments**
The Group has identified the Executive Chairman as the CODM. For the 12 months ended 31 December 2018 and 2019, the CODM determined that 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 2019** | **557** | **8,055** |
| As at 31 December 2018 | 651 | 8,736 |

| Revenue analysis | UK £000s | Germany £000s |
|---|---|---|
| Research collaboration | **145** | 26 |
| Royalties | **–** | 73 |
| Total revenue from contract with customers | **145** | 99 |

The revenue in 2019 was £244k billed and received in US dollars. In 2018, it was £nil.

## 5. Operating loss

This is stated after charging:

| | 2019 £000s | 2018 £000s |
|---|---|---|
| Depreciation of property, plant and equipment | **452** | 379 |
| Amortisation of intangibles | **30** | 20 |
| Share-based payments charge | **584** | 681 |
| Loss on disposal of property, plant and equipment | **2** | 6 |
| Operating lease payments on premises | **374** | 416 |
| Fees payable to the Company's auditors for the audit of the Company and the consolidation: | | |
| • audit of these financial statements | **105** | 151 |
| • other assurance services | **554** | 175 |
| • tax compliance services | **–** | 93 |

## 6. Directors and staff costs

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

| | 2019 £000s | 2018 £000s |
|---|---|---|
| Wages and salaries | **5,060** | 4,246 |
| Social security costs | **1,391** | 237 |
| Charge in respect of share-based payments | **584** | 681 |
| Other pension costs | **163** | 131 |
| | **7,198** | 5,295 |

Remuneration detail for all Directors is presented in the Remuneration Committee report. See pages 40 and 41 for further details.

For the year ending 31 December 2019, wages and salaries for the Company were £3,040k (2018: £2,551k), social security costs were £1,111k (2018: £52k), the charge in respect of share-based payments was £584k (2018: £681k) and other pension costs were £163k (2018: £131k).

# Notes to the financial statements continued

## 6. Directors and staff costs continued

The monthly average number of employees, including Executive Directors, during the year was 46 (2018: 45). Of these, the monthly average number of employees working in research and development and administration was 30 (2018: 26) and 16 (2018: 19), respectively.

Apart from the Executive Directors, the monthly average number of employees of the Company was 16 (2018: 17).

The net expense recognised for Executive Directors' share-based payments is presented below. See page 41 for more details.

| | **Share options charge 2019 £000s** | Share options charge 2018 £000s |
|---|---|---|
| Ali Mortazavi | **–** | 217 |
| Iain Ross | **146** | – |
| David Ellam[1] | **68** | 127 |
| Dr. David Horn Solomon[2] | **(93)** | 93 |
| Total | **121** | 437 |

1 Share option charge of £96k net of £28k reversal of share option charges relating to outstanding options brought forward at 1 January 2019 forfeited during the year
2 Comprises entirely the reversal of share options charges relating to outstanding options brought forward at 1 January 2019 forfeited during the year

The expense recognised for Non-Executive Directors' RSUs is presented below. See page 41 for more details.

| | **RSU charge 2019 £000s** | RSU charge 2018 £000s |
|---|---|---|
| Dr. Stephen Parker | **–** | 3 |
| Alistair Gray | **–** | 3 |
| Dr. Andy Richards CBE | **–** | 3 |
| Dave Lemus | **–** | 1 |
| Total | **–** | 10 |

The Directors of the Group plus the CFO and Head of R&D are considered by the Board to be the key management of the Group, for which the remuneration in the year ended 31 December 2019 totalled £2,505k (2018: £1,796k), comprising: £1,311k for short-term employee benefits (2018: £1,132k); £501k for termination benefits (2018: £180k); £57k for employer pension contributions (2018: £37k); and £636k for share-based payments (including RSUs) (2018: £447k).

## 7. Finance and other expense

Finance and other expenses comprises:

| | 2019 £000s | 2018 £000s |
|---|---|---|
| Lease liability interest expense | **(33)** | – |
| Net foreign exchange losses | **(130)** | – |
| Finance and other expenses | **(163)** | – |

Net foreign exchange losses include exchange losses on foreign currency denominated bank accounts of £(93)k (2018: £4k gains).

## 8. Finance and other income

Finance and other income comprises:

| | 2019 £000s | 2018 £000s |
|---|---|---|
| Bank interest receivable | **27** | 39 |
| Net foreign exchange gains | **–** | 6 |
| Finance and other income | **27** | 45 |

## 9. Taxation

The deferred tax charge in 2019 was nil (2018: nil). Reconciliation of current tax credit at standard rate of UK corporation tax to the current tax credit:

| | 2019 £000s | 2018 £000s |
|---|---|---|
| Loss before tax | **(22,870)** | (20,526) |
| Tax credit at the standard rate of UK corporation tax of 19% (2018: 19%) | **4,345** | 3,900 |
| Effect of overseas tax rate | **5** | 10 |
| Impact of unrelieved tax losses not recognised | **(4,350)** | (3,937) |
| Adjustment in respect of prior year | **228** | 62 |
| Research and development tax credit in respect of current year | **3,060** | 2,080 |
| | **3,288** | 2,115 |

Estimated tax losses of £112.6m (2018: £102.6m) 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 22. During the year, the Company received a research and development tax credit of £2,308k (2018: £1,812k). The Group and Company has accrued £3,060k (2018: £2,080k) recognising a current tax asset in respect of 2019 research and development tax credits.

The corporation tax main rate during 2019 was 19%.

# Notes to the financial statements continued

## 10. Loss per ordinary equity share (basic and diluted)

The calculation of the loss per share is based on the loss for the financial year after taxation of £19.58 million (2018: loss of £18.41 million) and on the weighted average of 75,126,869 (2018: 70,312,880) ordinary shares in issue during the year.

The options outstanding at 31 December 2019 and 31 December 2018 are considered to be anti-dilutive as the Group is loss-making.

## 11. Property, plant and equipment

| Group | Equipment and furniture £000s | Right-of-use asset £000s | Total £000s |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2018 | 4,834 | – | 4,834 |
| Additions | 130 | – | 130 |
| Disposals | (1,436) | – | (1,436) |
| Translation adjustment | 34 | – | 34 |
| At 31 December 2018 | 3,562 | – | 3,562 |
| Change in accounting policy | – | 160 | 160 |
| At 1 January 2019 | 3,562 | 160 | 3,722 |
| Additions | 9 | – | 9 |
| Disposals | (15) | – | (15) |
| Translation adjustment | (153) | – | (153) |
| **At 31 December 2019** | **3,403** | **160** | **3,563** |
| **Accumulated depreciation** | | | |
| At 1 January 2018 | 3,664 | – | 3,664 |
| Charge for the year | 379 | – | 379 |
| Eliminated on disposal | (1,430) | – | (1,430) |
| Translation adjustment | 28 | – | 28 |
| At 31 December 2018 | 2,641 | – | 2,641 |
| Charge for the year | 356 | 96 | 452 |
| Eliminated on disposal | (13) | – | (13) |
| Translation adjustment | (128) | – | (128) |
| **At 31 December 2019** | **2,856** | **96** | **2,952** |
| **Net book value** | | | |
| As at 31 December 2018 | 921 | – | 921 |
| **As at 31 December 2019** | **547** | **64** | **611** |

## 11. Property, plant and equipment continued

| Company | Equipment and furniture £000s | Right-of-use asset £000s | Total £000s |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2018 | 642 | – | 642 |
| Additions | 77 | – | 77 |
| Disposals | (13) | – | (13) |
| At 31 December 2018 | 706 | – | 706 |
| Change in accounting policy | – | 160 | 160 |
| At 1 January 2019 | 706 | 160 | 866 |
| Additions | 8 | – | 8 |
| Disposals | (2) | – | (2) |
| **At 31 December 2019** | **712** | **160** | **872** |
| **Accumulated depreciation** | | | |
| At 1 January 2018 | 267 | – | 267 |
| Charge for the year | 130 | – | 130 |
| Eliminated on disposal | (11) | – | (11) |
| At 31 December 2018 | 386 | – | 386 |
| Charge for the year | 142 | 96 | 238 |
| Eliminated on disposal | – | – | – |
| **At 31 December 2019** | **528** | **96** | **624** |
| **Net book value** | | | |
| As at 31 December 2018 | 320 | – | 320 |
| **As at 31 December 2019** | **184** | **64** | **248** |

## 12. Goodwill

| | **2019 £000s** | 2018 £000s |
|---|---|---|
| Balance at start of year | **8,127** | 8,029 |
| Translation adjustment | **(435)** | 98 |
| **Balance at end of year** | **7,692** | 8,127 |

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), being the Group's only CGU. In accordance with IAS 36 Impairment of Assets, the carrying value of goodwill has been assessed by comparing its carrying value to its recoverable amount.

The recoverable amount is based on fair value less cost of disposal.

The key assumptions used in the valuation models to determine the fair value less cost of disposal are as follows:

- Fair value has been determined as market capitalisation (share price x number of shares in issue) at 31 December 2019
- Disposal costs have been estimated to be minimal

Management has assessed that the headroom in the valuation model used demonstrates that there is no reasonably possible change to a key assumption used in determining fair value less cost of disposal that would cause the CGU's carrying amount to exceed its recoverable amount (market capitalisation at 31 December 2019 was £274m, with share price not dropping significantly below its 31 December 2019 value at any point so far in 2020), and therefore a sensitivity analysis has not been presented. Notwithstanding, market capitalisation is predicated on share price which is subject to fluctuation, and any significant, unexpected movements could result in an impairment in goodwill.

# Notes to the financial statements continued

## 13. Other intangible assets

| Group | Licences & software £000s | Internally generated patents £000s | Total £000s |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2018 | 2,354 | 884 | 3,238 |
| Additions | 58 | – | 58 |
| Disposals | (2,311) | (884) | (3,195) |
| Translation adjustment | 3 | – | 3 |
| At 31 December 2018 | 104 | – | 104 |
| Additions | – | – | – |
| Disposals | – | – | – |
| Translation adjustment | (2) | – | (2) |
| **At 31 December 2019** | **102** | **–** | **102** |
| **Accumulated amortisation** | | | |
| At 1 January 2018 | 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 |
| Charge for the year | 30 | – | 30 |
| Eliminated on disposal | – | – | – |
| Translation adjustment | (2) | – | (2) |
| **At 31 December 2019** | **68** | **–** | **68** |
| **Net book value** | | | |
| As at 31 December 2018 | 64 | – | 64 |
| **As at 31 December 2019** | **34** | **–** | **34** |

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.

## 14. Investments in subsidiaries

| Company | **2019 £000s** | 2018 £000s |
|---|---|---|
| Investment in subsidiary undertakings | **21,596** | 21,970 |

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 2018 | 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 |
| Movement in the year | – | (374) | – | (374) |
| **At 31 December 2019** | **23,495** | **35,016** | **(36,915)** | **21,596** |

At 31 December 2019, an interest-bearing unsecured loan of £12.6 million (2018: £12.9 million) was outstanding from Silence Therapeutics plc to Silence Therapeutics GmbH. The movement in the year includes a foreign exchange gain of £0.7 million (2018: £0.2 million), and accrued interest of £0.3 million (2018: £0.3 million). An expected credit loss of £nil (2018: £nil) has been determined.

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 investment in Silence Therapeutics GmbH of £9.0 million has been assessed by comparing its carrying value to its recoverable amount. The recoverable amount is based on value in use. A discounted cash flow model has been used to make this assessment. Management has assessed that there is no reasonably possible change to a key assumption used in determining value in use that would cause the £9.0 million carrying amount to exceed its recoverable amount, and therefore a sensitivity analysis has not been presented.

At 31 December 2019, a non-interest-bearing unsecured loan of £22.4 million (2018: £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.

# Notes to the financial statements continued

## 14. Investments in subsidiaries continued

**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 |

## 15. 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.

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | **Group £000s** | **Company £000s** | Group £000s | Company £000s |
| Cash and cash equivalents | **13,515** | **12,980** | 21,494 | 21,112 |

## 16. 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 fixed interest £20,000k six-month term deposits (2018: £5,000k). The other current financial asset at amortised cost is an advance payment for the former CEO which was subsequently deducted from his remuneration.

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | **Group £000s** | **Company £000s** | Group £000s | Company £000s |
| Current financial assets at amortised cost – term deposit | **20,000** | **20,000** | 5,000 | 5,000 |
| Current financial assets at amortised cost – other | **1** | **1** | 43 | 43 |
| Total current financial assets at amortised cost | **20,001** | **20,001** | 5,043 | 5,043 |
| Non-current financial assets at amortised cost | **275** | **275** | 275 | 275 |
| Total financial assets at amortised cost | **20,276** | **20,276** | 5,318 | 5,318 |

## 17. Other current assets

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | **Group £000s** | **Company £000s** | Group £000s | Company £000s |
| Prepayments | **431** | **390** | 515 | 437 |
| VAT receivable | **454** | **401** | 366 | 283 |
| Total other current assets | **885** | **791** | 881 | 720 |

## 18. Trade and other receivables

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | **Group £000s** | **Company £000s** | Group £000s | Company £000s |
| Trade receivables | **4** | **4** | – | – |
| Total trade and other receivables | **4** | **4** | – | – |

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.

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

## 19. Trade and other payables

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | **Group £000s** | **Company £000s** | Group £000s | Company £000s |
| Trade payables | **1,790** | **1,639** | 1,147 | 1,004 |
| Amount payable to subsidiary undertaking | **–** | **2,123** | – | 1,667 |
| Social security and other taxes | **362** | **312** | 162 | 131 |
| Current tax payable | **–** | **–** | 27 | – |
| Accruals and other payables | **4,736** | **4,274** | 2,494 | 2,168 |
| Total trade and other payables | **6,888** | **8,348** | 3,830 | 4,970 |

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 within 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. Lease liability

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | **Group £000s** | **Company £000s** | Group £000s | Company £000s |
| Lease liability | **287** | **287** | – | – |
| Total lease liability | **287** | **287** | – | – |

Lease liability recognised on the face of the balance sheet comprises only a single lease for the Group's London offices. The repayment of the principal portion of the lease liability for the year-ending 31 December2019 was nil (2018: £nil).

# Notes to the financial statements continued

## 21. Contract liabilities

Contract liabilities comprise entirely deferred revenue in respect of the Mallinckrodt Research collaboration.

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | **Group £000s** | **Company £000s** | Group £000s | Company £000s |
| Contract liabilities – current | **2,478** | **2,478** | – | – |
| Contract liabilities – non-current | **15,515** | **15,515** | – | – |
| Total contract liabilities | **17,993** | **17,993** | – | – |

## 22. Deferred tax

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

| | **2019 £000s** | 2018 £000s |
|---|---|---|
| **Deferred tax liability:** | | |
| • in respect of intangible assets | **24** | 13 |
| Less: offset of deferred tax asset below | **(24)** | (13) |
| Liability | **–** | – |
| **Deferred tax asset:** | | |
| • in respect of available tax losses | **20,238** | 24,411 |
| • in respect of share-based payments | **2,024** | 167 |
| Less: offset against deferred tax liability | **(24)** | (13) |
| | **22,238** | 24,565 |
| • provision against asset | **(22,238)** | (24,565) |
| Asset | **–** | – |

Due to the uncertainty of future profits, a deferred tax asset in respect of trading losses was not recognised at 31 December 2019 (2018: nil).

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

| | **2019 £000s** | 2018 £000s |
|---|---|---|
| Deferred tax asset in respect of capital losses | **2,874** | 1,333 |
| Capital gains tax realised in the year | **–** | (31) |
| | **2,874** | 1,302 |
| Provision against asset | **(2,874)** | (1,302) |
| Asset | **–** | – |

Deferred tax assets are recognised where it is probable that future taxable profit will be available to utilise losses. Due to the uncertainty of future capital gains, a deferred tax asset in respect of capital losses was not recognised at 31 December 2019 (2018: nil).

## 23. Share capital

| | **2019 £000s** | 2018 £000s |
|---|---|---|
| Allotted, called up and fully paid 78,370,265 (2018: 71,069,933) ordinary shares par value 5p | **3,919** | 3,554 |

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:

| | 2018 £000s |
|---|---|
| Number of shares in issue at 1 January 2018 | 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 |
| Shares issued during the year | 5,062,167 |
| Options exercised at 5p | 581,101 |
| Options exercised at 25p | 728,078 |
| Options exercised at 100p | 40,000 |
| Options exercised at 106p | 23,986 |
| Options exercised at 110p | 200,000 |
| Options exercised at 112p | 5,000 |
| Options exercised at 117p | 500,000 |
| Options exercised at 125p | 160,000 |
| **Number of shares in issue at 31 December 2019** | **78,370,265** |

# Notes to the financial statements continued

## 23. Share capital continued

At 31 December 2019, there were options outstanding over 4,302,617 (2018: 4,718,302) unissued ordinary shares. Details of the options outstanding are as follows:

| Exercisable from | Exercisable until | Number | Exercise price |
|---|---|---|---|
| 16/07/2016 | 15/07/2023 | 10,000 | £1.06 |
| 15/06/2017 | 16/06/2024 | 12,000 | £1.06 |
| 31/08/2017 | 31/01/2021 | 9,000 | £1.06 |
| 05/07/2018 | 06/07/2025 | 10,000 | £1.06 |
| 06/07/2018 | 06/01/2021 | 480,000 | £0.05 |
| 06/07/2018 | 07/06/2020 | 60,000 | £1.00 |
| 15/11/2018 | 16/11/2025 | 6,000 | £1.06 |
| 05/01/2019 | 05/01/2026 | 10,736 | £1.63 |
| 04/04/2019 | 04/04/2026 | 13,672 | £1.28 |
| 23/05/2019 | 23/05/2026 | 8,839 | £1.12 |
| 02/07/2019 | 02/07/2026 | 16,968 | £1.04 |
| 01/09/2019 | 01/09/2026 | 10,000 | £1.06 |
| 06/01/2020 | 06/10/2029 | 8,333 | £0.05 |
| 06/01/2020 | 06/10/2029 | 64,584 | £0.60 |
| 06/01/2020 | 06/10/2029 | 115,959 | £1.90 |
| 06/04/2020 | 06/10/2029 | 8,333 | £0.05 |
| 06/04/2020 | 06/10/2029 | 64,584 | £0.60 |
| 06/04/2020 | 06/10/2029 | 115,959 | £1.90 |
| 18/04/2020 | 18/04/2027 | 56,470 | £0.85 |
| 03/07/2020 | 03/07/2027 | 27,500 | £0.94 |
| 06/07/2020 | 06/10/2029 | 8,334 | £0.05 |
| 06/07/2020 | 06/10/2029 | 64,584 | £0.60 |
| 06/07/2020 | 06/10/2029 | 115,959 | £1.90 |
| 18/09/2020 | 18/09/2027 | 24,000 | £1.47 |
| 06/10/2020 | 06/10/2029 | 8,333 | £0.05 |
| 06/10/2020 | 06/10/2029 | 64,583 | £0.60 |
| 06/10/2020 | 06/10/2029 | 115,959 | £1.90 |
| 13/11/2020 | 13/11/2027 | 50,000 | £2.05 |
| 01/12/2020 | 01/12/2027 | 70,000 | £1.99 |
| 06/01/2021 | 06/10/2029 | 8,333 | £0.05 |
| 06/01/2021 | 06/10/2029 | 64,584 | £0.60 |
| 06/01/2021 | 06/10/2029 | 115,959 | £1.90 |
| 01/02/2021 | 01/02/2028 | 148,458 | £0.05 |
| 06/04/2021 | 06/10/2029 | 8,334 | £0.05 |
| 06/04/2021 | 06/10/2029 | 64,584 | £0.60 |
| 06/04/2021 | 06/10/2029 | 115,959 | £1.90 |
| 06/07/2021 | 06/10/2029 | 8,333 | £0.05 |
| 06/07/2021 | 06/10/2029 | 64,584 | £0.60 |
| 06/07/2021 | 06/10/2029 | 115,959 | £1.90 |
| 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 |
| 06/10/2021 | 06/10/2029 | 8,333 | £0.05 |
| 06/10/2021 | 06/10/2029 | 64,583 | £0.60 |
| 06/10/2021 | 06/10/2029 | 115,959 | £1.90 |

| Exercisable from | Exercisable until | Number | Exercise price |
|---|---|---|---|
| 14/10/2021 | 14/10/2028 | 14,800 | £0.05 |
| 31/10/2021 | 31/10/2028 | 23,625 | £0.05 |
| 02/01/2022 | 02/01/2029 | 9,075 | £0.05 |
| 06/01/2022 | 06/10/2029 | 8,334 | £0.05 |
| 06/01/2022 | 06/10/2029 | 64,584 | £0.60 |
| 06/01/2022 | 06/10/2029 | 115,959 | £1.90 |
| 13/01/2022 | 13/01/2029 | 10,206 | £0.05 |
| 06/04/2022 | 06/10/2029 | 8,333 | £0.05 |
| 06/04/2022 | 06/10/2029 | 64,584 | £0.60 |
| 06/04/2022 | 06/10/2029 | 115,959 | £1.90 |
| 16/04/2022 | 16/04/2029 | 100,000 | £0.05 |
| 02/06/2022 | 02/06/2029 | 200,000 | £0.05 |
| 06/07/2022 | 06/10/2029 | 8,333 | £0.05 |
| 06/07/2022 | 06/10/2029 | 64,584 | £0.60 |
| 06/07/2022 | 06/10/2029 | 115,959 | £1.90 |
| 03/09/2022 | 03/09/2029 | 30,000 | £0.05 |
| 30/09/2022 | 30/09/2029 | 150,000 | £0.05 |
| 06/10/2022 | 06/10/2029 | 8,334 | £0.05 |
| 06/10/2022 | 06/10/2029 | 64,588 | £0.60 |
| 06/10/2022 | 06/10/2029 | 75,000 | £1.83 |
| 06/10/2022 | 06/10/2029 | 385,961 | £1.90 |
| 03/11/2022 | 03/11/2029 | 23,000 | £0.05 |
| 06/01/2023 | 06/10/2029 | 19,240 | £0.60 |
| 06/01/2023 | 06/10/2029 | 19,240 | £1.90 |
| **Total options outstanding** | | **4,302,617** | |

The market price of Company shares at the year-end was 350.0p (2018: 52.3p). During the year the minimum and maximum prices were 41.0p and 610.0p, respectively (2018: 51.0p and 206.0p).

# Notes to the financial statements continued

## 24. 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 2019). 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.

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | **Number** | **Weighted average exercise price pence** | Number | Weighted average exercise price pence |
| **Options** | | | | |
| Outstanding at the beginning of the year | **4,718,302** | **70.17** | 6,101,764 | 82.68 |
| Granted during the year | **4,722,281** | **129.40** | 1,036,523 | 0.05 |
| Lapsed or forfeited during the year | **(2,899,801)** | **105.32** | (1,341,676) | 109.78 |
| Exercised during the year | **(2,238,165)** | **57.51** | (1,078,309) | 31.59 |
| Outstanding at the year-end | **4,302,617** | **102.46** | 4,718,302 | 70.17 |
| Exercisable at the year-end | **647,215** | **31.96** | 2,689,300 | 81.60 |

The options outstanding at the year-end have a weighted average remaining contractual life of 7.2 years (2018: 5.5 years). The weighted average share price at the time of exercise during the year was 126.24p (2018: 141.16p).

The Group granted 4,722,281 options during the year (2018: 1,036,523). 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 | **2019** | 2018 |
|---|---|---|
| Weighted average fair value at grant (pence) | **118.6p** | 147.1p |
| Weighted average share price (pence) | **175.9p** | 171.7p |
| Weighted average hurdle price | **218.6p** | 187.1p |
| Expected volatility | **50%-72%** | 48%-51% |
| Risk free rate | **0.41%-1.32%** | 1.37%-1.62% |
| Expected dividend yield | **nil** | nil |

The Group recognised total charges of £584k (2018: £681k) related to equity settled share-based payment transactions during the year.

## 25. Capital reserves

| Group | Share premium account £000s | Merger reserve £000s | Share-based payment reserve £000s | Capital redemption reserve £000s | Total £000s |
|---|---|---|---|---|---|
| At 1 January 2018 | 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) |
| On options exercised during 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 |
| Shares issued | 3,767 | – | – | – | 3,767 |
| On options in issue during the year | 1,141 | – | 584 | – | 1,725 |
| On vested options lapsed during the year | – | – | – | – | – |
| Options exercised in the year | – | – | (1,370) | – | (1,370) |
| Movement in the year | 4,908 | – | (786) | – | 4,122 |
| **At 31 December 2019** | **138,150** | **22,248** | **1,651** | **5,194** | **167,243** |

| Company | Share premium account £000s | Merger reserve £000s | Share-based payment reserve £000s | Capital redemption reserve £000s | Total £000s |
|---|---|---|---|---|---|
| At 1 January 2018 | 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) |
| On options exercised during 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 |
| Shares issued | 3,767 | – | – | – | 3,767 |
| On options in issue during the year | 1,141 | – | 584 | – | 1,725 |
| On vested options lapsed during the year | – | – | – | – | – |
| Options exercised in the year | – | – | (1,370) | – | (1,370) |
| Movement in the year | 4,908 | – | (786) | – | 4,122 |
| **At 31 December 2019** | **138,150** | **22,064** | **1,651** | **5,194** | **167,059** |

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.

# Notes to the financial statements continued

## 26. Capital commitments and contingent liabilities

There were no capital commitments at 31 December 2019 (2018: nil).

A contingent liability exists in respect of VAT amounts included in invoices payable to one of the Group's suppliers which the Group does not consider to be payable. There is sufficient uncertainty regarding the VAT treatment of these invoices such that, whilst not considered probable, there is a possibility the amounts will need to be paid. The total value of the VAT on these invoices is £303k.

## 27. Commitments under operating leases

At 31 December 2019, the Group had a gross commitment on its office rental and service charge at Robert-Rössle-Strasse 10, 13125 Berlin equal to £0.1m (2018: £0.1m) 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.

## 28. 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:

| | 2019 | | 2018 | |
|---|---|---|---|---|
| Loans and receivables | **Group £000s** | **Company £000s** | Group £000s | Company £000s |
| Trade and other receivables | **4** | **4** | – | – |
| Cash and cash equivalents | **13,515** | **12,980** | 21,494 | 21,112 |
| Loans to subsidiary undertakings – non-current | **–** | **12,573** | – | 12,948 |
| Total | **13,519** | **25,557** | 21,494 | 34,060 |

All amounts are current, except for loans to subsidiary undertakings which are non-current in their entirety.

| | 2019 | | 2018 | |
|---|---|---|---|---|
| Financial assets at amortised cost | **Group £000s** | **Company £000s** | Group £000s | Company £000s |
| Non-current | **275** | **275** | 275 | 275 |
| Term deposit | **20,000** | **20,000** | 5,000 | 5,000 |
| Current – other | **1** | **1** | 43 | 43 |
| Total | **20,276** | **20,276** | 5,318 | 5,318 |

## 28. Financial instruments and risk management continued

**Financial liabilities by category**

| | 2019 | | 2018 | |
|---|---|---|---|---|
| Other financial liabilities at amortised cost | **Group £000s** | **Company £000s** | Group £000s | Company £000s |
| Trade and other payables | **6,526** | **8,036** | 3,641 | 3,172 |

All amounts are short-term.

| | 2019 | | 2018 | |
|---|---|---|---|---|
| Contract liabilities | **Group £000s** | **Company £000s** | Group £000s | Company £000s |
| Contract liabilities | **17,993** | **17,993** | – | – |

**Credit quality of financial assets (loans and receivables)**
The maximum exposure to credit risk at the reporting date by class of financial asset was:

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | **Group £000s** | **Company £000s** | Group £000s | Company £000s |
| Loans and receivables | **–** | **12,573** | – | 12,948 |
| Financial assets at amortised cost – non-current | **275** | **275** | 275 | 275 |
| Financial assets at amortised cost – current | **1** | **1** | 43 | 43 |
| Total | **276** | **12,849** | 318 | 13,266 |

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 measures 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 (2018: nil).

# Notes to the financial statements continued

## 28. Financial instruments and risk management continued

**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. 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:

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | **Group £000s** | **Company £000s** | Group £000s | Company £000s |
| Financial assets | **2,032** | **14,061** | 1,481 | 14,072 |
| Financial liabilities | **(2,672)** | **(4,199)** | (1,043) | (2,142) |
| Net financial (liabilities)/assets | **(640)** | **9,862** | 438 | 11,930 |

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

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | **Group £000s** | **Company £000s** | Group £000s | Company £000s |
| Financial assets | **1,691** | **1,671** | 711 | 687 |
| Financial liabilities | **(94)** | **(94)** | (86) | (86) |
| Net financial assets | **1,597** | **1,577** | 625 | 601 |

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 rose by 6% against the euro. The table shows the impact of an additional weakening or strengthening of sterling against the euro by 20%.

| **2019** | **As reported £000s** | **If sterling rose 20% £000s** | **If sterling fell 20% £000s** |
|---|---|---|---|
| Group result for the year | **(19,582)** | **(18,465)** | **(21,257)** |
| Euro denominated net financial liabilities | **(640)** | **(533)** | **(800)** |
| Total equity at 31 December 2019 | **20,909** | **18,879** | **23,995** |

| 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 |

## 28. Financial instruments and risk management continued

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

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

| **2019** | **As reported £000s** | **If sterling rose 20% £000s** | **If sterling fell 20% £000s** |
|---|---|---|---|
| Group result for the year | **(19,582)** | **(19,337)** | **(19,950)** |
| US dollar denominated net financial assets | **1,597** | **1,330** | **1,996** |
| Total equity at 31 December 2019 | **20,909** | **20,643** | **21,308** |

| 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 |

## 29. 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:

| | **2019** | | 2018 | |
|---|---|---|---|---|
| | **Group £000s** | **Company £000s** | Group £000s | Company £000s |
| **Silence Therapeutics GmbH** | | | | |
| Expenses charge for services | **–** | **4,501** | – | 4,233 |
| Balance owed at 31 December | **–** | **2,123** | – | 1,667 |

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.

# Notes to the financial statements continued

## 30. Post Balance Sheet Events

On 7 January 2020, Silence Therapeutics Plc announced a Technology Evaluation Agreement with Takeda to explore the potential of utilising Silence's platform to generate siRNA molecules against a novel, undisclosed target discovered by Takeda.

During January 2020, Silence Therapeutics Plc established a US subsidiary, Silence Therapeutics Inc, to support the Group's increased focus on the US.

On 25 March 2020, Silence Therapeutics Plc announced a collaboration with AstraZeneca to Discover and Develop siRNA Therapeutics for Cardiovascular, Renal, Metabolic and Respiratory Diseases. AstraZeneca made an equity investment of $20 million in Silence with a further upfront amount of $60 million payable under the agreement, of which $20m was invoiced in March 2020 with the remaining unconditional amount of $40 million expected in the first half of 2021.

During March 2020, the 2019-20 coronavirus (COVID-19) pandemic became increasingly prevalent in Europe and the US where the Group's principal operations are conducted. Significant restrictions have now been imposed by the governments of those countries where the Group has operations, as well as the countries of external parties with which we conduct our business. In compliance with these restrictions, the Group and its employees have adapted to new working arrangements to ensure business continuity as far as is reasonably practicable in the short to medium term. This has so far proven to be effective, with Management maintaining a strong line of communication with all employees during this period.

The main risk posed to the Group by the pandemic is the potential slowing of Research & Development activities including possible knock-on delays in clinical trial data and sustained fixed costs during periods of relative inactivity. Whilst this would result in a lengthening of the Group's cash runway in the medium term, but in the longer term these factors could limit the Group's ability to meet its corporate objectives. This risk is mitigated by the receipt, in March 2020, of investment and unconditional upfront payments in respect of the AstraZeneca collaboration, significantly increasing the Group's baseline cash runway.

## 31. 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 2019 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 |

# Glossary

**CTA**
Clinical Trial Application

**DNA**
Deoxyribonucleic acid

**EMA**
European Medicines Agency

**ESA**
Erythropoietin stimulating agent

**FDA**
Food and Drug Administration

**GalNAc**
N-Acetylgalactosamine

**IND**
Investigational New Drug application

**IP**
Intellectual property

**MDS**
Myelodysplastic Syndrome

**mRNA**
Messenger RNA

**NTDT**
Non-transfusion dependent Thalassaemia

**QOL**
Quality of life

**RNA**
Ribonucleic acid

**siRNA**
Short interfering RNA

**TDT**
Transfusion-dependent Thalassaemia

# Company information and advisers

**Secretary**
Dr. Robert Quinn

**Registered office**
27 Eastcastle Street
London W1W 8DH

**Registered number**
02992058

**Nominated adviser and broker**
Peel Hunt LLP
Moor House
120 London Wall
London EC2Y 5ET

**Registrar**
Link Asset Services
65 Gresham Street
London EC2V 7NQ

**Independent auditors**
PricewaterhouseCoopers LLP
Chartered Accountants and
Statutory Auditors
The Maurice Wilkes Building
St John's Innovation Park
Cambridge CB4 0DS

**Legal adviser**
Covington & Burling LLP
265 Strand
London WC2R 1BH

**Silence trademarks**
Silence
Silence Therapeutics
The Silence Therapeutics logo
AtuRNAi

**Silence Therapeutics plc**
72 Hammersmith Road, London W14 8TH
+44(0)20 3457 6900
**www.silence-therapeutics.com**