Preliminary results for the year to 31 December 2016

28 March 2017

Silence Therapeutics plc, AIM:SLN ("Silence" or "the Company") a leader in the discovery, delivery and development of novel RNA therapeutics for the treatment of serious diseases with unmet medical need, announces its preliminary results for the year ended 31 December 2016.

Highlights

- Successful transition to focus upon GalNAc targeting technology including selection of initial gene targets and new pipeline
- Milestone revenue of £0.8m from licensee Quark Pharmaceuticals after successful resolution to payment dispute
- Licensee Quark Pharmaceuticals Phase 2 QPI-1002 in AKI expected to have data readout in H2 2017, and Phase 3 QPI-1002 DGF in Q3 2018
- Strengthening of robust Intellectual Property portfolio to enable further licensing deals and co-development deals
- Acquisition of 4.7% of the issued share capital of Arrowhead Pharmaceuticals Inc. in the period, at a purchase price of £4.3m
- Investment in tools, team and capacity to prosecute multiple programmes in parallel
- Founding of experienced Technology Advisory Board to advise upon strategic RNAi direction
- Plc Board restructured to a majority of Non-Executive Directors
- Loss after tax for the period of £8.4m (2015: £6.6m)
- Net cash & cash equivalents of £39.0m at 31 December 2016 (2015: £51.9m)

Post year end events

- During January 2017, Silence purchased a further 4.5% of the issued share capital of Arrowhead Pharmaceuticals Inc. for an additional purchase price of £4.9m, bringing the total holding to 9.2%, as announced on 13 January 2017
- New European patent granted March 2017 on key RNAi chemical modifications which reads widely across the RNAi industry

Chief Executive Officer **Ali Mortazavi** commented:

*"*2016 was a year of transformation and transition for RNAi and Silence. The field has moved on rapidly based on scientific & clinical successes and along with our competitors in the field we have largely abandoned complex lipid nanoparticle (LNP) delivery systems in favour of the GalNAc conjugate approach. To capitalise on this new sector focus we were also able to utilise our strong balance sheet to acquire a strategic stake in Arrowhead Pharmaceuticals, with whom we hope to work closely in 2017 and onwards.

2017-18 will be a pivotal period for RNAi as important clinical readouts in the field will, we believe, validate RNAi as a new powerful modality in drug development. Silence is well positioned to capitalise on these events with a multi-pronged strategy. Firstly, with these results, we have unveiled our initial set of high conviction liver based pre-clinical candidates at the research/discovery stage. We have worked extremely hard at target gene/disease selection, benefitting from the learnings of our competitors, and will continue to add to our pre-clinical programmes providing multiple shots on goal. Our company is highly focused on thorough vetting of potential candidates to minimise risk of failure.

Additionally, as well as our own internal programmes, we have a material interest in RNAi candidates outside of our own pipeline through our established siRNA stabilisation chemistry Intellectual Property ("IP"). Our IP provides a material stake in two of the leading RNAi clinical candidates through our licensing agreement with Quark Pharmaceuticals: QPI 1002 for both Acute Kidney Injury and Delayed Graft Function, where we expect meaningful readouts from Q3 2017 and Q3 2018 respectively. In addition, we also believe that our IP is a critical component of other late stage RNAi candidates. As RNAi becomes an established therapeutic approach, the Directors believe that the totality of our IP alone represents a very significant risk/reward upside relative to the market cap and enterprise value of Silence. As such, we look forward to the future with great confidence."

The information contained within this announcement is deemed to constitute inside information as stipulated under the Market Abuse Regulations (EU) No. 596/2014. Upon the publication of this announcement, this inside information is now considered to be in the public domain.

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Notes to Editors

About Silence Therapeutics plc

Silence Therapeutics develops a new generation of medicines by harnessing the body's natural mechanism of RNA interference, or RNAi, within its cells. Our proprietary technology can selectively inhibit any gene in the genome, specifically silencing the production of disease-causing proteins. Using our enabling delivery systems, we have achieved an additional level of specificity by delivering our therapeutic RNA molecules exclusively to target cells. Silence's proprietary RNA chemistries and delivery systems are designed to improve the stability of our molecules and enhance effective delivery to target cells, providing a powerful modular technology well suited to tackle life-threatening diseases.

CHIEF EXECUTIVE'S REPORT

Overview

2016 has been a critical year for our Company in terms of the transition to a new enabling technology and the hiring of key staff to realise the potential in our drug development platform. In an analogous way to emerging technologies in many disciplines, RNAi has travelled through the highs and lows of an early stage technology to become a powerful validated drug development platform. As in all profound technological breakthroughs, the possibilities are well understood shortly after discovery and unpredicted challenges then appear in the journey to implementation.

Targeting Technology

Perhaps the greatest de-risking tool that we have at our disposal is the ability to run parallel projects. This 'multiple shots on goal' approach is where we believe the true potential of RNAi lies, with the genomic revolution creating a profusion of new targets to address. In short, once we gain access to the cell through the cell membrane with our delivery system, every gene within that cell is druggable by RNAi.

We follow the same method every time:

1. Selection of target gene in hepatocytes that is linked to disease.
2. Synthesis of candidate short interfering RNAs (siRNA) and identification of the lead molecule with the optimal properties to inhibit said target gene.
3. Coupling of the lead siRNA to a GalNAc cluster to enable effective and highly selective delivery to target cells (hepatocytes), sparing other tissues.
4. Harnessing the natural process of Watson-Crick base pairing between the siRNA and target mRNA, and thus creating the signal for the cell to specifically silence the expression of the target gene.

We have established a detailed process model for our GalNAc-siRNA projects and the capacity to run 5 to 7 high-conviction pre-clinical projects, at different stages, per year. It is at the end of this process and after extensive *in vivo* studies that we make critical decisions on the performance of our drug and whether a candidate is suitable for first-in-person studies. Put simply, this creates pipeline breadth and avoids the position of progressing solitary projects.

Investing in R&D

Our pre-clinical candidates:					
	Programme	**Discovery**	**Research**	**Pre-clinical**	**Clinical**
Rare diseases	Iron overload disorders	X	X		
	Alcohol use disorder	X			
	Acromegaly	X			
Metabolic diseases	Cardiovascular disease	X			
	Undisclosed indication	X			

Out-licensed programmes (AtuRNAi)					
Programme	**Research**	**Pre-clinical**	**Ph 1**	**Ph 2**	**Ph 3**
QPI 1002 – Delayed Graft Function (DGF)	X	X	X	X	X
QPI 1002 – Acute Kidney Injury (AKI)	X	X	X	X	

Our emphasis on the liver is founded on the fact that this organ is responsible for a large part of the human body's metabolism. The liver is the origin of several diseases of high unmet clinical need, not only those that directly affect the liver itself but also those that have detrimental effects elsewhere in the body, for example - in the heart and even the brain. Throughout the year, we generated a body of data that proved that our GalNAc-siRNA technology is able to have a significant impact on the expression of several liver genes. These results are being investigated further as some of our projects progress through the pre-clinical disease model.

In addition, we proved the concept that our liposomes can mediate CRISPR gene editing through an entirely RNA based approach. We have optimised the composition of our liposomes and achieved sustained target gene disruption *in vivo* for two different target liver genes. Importantly, only one other player which operates exclusively in the gene editing field has reported *in vivo* CRISPR data. This is a major discovery as liposomes are suitable to deliver larger cargoes and our existing expertise in nanoparticles can be repurposed for such applications, while GalNAc is the preferred method for siRNA delivery. In line with our business model, our aim is to establish collaborations or identify a partner to progress this CRISPR technology forward without deploying internal resources beyond our core siRNA focus.

Our licensee, Quark Pharmaceuticals, continues to advance a phase II trial for acute kidney injury and a phase III trial for delayed graft function. If successful, these products will lead to meaningful milestones & royalties for Silence.

Finally, we obtained the follow-up data from our Phase 2a Atu027 study in pancreatic cancer during the year. We have subsequently decided that as this is such a complex disease, the best strategy to ensure good progress is to identify a suitable partner rather than use our own balance sheet. This decision enables us to focus our resources on developing our GalNAc-siRNA candidates

Intellectual Property

We have built, and continue to expand on, our strong portfolio of patents which have critical utility in the field of RNAi as a whole. Our IP reflects the innovative work that has been carried out in Silence and

captures the certain chemical modifications that are key for therapeutic siRNA molecules to reach target cells intact and therefore retaining their full potency. These modifications are widely used by the RNAi industry to achieve the stable delivery of naked siRNA.

Specifically, we have a second European patent granted in March 2017 that broadly claims these innovative key chemical modifications and which reads widely across the RNAi industry. Additionally, in the US, we similarly expect to achieve grant in 2017 of another US patent broadly claiming these key chemical modifications. We will also continue to prosecute our other pending applications in Europe and elsewhere so as to achieve additional strong protection for these aspects of our technology. Not only do we therefore expect to make significant strides in our core business activity of drug development which will be reflected in our international patent filing strategies in 2017, but we also see material upside in potential licensing opportunities from companies using our IP. Our patent estate covering siRNA stabilisation chemistry has become even more relevant in recent years as the field has moved from using lipid nanoparticles to conjugation chemistry, where the siRNA is exposed and more susceptible to attack in the body. Our proprietary stabilising chemistry is key for therapeutic siRNA molecules to reach target cells intact and therefore retaining their full potency.
We consider innovation to be key in the biotechnology industry, and a crucial enabler for the generation of new IP. Therefore, in addition to our commitment to progressing our pre-clinical programmes at pace, we have a dedicated Technology Development team which aims at discovering ways to improve our current technology and next generations of RNAi based therapies as well as the means to target additional cell types beyond hepatocytes.

Technology Advisory Board
During the year we announced the formation of our Technology Advisory Board (TAB). This is chaired by Dr. Jörg Vollmer, who brings over sixteen years of experience in drug discovery and development. He is currently Chief Scientific Officer at Rigontec and an Executive Board Member at BioRiver, and was previously CEO at Nexigen. One of the first projects undertaken by the TAB was to advise upon the transition from LNP/mRNA to a GalNAc focused business.

Board changes
2016 was a year of steady progress as we carried out a strategic reorganisation in order to position the company for a highly successful future. The reorganization included the appointments of a new Chief Finance Officer ("CFO") and a new Non-Executive Director. David Ellam, our new CFO, joined in July 2016 and brought with him valuable senior finance experience gained in roles within both US and UK publicly-owned life science companies, most recently at BioMarin Pharmaceuticals Inc. where he was Senior EUMEA Finance Director. I am particularly pleased to welcome Dr. Andy Richards CBE, who joined the Board in September 2016, and who chairs the Remuneration Committee; he and Alistair Gray, who heads up our Audit and Risk Committee have worked closely with the Chairman to reshape the strategic direction of the Company and the governance by which it is run.

Simon Sturge remained a Non-Executive Director and Chair of the Remuneration Committee until his resignation from the Board on 18 January 2016. On 18 January 2016 Stuart Collinson was appointed as a Non-Executive Director replacing Simon Sturge, resigning from the Board on 5 April 2016. On the same date, Lars Karlsson resigned from the Board. On 17 June 2016 Timothy Freeborn and Dr. Michael Khan both resigned from the Board. This reflected the strategy of refocusing the Board to have a majority of Non-Executive Directors.

Looking ahead
2017/18 will be a critical period in the field of RNAi. As well as announcing our own GalNAc-siRNA pipeline candidates, we also await important readouts from competitor clinical studies which will add

not only to the viability of RNAi as a new class of therapeutic but will also potentially have a significant impact upon the value of our IP portfolio. Drug development is a unique industry with a unique set of risks and challenges. The often incomplete knowledge of human biology, coupled with extremely long product life cycles and a requirement for significant amounts of capital, can be difficult to manage. In summary, we do this because it matters, and because we believe that RNAi will have a substantial impact on medical practice while also transforming some of the business risks above to a smoother outcome. We look forward to 2017 with great anticipation and excitement.

Ali Mortazavi
Chief Executive Officer

28 March 2017

FINANCIAL REVIEW

During 2016 Silence has carefully transitioned its R&D spend into the field of GalNAc conjugates. The year-end cash position of £39M will allow the Company to progress its pipeline of pre-clinical candidates towards IND filings.

Revenue
Revenue of £0.8m (2015: £nil) is a milestone payment receivable under a licence from Quark Pharmaceuticals.

Research and development expenditure
Research and development expenditure increased to £8.7m during the year (2015: £7.1m). The additional investment included patent filing & prosecution costs as well as a greater use of reagents within testing.

Administrative expenses
Administrative expenses during the year increased to £4.0m (2015: £2.7m). Salaries & related costs increased by £0.8m. The variance included one-off payments to leavers, and higher bonus expenses as the bonus scheme was expanded across the business. Separately, 2015 included a miscellaneous provision release of £0.3m which was not repeated.

Financial income
Bank interest included in finance income remained at £0.2m (2015: £0.2m) in line with the average cash balances.

The foreign exchange gain was £1.4m (2015: £0.2m). This was primarily due to the impact upon Euro cash balances of the mid-year fall in Sterling versus the Euro.

Taxation
During the year, we received a research and development tax credit of £1.6m in the UK in respect of R&D expenditure in 2015. We have accrued £1.6m recognising a current tax asset in respect of 2016 research and development tax credits (2015: £1.3m) as we are now confident we are able to make this claim for the year.

Liquidity, cash & cash equivalents
The Group's cash & cash equivalents at year end totalled £39.0m, (2015: £51.9m). The cash outflow from operating activities was £10.1m (2015: £8.3m) against an operating loss of £11.9m (2015: £9.8m).

Other balance sheet items
Current trade & other receivables at year end totalled £1.4m (2015: £0.4m). The rise was due to the revenue receivable under the licence agreement from Quark (£0.8m).

Trade & other payables increased from £1.1m in 2015 to £1.6m in 2016. The 2015 accounts payable balance was low due to a high level of December 2015 payments which was not repeated in December 2016.

Financial assets available for sale are primarily the ordinary shares in Arrowhead Pharmaceuticals Inc. purchased in December 2016. At year end the investment was marked to market at £4.4m. The unrealised gain of £0.1m was recognized in the consolidated statement of comprehensive income.

Goodwill at year end was £7.7m (2015: £6.7m). The movement in goodwill during the year related to foreign exchange.

Post year end events
During January 2017, Silence purchased a further 4.5% of the issued share capital of Arrowhead Pharmaceuticals Inc. for an additional purchase price of £4.9m, bringing the total holding to 9.2%, as announced on 13 January 2017.

David Ellam
Chief Financial Officer and Company Secretary

28 March 2017

CONSOLIDATED INCOME STATEMENT
year ended 31 December 2016

	Unaudited 2016 £000s	Audited 2015 £000s
Revenue	770	—
Research and development costs	(8,711)	(7,114)
Administrative expenses	(3,965)	(2,655)
Operating loss	(11,906)	(9,769)
Finance and other income	1,544	340
Loss for the year before taxation	(10,362)	(9,429)
Taxation	1,922	2,784
Loss for the year after taxation	(8,440)	(6,645)
Loss per ordinary equity share (basic and diluted)	(12.1p)	(10.4p)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
year ended 31 December 2016

	Unaudited 2016 £000s	Audited 2015 £000s
Loss for the year after taxation	(8,440)	(6,645)
Other comprehensive income/(expense), net of tax: Items that may subsequently be reclassified to profit & loss:		
Exchange differences arising on consolidation of foreign operations	1,705	(616)
Unrealised gain on financial assets available for sale	118	-
Total other comprehensive income/(expense)	1,823	(616)
Total comprehensive expense for the year	(6,617)	(7,261)

CONSOLIDATED BALANCE SHEET
at 31 December 2016

	Unaudited 2016 £000s	Audited 2015 £000s
Non-current assets		
Property, plant and equipment	1,375	1,093
Goodwill	7,709	6,663
Other intangible assets	45	6
Available-for-sale financial assets	4,417	—
Other receivables	236	233
	13,782	7,995
Current assets		
Trade and other receivables	1,397	370
R&D tax credit receivable	1,600	1,271
Investments held for sale	3	2
Cash and cash equivalents	39,012	51,907
	42,012	53,550
Current liabilities		
Trade and other payables	(1,610)	(1,118)
Total assets less current liabilities	54,184	60,427
Net assets	54,184	60,427
Capital and reserves attributable to the owners of the parent		
Share capital	3,490	3,490
Capital reserves	163,641	165,074
Translation reserve	3,003	1,298
Profit and loss account (deficit)	(115,950)	(109,435)
Total equity	54,184	60,427

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
year ended 31 December 2016

	Share capital	Capital reserve	Translation reserve	Accumulated Losses	Total equity
	£000s	£000s	£000s	£000s	£000s
At 1 January 2015 (audited)	2,605	126,197	1,914	(102,958)	27,758
Recognition of share-based payments	—	777	—	—	777
Lapse of vested options in period	—	(168)	—	168	-
Shares issued in year, net of expenses	885	38,268	—	—	39,153
Transactions with owners	885	38,877	—	168	39,930
Loss for year to 31 Dec 2015	—	—	—	(6,645)	(6,645)
Other comprehensive income					
Exchange differences arising on consolidation of foreign operations	—	—	(616)	—	(616)
Total comprehensive expense for the year	—	—	(616)	(6,645)	(7,261)
At 1 January 2016 (audited)	3,490	165,074	1,298	(109,435)	60,427
Recognition of share-based payments	—	475	—	—	475
Lapse of vested options in period	—	(843)	—	843	—
Share options repurchased	—	(1,065)	—	964	(101)
Transactions with owners	—	(1,433)	—	1,807	374
Loss for year to 31 Dec 2016	—	—	—	(8,440)	(8,440)
Other comprehensive income					
Exchange differences arising on consolidation of foreign operations	—	—	1,705	—	1,705
Unrealised gain on financial assets available for sale	—	—	—	118	118
Total comprehensive expense for the year	—	—	1,705	(8,322)	(6,617)
At 31 December 2016 (unaudited)	3,490	163,641	3,003	(115,950)	54,184

CONSOLIDATED CASH FLOW STATEMENT
for the year ended 31 December 2016

	Unaudited 2016 £000s	Audited 2015 £000s
Cash flow from operating activities		
Loss before tax	(10,362)	(9,429)
Depreciation charges	302	180
Amortisation charges	8	2
Charge for the year in respect of share-based payments	475	777
Finance & other income	(1,544)	(175)
Corporation tax credits received	1,594	1,513
(Increase) in trade and other receivables	(1,030)	(228)
Increase/(Decrease) in trade and other payables	491	(895)
Net cash outflow from operating activities	(10,066)	(8,255)
Cash flow from investing activities		
Decrease in other financial assets	—	5,000
Acquisition of financial assets available for sale	(4,299)	—
Interest received	161	175
Purchases of property, plant and equipment	(492)	(843)
Purchases of intangible assets	(45)	(7)
Net cash inflow/(outflow) from investing activities	(4,675)	4,325
Cash flow from financing activities		
Proceeds of issue of share capital, net of issue costs of £1,105k	—	39,153
Share options repurchased	(101)	—
Net cash inflow/(outflow) from financing activities	(101)	39,153
(Decrease)/Increase in cash and cash equivalents	(14,842)	35,223
Cash and cash equivalents at start of year	51,907	16,857
Net (decrease)/increase in the year	(14,842)	35,223
Effect of exchange rate fluctuations on cash held	1,947	(173)
Cash and cash equivalents at end of year	39,012	51,907

NOTES
year ended 31 December 2016

1 Basis of preparation

Silence Therapeutics plc ("the Company") and its subsidiaries (together "the Group") are primarily involved in the research and development of novel pharmaceutical products. Silence Therapeutics plc, a Public Limited Company incorporated and domiciled in England, is the Group's ultimate parent Company. The address of Silence Therapeutic plc's registered office is 27-28 Eastcastle Street, London W1W 8DH and the principal place of business is 72 Hammersmith Road, London W14 8TH.

The unaudited financial information set out in this statement does not constitute the Company's statutory accounts for the years ended 31 December 2015 or 31 December 2016, as defined in section 434 of the Companies Act 2006. The auditors have not yet reported on the 2016 accounts.

Statutory accounts for 2015 have been delivered to the Registrar of Companies and those for 2016 will be delivered in due course. The Company's auditors PwC, have reported on the 2015 accounts; their report was unqualified, did not draw attention to any matters by way of emphasis without qualifying their report and did not contain statements under s498 (2) or (3) Companies Act 2006. Whilst the financial information included in this announcement has been computed in accordance with International Financial Reporting Standards as adopted by the EU ("IFRS") this announcement does not itself contain sufficient information to comply with IFRS.

The principal accounting policies used in preparing this preliminary results announcement are those that the Company will apply in its statutory accounts for the year ended 31 December 2016 and are unchanged from those disclosed in the Company's Annual Report and Accounts for the year ended 31 December 2015.

Full financial statements for the year ended 31 December 2016 will be posted to shareholders in April 2017.

2 Going concern

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

As at 31 December 2016 the Group had cash balances of £39.0m (including a Euro cash balance of €13.4m). The Directors have reviewed the working capital requirements of the Group for the next twelve months and are confident that these can be met.

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

3 Loss per share

The calculation of the loss per share is based on the loss for the financial year after taxation of £8.4m (2015: loss £6.6m) and on the weighted average of 69,801,624 (2015: 64,023,900) ordinary shares in issue during the year.

The options outstanding at 31 December 2016 and 31 December 2015 are considered to be non‑dilutive as the Group is loss making.

4 Related party transactions

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

	2016 £000s	2015 £000s
Pharmalogos Limited		
Expenses charge for services	—	20
Balance owed at 31 December 2016/2015	—	—

Pharmalogos Limited, a company controlled by Dr Stella Khan, wife of Dr Michael Khan, supplied research services to Silence Therapeutics plc until February 2015.