SILENCE THERAPEUTICS

Silence Therapeutics plc

Annual report and financial statements 2013

ABOUT US

Silence Therapeutics is a global leader in the discovery, development and delivery of novel RNA therapeutics for the treatment of serious diseases.

RNA interference, a Nobel Prize winning technology, is one of the most exciting areas of drug discovery today and one of our established core research strengths.

Visit us online
silence-therapeutics.com

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SILENCE THERAPEUTICS AT A GLANCE

Gene silencing

- patented form of siRNA trigger: AtuRNAi; and
- over 300 patients treated to date, no evidence of adverse effects or immune response.

Delivery of gene silencing siRNA

- own delivery systems that do not require anti-inflammatory or immuno suppressive pre-treatments;
- safety and tolerability demonstrated using AtuPlex systemic delivery in the clinic;
- DACC lung delivery showing the same level of gene knockdown in non-human primates as in rodents; and
- other delivery systems under further development.

Current own clinical asset: Atu027

- AtuRNAi silencing PKN3 + AtuPlex = Atu027;
- stabilises the vasculature to prevent the penetration of cancer cells into and out of the bloodstream;
- used in combination with tumour-suppressing chemotherapy; and
- currently in safety trial in pancreatic cancer, to enter a Phase 1b in head and neck cancer later this year.

Pre-clinical programmes

- work under way testing three cargos: siRNAs, microRNAs and messenger RNAs; and
- focus on vascular indications.

Research and development engine

- RNAi + delivery + expertise and testing facilities = development programme;
- potential to enter quickly into the clinic at a relatively low cost; and
- developing pipeline to showcase the strength of our technology.

Cash resources

- £28.3m of cash in the bank following April 2014 fundraising.

HIGHLIGHTS

During the year

- completed Phase 1b trial in Atu027 in combination with chemotherapy agent gemcitabine;
- commenced Phase 2a Atu027 combination study for pancreatic cancer;
- £19.0m gross funds raised through equity placing;
- commenced non-human primate studies using other deliveries; and
- agreed plan for Phase 1b study for Atu027 head and neck cancer together with University of Birmingham.

Post year end events

- in April 2014, £11.4m gross funds were raised through an equity placing; and
- confirmed both messenger RNA and protein knockdown using DACC delivery system in non-human primates.

CHIEF EXECUTIVE'S REVIEW

"We will use our technology to change patient lives for the better, and in the process, build shareholder value."

Ali Mortazavi
Chief Executive

This was a pivotal year for us as we accelerated our journey towards becoming a leading drug development company. Building on our core platform technology, we took our lead product into Phase 2 and further programmes into advanced pre-clinical development.

Our key focus on RNA interference (RNAi) technology is a very exciting area of development and there is growing recognition of the rapidly maturing potential of RNAi therapeutics. We have a clear strategy and pipeline in place with achievable timelines for development milestones, which are already starting to be met.

This year, we completed the lead-in 1b oncology safety study for Atu027 in combination with gemcitabine and began the Phase 2a pancreas cancer study. Plans were also outlined for Phase 1b head and neck cancer trials. We have progressed Atu111, using our DACC delivery, for acute lung injury, from pre-clinical research into development and initiated the parallel study, Atu112, also into acute lung injury, using our AtuPlex delivery. We are also establishing a clinical engine targeting vascular indications and are enhancing our capabilities in translational medicine and clinical development.

All this was supported by the £18.7m (net) fundraising in April 2013. This backing from our shareholders was a great endorsement of the strengths of our technology and the potential of our platform. The funds have allowed us to invest in our infrastructure and development pipeline and will help us to achieve our aim of running clinical trials in a cost efficient way to reach value inflection points early and to identify diseases where there is a significant medical need, and the required target profile for new drugs.

This support was demonstrated again in April 2014, with £10.9m (net) raised, enabling longer term strategic planning and resourcing and further investment in our pipeline beyond short interfering RNAs (siRNA) to microRNAs (miRNA) and messenger RNAs (mRNA).

Atu027

The Phase 1b pancreatic lead-in oncology safety study for Atu027 was successfully completed in Q2 2013. Dosing of patients in the Phase 2a study began in Q3 and has steadily expanded as we recruited more centres across Germany. The study is primarily for safety and we expect to complete recruitment this year, with follow-up analysis by mid-2015.

In November we announced the plan for a Phase 1b investigator-led study with the University of Birmingham using Atu027 for head and neck squamous cell carcinoma in combination with current best therapy. We expect this study to begin recruitment in H2 2014 and to take nine to twelve months. Head and neck cancer is strongly associated with metastases to the lung. The study will also yield valuable before and after tissue samples. Depending on results, we aim to take this programme into a full randomised control trial at Phase 2.

Atu111: acute lung injury

In mid-2013 we decided to advance Atu111 from pre-clinical discovery to development, with the target of filing an Investigational New Drug application (IND) in H2 2014 or H1 2015. Atu111 uses our DACC delivery system which targets the lung vasculature. The siRNA payload targets Angiopoietin 2 (Angpt-2), a widely researched vascular inflammatory agent. In parallel with Atu111 we are also researching the targeting of Angpt-2 with Atu112, this time using systemic delivery with AtuPlex, which is used in Atu027.

Further pipeline development

In H2 2014 we aim to select a further candidate from our pre-clinical engine. We have achieved encouraging results with miRNA payloads in mouse models.

We will continue to expand our diversified delivery capabilities to increase the power and output of the Company's pre-clinical engine and leverage delivery capabilities for new payloads with therapeutic potential. The clinical focus remains on endothelial dysfunction.

As announced since the year end, we have shown gene knockdown in non-human primates using our RNA lung delivery system, DACC (further information is available on our website at http://www.silencetherapeutics.com/deliveryplatform). This confirms that we have a broad delivery capability in RNA therapeutics with validated delivery systems in the lung and the vasculature in vitro, in rodents and in non-human primates. The Company's systemic vasculature delivery system, AtuPlex, is also currently being used in human clinical trials with an excellent safety profile.

Our licensee, Quark Pharmaceuticals, expects to announce the results of its Phase 2 trials into delayed graft function for kidney transplant patients later in H1 2014, and for delayed macular edema in H2. Quark used naked RNAi in those trials. All of Silence's own programmes use chemistry to enhance delivery of the siRNA.

Strengthening the Board of Directors and the Scientific Advisory Board

During the year we welcomed Annie Cheng to the Board firstly as Director of Corporate Development and from November as Chief Operating Officer. At that time we said goodbye to David Mack, a Non-Executive Director, and to Jerry Randall, who was our Executive Chairman. We thank them for their contribution.

We welcomed three experienced Non-Executive Directors with deep experience of biotechnology. Simon Sturge became Non-Executive Chairman. He was for many years Chief Executive of Vernalis. Dr Stephen Parker, Chairman of our Audit Committee, has been an investment banker and was also Finance Director of Oxford Glycosciences. Dr Alastair Riddell, Chairman of the Remuneration Committee, was Chief Executive of Pharmagene.

The Scientific Advisory Board gained four new members:

- Dr Trevor Littlewood, Cambridge University, oncology;
- Dr Sascha David, Hannover Medical School, acute lung injury;
- Professor Justin Stebbing, Imperial College, oncology; and
- Professor Gerhard Winter, Munich University, chemistry.

Strategy

The Company's strategy with its future pipeline is to target indications, which small molecule drugs and monoclonal antibodies have tried but failed to address, either through off target side effects or lack of efficacy; usually the result of lack of adequate specificity for the target protein or inability to sufficiently mitigate target activity in the disease-relevant tissue location.

RNA interference can exploit the power of Watson-Crick base pairing to successfully target proteins that are not druggable by alternative technologies. Moreover, by preventing the production of disease-causing proteins, through degradation and/or translational inhibition, the potentially harmful effects of the protein can be forestalled more efficiently than by attempts at using chemicals to interfere with the activity of disease-relevant proteins.

Our chemistry delivers our therapeutic oligonucleotides to the endothelial cells of the vasculature. This focuses our clinical pipeline development on disorders of or those mediated by the endothelial cells, but this includes many important diseases of man and a large number of unmet needs or orphan scenarios.

We are narrowing down our chosen pipeline targets by concentrating on indications with substantial unmet need and where there are highly representative animal models, where we can obtain early biomarkers for action and surrogate endpoints for efficacy. When coupled with the ability to directly use therapeutic entities for all stages of pre-clinical development and screening, we believe that this approach greatly reduces the inherent risk of drug development and will give us recognition from investors at a much earlier stage than is possible with small molecule drugs.

Work will continue to improve our delivery technology in order to increase the range of tissues at our disposal and to improve potency and duration of action, and potentially to in-licence further capabilities. We will also continue to explore the potential of delivering alternative cargos with our nano particle systems, including microRNAs and in the longer term messenger RNAs.

Outlook

Thanks to our recent and earlier fundraisings the Company is well placed to take advantage of the potential within its RNAi platform technology. As one of only six quoted companies globally with well-validated RNA delivery technology, we have a robust IP estate and an advanced pipeline in the global RNAi field, with three Phase 2 trials completed (pending results). With a strong balance sheet, clear strategy and improving infrastructure, we look forward to making good progress during 2014.

Ali Mortazavi
Chief Executive

28 May 2014

FINANCIAL REVIEW

"During 2013 Silence significantly improved its cash position through the £18.7m net proceeds of its equity placing in April 2013."

Timothy Freeborn
Finance Director

The funds raised have allowed the Company to begin new clinical and pre-clinical programmes.

Revenue

Revenue generated during the year reduced by £46k to £117k (2012: £163k).

Research and development expenditure

Research and development expenses during the year increased to £5.6m (2012: £3.4m). The increase reflects the rising spend on our clinical and pre-clinical programmes.

Administrative expenses

Administrative expenses during the year increased to £3.5m (2012: £2.6m). This increase is largely explained by the rise in the charge for share-based payments from £0.7m in 2012 to £1.4m, which mainly falls within administrative expenses.

Finance income

Finance income was higher at £70k (2012: £18k) mainly due to higher average cash balances during the year.

Taxation

No corporation tax was payable in either 2013 or 2012.

Liquidity, cash, cash equivalents and money market investments

The Group's cash position at year end was £20.9m, which includes the £5.0m deposit at Investec Bank plc, described as 'Other financial assets', which is repayable in May 2014. At the end of 2012, Silence had cash of £8.9m. A total of £18.8m net was raised during 2013 through the placing, exercise of warrants and options.

The net cash outflow from operating activities in 2013 was £6.8m (2012: £4.9m) against an operating loss of £9.0m (2012: £26.3m).

Trade and other receivables at year end were £390k (2012: £148k) and trade and other payables were £1.7m at year end (2012: £1.0m). The increase in payables reflects the rise in research spending at year end.

Goodwill at year end was £7.5m (2012: £7.3m). The movement in goodwill during the year related to foreign exchange.

Timothy Freeborn
Finance Director and Company Secretary

28 May 2014

RISK FACTORS

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

The management and mitigation of risks are a key focus for the Board. The Board has established a monthly agenda, including but not limited to a financial update, corporate development update and update on operations to oversee the management and mitigation of the principal risks faced by the Group, as set out below. The operational update includes a review of both pre-clinical and clinical activities.

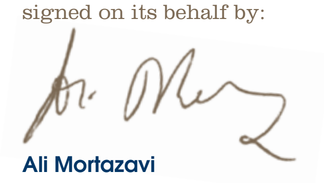
The Board periodically reviews the significant risks facing the business; this review includes identifying operational risks, compliance risks and risks to the achievement of goals and objectives. Board review meetings occur monthly. Set out below are the key risk factors associated with the business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

Principal risks		Action taken to manage these risks
Economic and financial risk	• very high costs of product development, where products have lead times to market of many years; • lack of substantial recurrent revenue stream; • small portfolio of products; and • subject to foreign currency exchange fluctuations.	• accounts are reviewed on a monthly basis; • cash position reviewed regularly vs. the budget (budget approved by Board); and • all payments handled within framework of authorisation limits.
Clinical and regulatory risk	• drug candidates may not be successful due to an inability to demonstrate in a timely manner the necessary safety and efficacy in a clinical setting to satisfaction of regulatory bodies (FDA, EMA); and • reliance on third parties to conduct clinical trials.	• use of external third party regulatory experts; • use of the Scientific Advisory Board; • no materials released unless approved by Qualified Person at the suppliers; and • the Company has taken out insurance against risks to patients.
Competition risk and intellectual property risk	• intellectual property may expire before products are successful commercially; and • increased interest and with that increased competition in the RNA technology sector.	• staff dedicated to monitoring market developments and providing competitor/peer analysis; and • use of experienced IP advisers.

Financial and non-financial key performance indicators ("KPIs")

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

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



Ali Mortazavi
Chief Executive

28 May 2014

BOARD OF DIRECTORS







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1 Ali Mortazavi
2 Annie Cheng
3 Timothy Freeborn
4 Dr Michael Khan
5 Simon Sturge
6 Dr Alastair Riddell
7 Dr Stephen Parker

Ali Mortazavi
Chief Executive
Ali Mortazavi has over 17 years of experience in financial services. He started his career as a technology analyst at Duncan Lawrie then Credit Lyonnais Securities. In 2001, he co-founded Evolution Securities and ran the principal trading and market making arm, leaving in 2008. He has extensive experience in small companies and has significant stakes in UK listed technology/biotechnology ventures.

Annie Cheng
Chief Operating Officer
Annie Cheng joined the Company in May 2013. Annie has 14 years of experience in the healthcare industry, in equity research and consulting. While in equity research, Annie covered a wide range of European and US healthcare stocks with a diverse range of market capitalisation, business models, and therapeutic focus. Annie moved to London with JPMorgan when she transferred from the US Large Cap Pharma research team in New York to lead the European Biotechnology research efforts in London. After JPMorgan, Annie worked in research for boutique banks and was involved in fundraisings for small European healthcare companies totalling over €200 million. Annie then founded a consultancy where she advised a number of biotechnology companies in corporate development and communications with the investor community.

Timothy Freeborn BA ACA

Finance Director and Company Secretary

Timothy Freeborn joined the Company in August 2012. Previously he was head of research at Xcap Securities and an analyst at Evolution Securities. After qualifying as a chartered accountant he left practice to become a journalist. For twelve years he worked in the Daily Mail City Office covering biotechnology, electronics and real estate.

Dr Michael Khan BSc, MBBS, PhD, FRCP

Director and Chief Medical Officer

Dr Michael Khan is the former Head of Molecular Medicine at the University of Warwick and a consultant physician and the Director of the Lipid and Coronary Prevention Clinics for Warwickshire. He is an expert advisor to the UK Clinical Guidelines Development Group and The National Institute for Clinical Excellence (NICE). He has served on numerous advisory boards for pharmaceutical companies.

He is a highly cited researcher and experienced clinician with a long track record in metabolic medicine and cancer biology research as well as in the running of clinical trials. He has written several books on diabetes, cholesterol problems and cancer biology and teaches postgraduates and undergraduates in medicine and biological sciences in these areas. He and co-workers have made important contributions to further the understanding of cancer cell biology and diabetes and are working on identifying novel tissue-based biomarkers for colorectal cancer and the development of novel diagnostic tools. He is a fellow of the Royal College of Physicians of London and a member of the Association of Physicians, HEART UK and Diabetes UK and has acted as an expert adviser to numerous national and international organisations in both the public and private sectors.

Simon Sturge

Chairman

Simon Sturge has over 32 years of experience in the pharmaceutical and biotechnology industries. For nine years he was at Celltech and for the latter part of this time on the Celltech Group Board. For ten years he was CEO of a biotechnology company that he founded and built to a point where, as Vernalis plc, it was listed on both the FTSE and NASDAQ exchanges, with two products on the market and a sales force in the US. Most recently he was Corporate Senior Vice President of Biotechnology for one of the world's top 15 pharmaceutical companies. Simon has significant experience in strategy development, deal making and financing. This experience covers both small molecules and proteins and in recent years he has built significant experience in the area of Biosimilars. Since March 2014 he has been heading the Biosimilars unit at Merck KGaA. Simon is routinely asked to speak at conferences including attendance at the World Economic Forum as an invited entrepreneur in 2005.

Dr Alastair Riddell

Non-Executive Director

Dr Alastair Riddell has significant experience at board level in life sciences and drug discovery and development companies. He is currently Chairman of Definigen and past Chairman of Surface Therapeutics and Procure Therapeutics. He has been Non-Executive Director of Sareum and CXR Biosciences. As CEO of Pharmagene he completed a successful IPO on the UK main list, as CEO of Paradigm Therapeutics he completed a successful trade sale to Takeda and as CEO of Stem Cell Sciences a trade sale to Stem Cells Inc (NASDAQ). He was a board member of the BIA for ten years. He began his professional career as a medical doctor and Army officer with six years' experience in a variety of hospital specialties and in general practice. He then moved into industry directing clinical trials in all phases (1-4) for ten years before moving to sales, marketing and general management in international pharmaceutical, life science and biotechnology companies, including Celltech, Centocor and Amersham International.

Dr Stephen Parker

Non-Executive Director

Dr Stephen Parker has over 30 years of experience working with and within the biotechnology and pharmaceutical industries. He was a Partner in Celtic Pharma from 2005 until 2013 and served as Executive Chairman of Cantab Biopharmaceuticals Limited. He has experience within the biotechnology sector as Chief Financial Officer of Oxford Glycosciences ("OGS") (2000-2002) and through several interim CEO projects. At OGS he played a leading role in raising £170m in the largest UK follow-on equity fundraising for a biotechnology company. He also led the creation of a joint venture, Confirmant Limited, with Marconi plc to exploit database applications of the proteomics platform in order to create diagnostics with which to develop a personalised medicine offering. He is co-founder of the UK Stem Cell Foundation. Prior to joining OGS, he was a healthcare sector investment banker with experience in both big pharma and biotechnology. He was a senior banker with Barings, Warburg and Apax Partners. Stephen also has experience as a strategic consultant with PA Consulting Group. Stephen holds a DPhil. in biochemistry from Oxford University and an MBA from City University, London. He served on the Finance Committee of the UK BioIndustry Association from 2001 to 2009.

CORPORATE GOVERNANCE REPORT

"...applying sound governance principles... is essential to provide a solid platform for growth and to maintain the trust of our stakeholders."

Simon Sturge
Non-Executive Chairman

As Chairman I would like to state my full commitment to maintaining high standards of corporate governance and to being transparent about our arrangements and intentions for future improvement.

Dear Shareholder,

Principles of corporate governance

As a Board we recognise that applying sound governance principles in running the Company is essential to provide a solid platform for growth and to maintain the trust of our stakeholders. Without this the Company would be unable to deliver its objectives and strategy for developing the next generation of RNA therapeutics. The Company has given its commitment to consideration of the UK Corporate Governance Code (the UK Code) as a basis for guiding its governance structures. However, it is recognised that some aspects of the UK Code are not relevant for AIM companies such as Silence. We have decided, therefore, to also use the Quoted Companies Alliance Corporate Governance Code (the QCA Code) against which to measure our progress as the QCA Code is more applicable for small and medium sized companies.

During the year the Company carried out a review of its governance procedures and practices and has taken the opportunity to renew and refresh several of its policies and practices as a result. Some of these new procedures are still being developed to ensure they are appropriate for the Company and will be in place during 2014. Further information is given in the following report. We believe this has given us a firm foundation for working towards compliance with the UK Code in the near to medium term.

The Board

The Board has undergone major changes in 2013 as the need of having a set of skills that supports the Company's ambitions was recognised. Several new Directors have been appointed including a new Chairman, Chief Operating Officer (the first female appointment to the Board) and two independent Non-Executive Directors. I believe we now have a Board that will support and challenge management to deliver its objectives.

As Chairman I would like to state my full commitment to maintaining high standards of corporate governance and to being transparent about our arrangements and intentions for future improvement. This report should be seen as a step towards these goals which will further develop as the Company evolves.

Simon Sturge
Chairman

28 May 2014

An effective management framework
Operation of the Board and its Committees
The role of the Board
During the year the Board approved a new Schedule of Matters Reserved for the Board which sets out the Board's responsibilities. The key tasks of the Board are:

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

Composition of the Board
The Board consists of seven Directors: four Executive Directors and three Non-Executive Directors including the Chairman. It is therefore now compliant with the UK Code requirement that companies below the FTSE 350 should have at least two independent Directors. The Board's current composition is geared towards its current stage of development and priorities. The skill set of the Board includes extensive knowledge of the pharmaceutical and biotechnology industries, financial services and corporate finance, and experienced researchers and clinicians. Details of each of the Directors' experience and background are given in their biographies on pages 06 and 07.

Appointments to the Board and re-election
The Board has delegated the tasks of reviewing Board composition, searching for appropriate candidates and making recommendations to the Board on candidates to be appointed as Directors to the Nomination Committee. Further details on the role of the Nomination Committee may be found on page 11.

With regard to re-election of Directors the Company is governed by its Articles of Association ("Articles"). Under the Articles, the Board has the power to appoint a Director during the year but any person so appointed must stand for election at the next Annual General Meeting. Any Director who has been a Director at each preceding two Annual General Meetings and has not been re-appointed since, must retire from office at the next Annual General Meeting. The Director is then eligible to stand for re-appointment by the shareholders. Simon Sturge, Stephen Parker and Alastair Riddell will stand for election at the 2014 Annual General Meeting having been appointed as Directors since the last Annual General Meeting.

Development, information and support
The Directors are encouraged to attend training and continuing professional development courses as required. Updates are given to the Board on developments in governance and regulations as appropriate. For example, a briefing on governance standards and key policies appropriate for an AIM company was given to the Board during the year.

The Finance Director, Timothy Freeborn, is also the Company Secretary and supports the Chairman in ensuring that the Board receives the information and support they need in order to carry out their roles.

The new Directors that joined during 2013 are currently working through an induction programme. Board meetings are also on occasion held in Germany to give the Non-Executive Directors a chance to meet with our staff in Germany as well as in London.

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.

Operation of the Board and its Committees continued

Performance evaluation

A formal performance evaluation has not been carried out during the year as many of the Board members, including the Chairman, are new to the Company. There needs to be a period of time over which the Board operates together before any meaningful assessment can be made. It is therefore proposed to carry out an internal evaluation exercise on the Board and its Committees during the year/early in 2015.

The Board Committees

Membership of all three Board Committees is composed of the Chairman and the two Non-Executive Directors. As such they are now compliant with both the UK and QCA Codes.

Each Board Committee has approved new Terms of Reference during the year setting out their responsibilities. 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.

Audit Committee Report

Members of the Audit Committee

The Committee consists entirely of independent Non-Executive Directors. The Chairman, Stephen Parker, is an affiliate of the Institute of Chartered Accountants in England and Wales and has extensive financial experience.

Stephen Parker (Chairman)
Alastair Riddell
Simon Sturge

Duties

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

- to monitor the integrity of the financial statements of the Company, including its annual and half year reports;
- to review and challenge where necessary any changes to, and consistency of, accounting policies, whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor, the going concern assumption and all material information presented with the financial statements;
- to keep under review the effectiveness of the Company's internal control systems (including financial, operational and compliance controls and risk management) and to review and approve the statements to be included in the annual report and financial statements concerning internal controls and risk management;
- to regularly assess the need for an internal audit function;
- to consider and make recommendations to the Board, to be put to shareholders for approval at the Annual General Meeting, in relation to the appointment, re-appointment and removal of the Company's external auditor;
- to ensure that at least every ten years the audit services contract is put out to tender, in respect of the tender to oversee the selection process;
- to oversee the relationship with the external auditor including approval of their remuneration, approval of their terms of engagement, annual assessment of their independence and objectivity taking into account relevant professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services;
- to meet regularly with the external auditor and at least once a year, without any Executive Director or other member of management present to discuss any issues arising from the audit;
- to review and approve the annual Audit Plan and review the findings of the audit; and
- to review the Company's arrangements for its employees and contractors to raise concerns in confidence about possible improprieties in financial reporting or other matters, the Company's procedures for detecting fraud and the Company's anti-bribery procedures.

Activities in 2013

As the Non-Executive Directors that make up the membership of the Committee only joined towards the end of 2013 the Committee did not meet during 2013 with its current compliant membership. It has however met so far in 2014 to discuss the Preliminary Announcement and also again to consider the external auditor's report and the annual report and financial statements as detailed below.

Role of the external auditor

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

Internal audit

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

Audit process

The auditors prepare an Audit Plan for the audit of the full year financial statements as well as performing review procedures over the half year financial statements. The Audit Plan sets out the scope of the audit, areas to be targeted and audit timetable. Following their audit, the auditors presented their findings to the Audit Committee for discussion. No major areas of concern were highlighted by the auditors during the year.

Priorities for the Audit Committee in 2014:

- establish written policies safeguarding auditor independence;
- review/enhance risk reporting; and
- review anti-bribery/fraud/whistleblowing procedures.

Remuneration Committee Report

Members of the Remuneration Committee

The Committee consists entirely of independent Non-Executive Directors as follows:

Alastair Riddell (Chairman)
Stephen Parker
Simon Sturge

Duties

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

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

Activities in 2013

As the Non-Executive Directors that make up the membership of the Committee only joined towards the end of 2013 the Committee did not meet during 2013 with its current compliant membership. It has however met so far in 2014 to commence developing an appropriate remuneration policy taking into account recent legal and regulatory requirements. The Committee will continue to work on this as a priority during 2014.

Nomination Committee Report

Members of the Nomination Committee

The Committee consists entirely of independent Non-Executive Directors:

Simon Sturge (Chairman)
Stephen Parker
Alastair Riddell

Nomination Committee Report continued

Duties

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

- regularly review the structure, size and composition (including the skills, knowledge, experience and diversity) required of the Board compared to its current position and make recommendations to the Board with regard to any changes;
- give full consideration to succession planning for Directors and other senior Executives in the course of its work, taking into account the challenges and opportunities facing the Company, and what skills and expertise are therefore needed on the Board in the future;
- be responsible for identifying and nominating for the approval of the Board, candidates to fill Board vacancies as and when they arise;
- formulate plans for succession for both Executive and Non-Executive Directors and in particular for the key roles of Chairman and Chief Executive;
- assess 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
- assess 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.

Priorities for the Nomination Committee in 2014:

- diversity policy; and
- succession planning.

Accountability

Internal controls and risk management

The Company has in place a system of internal financial controls commensurate with its current size and activities, which is designed to ensure that the possibility of misstatement or loss is kept to a minimum. These procedures include the preparation of management accounts, forecast variance analysis and other ad hoc reports. A Financial Procedures Manual sets out minimum reporting standards. Risks throughout the Group are considered and reviewed on a regular basis. Risks are identified and mitigating actions put into place as appropriate. Principal risks identified are set out in the strategic report on page 05.

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

Financial and business reporting

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

Relations with shareholders

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

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

This year's Annual General Meeting of the Company will be held on 27 June 2014. The Notice of Annual General Meeting is included with the annual report and financial statements and is available on the Company's website. Separate resolutions are provided on each issue so that they can be given proper consideration. Proxy votes are counted and the level of proxies lodged on each resolution reported after it has been dealt with on show of hands.

DIRECTORS' REMUNERATION REPORT

Dear Shareholder,

This is the Company's first Directors' remuneration report since the Company listed on AIM in February 2005. One of the main purposes of the report is to support the Board's goals of working towards best practice corporate governance standards. We are also keen to promote transparency about how our Directors are rewarded.

The Board has undergone a radical change in 2013 and its current composition will be vital to ensure the long-term growth and success of the Company. The Remuneration Committee will play an increasingly important role in ensuring that remuneration policy underpins strategy and the long-term visionary goals of the Company.

The Remuneration Committee

The Board has delegated certain responsibilities for executive remuneration to the Remuneration Committee. Details of the Remuneration Committee, its remit and activities are set out in the corporate governance report on page 11.

Remuneration policy

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

Service agreements and termination payments

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

Director	Initial contract	Notice period by Company	Notice period by Director
Ali Mortazavi, Chief Executive Officer	31.7.12	6 months	6 months
Annie Cheng, Chief Operating Officer	14.5.13	6 months	6 months
Timothy Freeborn, Finance Director	27.7.12	6 months	6 months
Michael Khan, Chief Medical Officer	1.10.12	6 months	6 months

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

Non-Executive Directors

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

Fees

	2013
Chairman	**75,000**
Non-Executive Director fee (including chairmanship of Board committee)	**35,000**

Terms of appointment

Non-Executive Director	Year appointed	Start date	Expiry of current term	Notice
Simon Sturge	2013	21.08.13	12 months (19.7.14)	At will
Stephen Parker	2013	18.11.13	12 months (6.11.14)	3 months
Alastair Riddell	2013	18.11.13	12 months (7.11.14)	3 months

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

Annual Remuneration Report

The Annual Remuneration Report sets out details of Directors' remuneration payments during the year and information in respect of share awards and Directors' shareholdings. Please see note 6 of the financial statements for Directors' remuneration.

Share option awards table

Director	At 1 January 2013	Consolidated[1]	Exercised	Awarded	Lapsed	**At 31 December 2013**	Exercise price p	Latest date of exercise
Jerry Randall								
– Unapproved Scheme	200,000	4,000	—	—	—	**4,000**	1475.0	25 Sep 18
– Unapproved Scheme	51,842,399	1,036,848	—	—	—	**1,036,848**	25.0	31 Jul 24
Ali Mortazavi								
– Unapproved Scheme	86,403,899	1,728,078	—	—	—	**1,728,078**	25.0	31 Jul 24
Timothy Freeborn								
– Unapproved Scheme	9,500,000	190,000	—	—	—	**190,000**	25.0	27 Jul 24
– Unapproved Scheme	—	—	—	80,000	—	**80,000**	125.0	26 Jun 26
– Unapproved Scheme	—	—	—	40,000	—	**40,000**	282.0	20 Nov 26
Michael Khan								
– Unapproved Scheme	4,000,000	80,000	—	—	—	**80,000**	125.0	31 Dec 24
– Unapproved Scheme	—	—	—	80,000	—	**80,000**	125.0	26 Jun 26
Annie Cheng								
– Unapproved Scheme	—	—	—	64,000	—	**64,000**	125.0	26 Jun 26
– Unapproved Scheme	—	—	—	76,000	—	**76,000**	282.0	20 Nov 26
Total	151,946,298	3,038,926	—	340,000	—	**3,378,926**		

1 These figures have been recalculated for the 50 to 1 share consolidation that occurred in April 2013.

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

Director	Number of ordinary shares	Percentage of issued share capital
Ali Mortazavi	1,648,000	3.5%
Annie Cheng	N/A	N/A
Timothy Freeborn	4,000	0.01%
Michael Khan	1,976	0.004%
Stephen Parker	N/A	N/A
Alastair Riddell	N/A	N/A
Simon Sturge	N/A	N/A

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

Alastair Riddell
Chairman of the Remuneration Committee

28 May 2014

DIRECTORS' REPORT

The Directors present their report and the financial statements for the year ended 31 December 2013.

Principal activities

The Group is focused on the development of RNA therapeutics which incorporates its structural chemistry and delivery technologies. The Group's lead product, Atu027, is currently in a Phase 2a clinical trial.

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.

Health, safety and environment

The Directors are committed to ensuring the highest standards of health and safety, both for their employees and for the communities within which the Group operates. The Directors are also committed to minimising the impact of the Group's operations on the environment. For example, the Group has paper recycling facilities at its head office.

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 (2012: £nil).

Research and development

In 2013, the Group spent £5.6m on research and development (2012: £3.4m) of novel pharmaceutical products.

Disclosure of information to auditors

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

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

Subsequent events

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

Results and dividends

The Group recorded a loss for the year before taxation of £9.0m (2012: £26.3m). 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 the retained loss.

Directors

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

	Job title	Appointed	Resigned
Jerry Randall	Chairman		18 November 2013
David Mack	Non-Executive		26 June 2013
Ali Mortazavi	Chief Executive		
Timothy Freeborn	Finance Director		
Michael Khan	Chief Medical Officer		
Annie Cheng	Chief Operating Officer	14 May 2013	
Simon Sturge	Chairman	21 August 2013	
Alastair Riddell	Non-Executive	18 November 2013	
Stephen Parker	Non-Executive	18 November 2013	

Substantial interests

At 31 December 2013 the Company had been informed of the following substantial interests of over 3% in the issued share capital of the Company:

	Number issued	Percentage of share capital
Richard Griffiths	10,492,272	22.3%
Robert Keith	9,586,792	20.4%
Henderson Global Investors	6,115,356	13.0%
Sarossa	2,000,000	4.3%
Ali Mortazavi	1,648,000	3.5%
Aviva Investors	1,475,210	3.1%

Going concern

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

The Group had a net cash inflow for 2013 of £6.9m (2012: £5.2m) and at 31 December 2013 had cash balances of £15.9m and £5.0m on short-term deposit (2012: £8.9m). Following the fundraising announced on 28 April 2014, during which c. £11m of cash was raised, based on current forecasts the cash on hand at the date of this report will support operations into 2017.

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

Simon Sturge
Chairman

28 May 2014

STATEMENT OF DIRECTORS' RESPONSIBILITIES
in respect of the annual report, strategic report, the Directors' report and the financial statements

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

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

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

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

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

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

On behalf of the Board

Timothy Freeborn
Finance Director and Company Secretary

28 May 2014

INDEPENDENT AUDITOR'S REPORT
to the members of Silence Therapeutics plc

We have audited the financial statements of Silence Therapeutics plc for the year ended 31 December 2013 set out on pages 20 to 47. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRS") as adopted by the EU and, as regards the parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditor
As explained more fully in the statement of Directors' responsibilities set out on page 18, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements
A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements
In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2013 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRS as adopted by the EU;
- the parent Company financial statements have been properly prepared in accordance with IFRS as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

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

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

Christopher Hearn
Senior Statutory Auditor

For and on behalf of KPMG LLP
Statutory Auditor
Chartered Accountants

15 Canada Square, London E14 5GL

28 May 2014

CONSOLIDATED INCOME STATEMENT
year ended 31 December 2013

	Note	**Year ended 31 December 2013 £000s**	Year ended 31 December 2012 £000s
Revenue	3	**117**	163
Research and development costs		**(5,648)**	(3,378)
Gross loss		**(5,531)**	(3,215)
Impairment of intangible assets	5	**—**	(20,486)
Administrative expenses		**(3,541)**	(2,613)
Operating loss	5	**(9,072)**	(26,314)
Finance income		**70**	18
Gain on sale of fixed assets		**—**	12
Loss for the period before taxation		**(9,002)**	(26,284)
Taxation	8	**—**	—
Retained loss for the period after taxation		**(9,002)**	(26,284)
Loss per ordinary equity share (basic and diluted)	9	**(20.0p)**	(135.0p)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
year ended 31 December 2013

	Year ended 31 December 2013 £000s	Year ended 31 December 2012 £000s
Loss for the period after taxation	**(9,002)**	(26,284)
Other comprehensive income*:		
Exchange differences arising on consolidation of foreign operations	**292**	(714)
Total comprehensive income for the year	**(8,710)**	(26,998)

* Items that may be reclassified subsequently to profit or loss

CONSOLIDATED BALANCE SHEET
as at 31 December 2013

	Note	As at 31 December 2013 £000s	As at 31 December 2012 £000s
Non-current assets			
Property, plant and equipment	10	**218**	157
Goodwill	11	**7,549**	7,333
Other intangible assets	12	**251**	526
		8,018	8,016
Current assets			
Trade and other receivables	14	**390**	148
Investments held for sale		**2**	2
Other financial assets	15	**5,000**	—
Cash and cash equivalents	16	**15,890**	8,909
		21,282	9,059
Current liabilities			
Trade and other payables	17	**(1,724)**	(959)
Total assets less current liabilities		**27,576**	16,116
Net assets		**27,576**	16,116
Capital and reserves attributable to the Company's equity holders			
Share capital	19	**2,353**	1,872
Capital reserves	21	**114,478**	94,849
Translation reserve		**2,615**	2,323
Retained loss		**(91,870)**	(82,928)
Total equity		**27,576**	16,116

The financial statements were approved by the Board on 28 May 2014.

Timothy Freeborn
Finance Director and Company Secretary

Ali Mortazavi
Chief Executive

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

year ended 31 December 2013

	Share capital £000s	Capital reserves £000s	Translation reserve £000s	Retained loss £000s	Total £000s
At 1 January 2012	5,771	81,141	3,037	(57,772)	32,177
Recognition of share-based payments	—	656	—	—	656
Transfer to capital redemption reserve	(5,194)	5,194	—	—	—
Transfer upon:					
– lapse of vested options in the period	—	(1,128)	—	1,128	—
Shares issued in period, net of expenses (restated)	1,095	8,186	—	—	9,281
Conversion of convertible loan (restated)	200	800	—	—	1,000
Transactions with owners	(3,899)	13,708	—	1,128	10,937
Loss for the year to 31 December 2012	—	—	—	(26,284)	(26,284)
Other comprehensive income					
Exchange differences arising on consolidation of foreign operations	—	—	(714)	—	(714)
At 1 January 2013	1,872	94,849	2,323	(82,928)	16,116
Recognition of share-based payments	—	1,386	—	—	1,386
Transfer upon:					
– exercise of warrants	—	(33)	—	33	—
– lapse of vested options in period	—	(27)	—	27	—
Shares issued in period, net of expenses	481	18,303	—	—	18,784
Transactions with owners	481	19,629	—	60	20,170
Loss for the year to 31 December 2013	—	—	—	(9,002)	(9,002)
Other comprehensive income					
Exchange differences arising on consolidation of foreign operations	—	—	292	—	292
At 31 December 2013	**2,353**	**114,478**	**2,615**	**(91,870)**	**27,576**

COMPANY BALANCE SHEET
at 31 December 2013

	Note	As at 31 December 2013 £000s	As at 31 December 2012 £000s
Non-current assets			
Property, plant and equipment	10	**6**	2
Investment in subsidiaries	13	**33,908**	34,204
		33,914	34,206
Current assets			
Trade and other receivables	14	**192**	39
Other financial assets	15	**5,000**	—
Cash and cash equivalents	16	**15,600**	8,463
		20,792	8,502
Current liabilities			
Trade and other payables	17	**(443)**	(153)
Total assets less current liabilities		**54,263**	42,555
Net assets		**54,263**	42,555
Capital and reserves attributable to the Company's equity holders			
Share capital	19	**2,353**	1,872
Capital reserves	21	**114,294**	94,665
Retained loss		**(62,384)**	(53,982)
Total equity		**54,263**	42,555

The financial statements were approved by the Board on 28 May 2014.

Timothy Freeborn
Finance Director and Company Secretary

Ali Mortazavi
Chief Executive

The accompanying accounting policies and notes form an integral part of these financial statements.
Company number: 02992058

COMPANY STATEMENT OF CHANGES IN EQUITY
year ended 31 December 2013

	Share capital £000s	Capital reserves £000s	Retained loss £000s	Total £000s
At 1 January 2012	5,771	80,957	(29,287)	57,441
Recognition of share-based payments	—	656	—	656
Transfer to capital redemption reserve	(5,194)	5,194	—	—
– lapse of vested options in period	—	(1,128)	1,128	—
Shares issued in period, net of expenses (restated)	1,095	8,186	—	9,281
Conversion of the convertible loan (restated)	200	800	—	1,000
Transactions with owners	(3,899)	13,708	1,128	10,937
Loss for the year to 31 December 2012	—	—	(25,823)	(25,823)
At 31 December 2012	1,872	94,665	(53,982)	42,555
Recognition of share-based payments	—	1,386	—	1,386
Transfer to capital redemption reserve				
– exercise of warrants	—	(33)	33	—
– lapse of vested options in period	—	(27)	27	—
Shares issued in period, net of expenses	481	18,303	—	18,784
Transactions with owners	481	19,629	60	20,170
Loss for the year to 31 December 2013	—	—	(8,462)	(8,462)
At 31 December 2013	**2,353**	**114,294**	**(62,384)**	**54,263**

CASH FLOW STATEMENTS
year ended 31 December 2013

	Group		Company	
	2013 £000s	2012 £000s	**2013 £000s**	2012 £000s
Cash flow from operating activities				
Loss before tax	**(9,002)**	(26,284)	**(8,462)**	(25,823)
Impairment of intangibles	**—**	20,486	**—**	—
Depreciation charges	**64**	63	**1**	1
Amortisation charges	**233**	189	**—**	—
Loss on abandonment of patents	**80**	—	**—**	—
Gain on sale of property, plant and equipment	**—**	(12)	**—**	—
Charge for the year in respect of share-based payments	**1,386**	656	**1,386**	579
Charge for the year in respect of tax on share-based payments	**200**	—	**200**	—
Charge for warrants	**—**	32	**—**	32
Foreign exchange (gain)/loss on intra-group loan	**—**	—	**(362)**	200
Increase in impairment provision against investment in subsidiary	**—**	—	**—**	24,135
Finance income	**(70)**	(18)	**(70)**	(15)
Non-cash and other movements	**228**	—	**8**	—
	(6,881)	(4,888)	**(7,299)**	(891)
(Increase)/decrease in trade and other receivables	**(212)**	17	**(123)**	40
Increase/(decrease) in trade and other payables	**337**	(5)	**82**	(29)
Net cash outflow from operating activities	**(6,756)**	(4,876)	**(7,340)**	(880)
Cash flow from investing activities				
Increase in other financial assets	**(5,000)**	—	**(5,000)**	—
Proceeds from assets held for sale	**—**	39	**—**	—
Proceeds from sale of property, plant and equipment	**—**	15	**—**	—
Investment in subsidiaries	**—**	—	**—**	(4,243)
Reduction in loan to subsidiary undertakings	**—**	—	**658**	—
Interest received	**40**	15	**40**	15
Additions to property, plant and equipment	**(120)**	(3)	**(5)**	—
Additions to intangible assets	**(18)**	(199)	**—**	—
Net cash outflow from investing activities	**(5,098)**	(133)	**(4,307)**	(4,228)
Cash flow from financing activities				
Proceeds from issue of share capital (restated)	**18,784**	9,248	**18,784**	9,248
Proceeds from issue of convertible loan (restated)	**—**	1,000	**—**	1,000
Net cash inflow from financing activities	**18,784**	10,248	**18,784**	10,248
Increase in cash and cash equivalents	**6,930**	5,240	**7,137**	5,140
Cash and cash equivalents at start of year	**8,909**	3,688	**8,463**	3,323
Net increase in the year	**6,930**	5,240	**7,137**	5,140
Effect of exchange rate fluctuations on cash held	**51**	(19)	**—**	—
Cash and cash equivalents at end of year	**15,890**	8,909	**15,600**	8,463

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

NOTES TO THE FINANCIAL STATEMENTS
year ended 31 December 2013

1. General information

1.1 Group

Silence Therapeutics plc ("Silence Therapeutics" or "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 Therapeutics' registered office is 27-28 Eastcastle Street, London W1W 8DH and the principal place of business is 1 Lyric Square, London W6 0NB.

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 accounts of the Company, which, in the prior year, included a provision against the investment in subsidiary companies, was as follows:

£000s	**2013**	2012
	8,462	25,823

2. Principal accounting policies

2.1 Basis of preparation

Both the parent Company and the Group financial statements have been prepared in accordance with the Companies Act 2006 and International Financial Reporting Standards (IFRS) as adopted by the EU and under the historical cost convention. The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these consolidated financial statements. The accounts are prepared in pounds sterling and presented to the nearest thousand pounds. The following standards have been adopted in the current year by the Group:

- IAS 1 (Amendment): During the year the Group has adopted the amendments to IAS 1 'Presentation of Items in Other Comprehensive Income' issued in 2011, resulting in a change to the presentation of items within other comprehensive income

The following standards or interpretations have not yet been adopted by the Group. The Group does not currently believe the adoption of these standards or interpretations would have a material impact on the consolidated results or financial position of the Group:

- IFRS 9: Financial instruments (not yet endorsed by the EU) the primary impact of which is to remove the multiple classification and measurement models for financial assets required by IAS 39 and introduce a model that has only two classification categories: amortised cost and fair value;
- IFRS 10: Consolidated financial statements replace the guidance of control and consolidation in IAS 27 and SIC12: Consolidation – special purpose entities. The core principle that a consolidated entity presents a parent and its subsidiaries as if they were a single entity remains unchanged, as do the mechanics of consolidation;
- IFRS 12: Disclosure of interests in other entities requires enhanced disclosures of the nature, risks and financial effects associated with the Group's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities;
- Transition guidance: Amendments to IFRS 10, IFRS 11 and IFRS 12: The amendments simplify the transition to these new standards and provide additional relief from disclosures; and
- IAS 27 (Revised): Separate financial statements makes revisions to the requirements for separate financial statements prepared by a parent or an investor in a joint venture or associate.

The principal accounting policies adopted are set out below.

Full financial statements for the year ended 31 December 2013 will be posted to shareholders in May 2014.

There has been a restatement to reflect additional disclosure for the convertible loan issued to Robert Keith in 2012.

2.2 Basis of consolidation

The Group financial statements consolidate those of the Company and its controlled subsidiary undertakings drawn up to 31 December 2013. Control is achieved where the Company has the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities. The parent Company financial statements present information about the Company as a separate entity and not about its Group.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring accounting policies into line with those used for reporting the operations of the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

2.3 Going concern

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

The Group had a net cash inflow for 2013 of £6.9m (after expenses) and at 31 December 2013 had cash balances of £15.9m and £5.0m on short-term deposit. 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 together with additional funds provided by equity fundraisings, grants, milestone payments and licence fees will provide sufficient funds for the Group to continue its research and development programmes and to remain in operation for at least twelve months from the date of approval of these financial statements.

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the strategic report on pages 01 to 05.

2.4 Research and development

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

2.5 Revenue recognition

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

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

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

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

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

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

2.6 Foreign currency translation

Silence Therapeutics' consolidated financial statements are presented in sterling (£), which is also the functional currency of the parent Company. The individual financial statements of each Group entity are presented 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. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined.

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

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

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

2. Principal accounting policies continued

2.7 Defined contribution pension funds

In 2013 the Group paid nil contributions related to salary to UK employees' individual pension schemes, as UK pension contributions have ceased. In the first half of 2012 the Group paid contributions related to salary to certain UK employees' individual pension schemes. The pension cost charged against profits represents the amount of the contributions payable to the schemes in respect of the accounting period.

2.8 Business combinations

There were no business combinations as defined by IFRS 3 (revised) during 2012 or 2013.

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

Acquisitions before 1 January 2010

For acquisitions which occurred before 1 January 2010, goodwill represents the excess of the cost of the acquisition over the Group's interest in the recognised amount (generally fair value) of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess was negative, a bargain purchase gain was recognised immediately in the income statement.

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 Goodwill and other intangible assets

Goodwill

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

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

Other intangible assets

Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred.

Other intangible assets that are acquired by the Group are stated at fair value 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:

Patents and trademarks	10-15 years

2.10 Property, plant and equipment

The Group holds no property assets.

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

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

2.11 Other intangible assets and research and development activities

Intellectual property rights

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

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

Internally generated intellectual property rights, as detailed in note 12, relate to our patents, which are all held within the German company (Silence Therapeutics GmbH). These cover our RNA technology and delivery chemistry. The Group's internally generated patent costs represent expenses connected with filings for patent registration in respect of technology that has been developed by the Group for use in revenue-generating activities as set out in note 12. Costs involved in the granting of a patent are capitalised and amortised on a straight-line basis over 10-15 years commencing upon completion of the asset. The charge for the amortisation is included within research and development costs in the income statement. The ongoing costs of maintaining a patent are expensed. This expense would include the patent prosecution expenses paid to third parties.

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

Capitalisation of research and development costs

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

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

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

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

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

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

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

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

Individual assets or cash-generating units that include goodwill and other intangible assets with an indefinite useful life, or those not yet available for use, are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

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, based on an internal discounted cash flow evaluation. 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. Principal accounting policies continued

2.13 Investments in subsidiaries

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

2.14 Financial instruments

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

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

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

Trade and other receivables

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

Loans receivable

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

Other financial assets

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

Derivatives

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

Cash and cash equivalents

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

Financial liabilities and equity

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

Financial liabilities

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

Equity instruments

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

2.15 Operating leases

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

2.16 Share-based payments

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

2.17 Equity

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

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

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

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

Foreign currency translation differences are included in the translation reserve.

Retained loss 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.

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

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

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

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

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

2. Principal accounting policies continued

2.19 Critical accounting judgements and key sources of estimation uncertainty

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

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

- the capitalisation or otherwise of development expenditure;
- the ability of the Group to operate as a "going concern";
- the carrying value of the Company's investment in its subsidiaries;
- the future recoverability of goodwill and other intangible assets; and
- the corresponding review for impairment of those assets.

The Group expends considerable sums on its development projects, with its total research and development costs for 2013 amounting to £5.6m (2012: £3.4m). The Board has considered the criteria under IAS 38 to determine whether costs can be capitalised, concluding that it would not be able to prove reliably that such costs could be recovered due to the risk factors involved. Therefore, all such costs have been treated as expenses as they were incurred. Any decision to treat part of those costs as capital items could have a significant impact on the Group's results and balance sheet.

As explained in note 2.3 above, the accounts are drawn up on the going concern basis which assumes that the Group will be able to access sufficient funds to continue to operate for the foreseeable future. If the accounts were to be drawn up on the basis that this assumption was not valid then there could be material changes to the carrying values of both assets and liabilities.

The Group's main activities are carried out by subsidiary companies which are financed by ongoing investment by the parent Company. These investments are carried in the books of the parent Company at cost less provisions for impairment. The carrying value at 31 December 2013 is £33.9m (2012: £34.2m). The key assumptions concerning the carrying value of the investments in, and loans to, subsidiaries relate to the continuing progress of the research and development programmes. As noted below, there are a number of risks and uncertainties around those assumptions and the crystallisation of any of those risks could have a significant impact on the assessment of the carrying value of the investment shown in the accounts of the parent Company.

Goodwill is carried in the accounts at a value of £7.5m (2012: £7.3m).

Other intangible assets have a carrying value at 31 December 2013 of £0.3m (2012: £0.5m).

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

3. Revenue

Revenue in the year was from licence, grant and service fees generated by European operations. The analysis of revenues by geographical destination is:

	2013 £000s	2012 £000s
Europe	**—**	127
North America	**14**	36
Asia/Pacific	**103**	—
	117	163

4. Segment reporting

In 2013, the Group operated in the specific technology field of RNA therapeutics. This activity was carried out across the Group companies but operated as a single business.

Due to the nature of its licencing activities, the Group's revenues in any one year often derive from a small number of customers that change year by year. During 2013, £0.1m or 91% of Group revenues (2012: £0.07m or 43% of Group revenues) arose from a single customer.

Non-current assets

	UK £000s	Germany £000s
As at 31 December 2013	**6**	**8,012**
As at 31 December 2012	2	8,014

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

Business segments

2013	**RNA therapeutics £000s**	**Group unallocated £000s**	**Consolidated data £000s**
Revenue from external customers	**117**	**—**	**117**
Operating loss	**(5,532)**	**(3,540)**	**(9,072)**
Interest income	**70**	**—**	**70**
Segment loss for the year before taxation	**(5,462)**	**(3,540)**	**(9,002)**
Segment assets	**8,700**	**20,600**	**29,300**
Segment liabilities	**1,281**	**443**	**1,724**
Costs to acquire property, plant and equipment	**114**	**6**	**120**
Costs to acquire intangible assets	**18**	**—**	**18**
Depreciation, amortisation and abandonment of patents	**376**	**1**	**377**
Charge for non-cash expenses: share-based payments charge	**—**	**1,386**	**1,386**
Segment non-current assets	**8,012**	**6**	**8,018**

2012	RNA therapeutics £000s	Group unallocated £000s	Consolidated data £000s
Revenue from external customers	163	—	163
Operating loss	(24,160)	(2,154)	(26,314)
Interest income	3	15	18
Gain on sale of assets	12	—	12
Segment loss for the year before taxation	(24,872)	(1,412)	(26,284)
Segment assets	8,570	8,504	17,074
Segment liabilities	806	153	959
Costs to acquire property, plant and equipment	3	—	3
Costs to acquire intangible assets	199	—	199
Depreciation and amortisation	251	1	252
Charge for non-cash expenses: share-based payments charge	77	579	656
Segment non-current assets	8,016	—	8,016

5. Operating loss

This is stated after charging/(crediting):

	2013 £000s	2012 £000s
Depreciation of property, plant and equipment	**64**	63
Amortisation of intangibles and abandonment of patents	**313**	189
Share-based payments charge	**1,386**	656
Auditor's remuneration:		
– audit of these financial statements	**70**	68
– audit of subsidiaries pursuant to legislation	**17**	13
– taxation	**36**	8
Operating lease payments on offices	**367**	266
Gain on sale of property, plant and equipment	**—**	(12)

Taxation services consist of tax compliance services. No information on auditor remuneration in respect of the Company has been given as the Group accounts are required to give on a Group basis the disclosures required by regulation.

Impairment

	Note	2013 £000s	2012 £000s
Goodwill impairment		**—**	(20,314)
Intangible write off	12	**—**	(441)
Trade payable write off		**—**	269
Exceptional write down		**—**	(20,486)

Goodwill was reassessed following the closure of Intradigm in the US. This led to an impairment of the carrying value.

The exceptional write off of trade payables of £269,000 relates to the Zamore deal. As part of surrendering the license, the University of Massachusetts agreed to write off some of the trade payable amount. The liability was extinguished by agreement.

6. Directors and staff costs

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

	2013 £000s	2012 £000s
Wages and salaries	**2,424**	1,613
Termination benefits	**—**	295
Social security costs	**477**	378
Charge in respect of share-based payments	**1,386**	656
Pension costs	**—**	26
	4,287	2,968

Directors' remuneration table

	Base salary 2013 £000	Bonus 2013 £000	Benefits in kind 2013 £000	Total remuneration 2013 £000	Total ex pensions 2012 £000	Remuneration 2012 £000
Executive Directors						
Ali Mortazavi [1]	**70**	—	**9**	**79**	4	4
Annie Cheng [2]	**58**	—	—	**58**	—	—
Timothy Freeborn	**99**	**20**	**3**	**122**	30	30
Michael Khan [3]*	**53**	—	—	**53**	3	3
Non-Executive Directors						
Simon Sturge [4]	**17**	—	—	**17**	—	—
Stephen Parker [5]	**4**	—	—	**4**	—	—
Alastair Riddell [6]	**4**	—	—	**4**	—	—
Past Directors						
Jerry Randall [7]	**9**	—	—	**9**	39	39
Max Herrmann	—	—	—	—	136	147
Thomas Christely	—	—	—	—	229	229
Annette Clancy	—	—	—	—	15	15
Tony Sedgwick	—	—	—	—	149	164
David Mack[8]	—	—	—	—	—	—
Total	**314**	**20**	**12**	**346**	605	631

Notes
1 Appointed as CEO 3 May 2013
2 Appointed as a Director 14 May 2013
3 Appointed as a Director 18 September 2012
4 Appointed as a Director 21 August 2013 and as Chairman 18 November 2013
5 Appointed as a Director 18 November 2013
6 Appointed as a Director 18 November 2013
7 Resigned as a Director 18 November 2013
8 Resigned as a Director 26 June 2013
* See related party transactions note 25

The average number of employees, including both Executive and Non-Executive Directors, during the year was 38 (2012: 34). Apart from the Directors, the average number of employees of the parent Company was 1 (2012: 2).

In the 2013 financial year the Company made no pension scheme contributions.

	Share options charge 2013 £'000	Share options charge 2012 £'000
Ali Mortazavi *	**545**	460
Annie Cheng	**24**	—
Timothy Freeborn	**67**	19
Michael Khan	**90**	—
Jerry Randall	**340**	141
Max Herrmann	—	1
Total	**1,066**	621

Notes
* Ali Mortazavi's share options were granted in 2012 as part of the financial rescue of the Company which he led. He has received no options since then.

7. Finance income

The finance income comprises:

	2013 £000s	2012 £000s
Bank interest receivable	**70**	18

8. Taxation

Reconciliation of income tax credit at standard rate of UK corporation tax to the current tax charge:

	2013 £000s	2012 £000s
Loss per accounts	**(9,002)**	(26,284)
Tax credit at the standard rate of UK corporation tax of 23.25% (2012: 24.5%)	**2,093**	6,440
Effect of overseas tax rate	**11**	239
Impact of costs disallowable for tax purposes	**—**	(4,977)
Impact of unrelieved tax losses not recognised	**(2,104)**	(1,702)
	—	—

Estimated tax losses of £49.4m (2012: £82.4m) are available for relief against future profits.

The deferred tax asset not recognised in these accounts on the estimated losses and the treatment of the equity-settled share-based payments, net of any other temporary timing differences is detailed in note 18.

The 2013 Budget announced that the UK corporation tax rate will reduce to 20% by 2015. A reduction in the rate from 24% to 23% (effective from 1 April 2013) was substantively enacted on 3 July 2012. Further reductions in the rate from 23% to 21% (effective from 1 April 2014) and from 21% to 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. Minimal impact is expected from these changes given the Group is loss making.

9. Loss per share

The calculation of the loss per share is based on the loss for the financial year after taxation of £9.0m (2012: loss £26.3m) and on the weighted average of 43,932,664 (2012 recalculated: 19,688,121) ordinary shares in issue during the year.

The options outstanding at 31 December 2013 and 31 December 2012 are considered to be non-dilutive in that their conversion into ordinary shares would not increase the net loss per share. Consequently there is no diluted loss per share to report for either year.

10. Property, plant and equipment

Equipment and furniture

	Group £000s	Company £000s
Cost		
At 1 January 2012	3,307	4
Additions	3	—
Disposals	(320)	—
Translation adjustment	(78)	—
At 31 December 2012	2,912	4
Additions	120	5
Disposals	(3)	—
Translation adjustment	85	—
At 31 December 2013	**3,114**	**9**
Depreciation		
At 1 January 2012	3,082	1
Charge for the year	63	1
Eliminated on disposal	(317)	—
Translation adjustment	(73)	—
At 31 December 2012	2,755	2
Charge for the year	64	1
Eliminated on disposal	(3)	—
Translation adjustment	80	—
At 31 December 2013	**2,896**	**3**
Net book value		
As at 31 December 2012	157	2
As at 31 December 2013	**218**	**6**

11. Goodwill

	2013 £000s	2012 £000s
Balance at start of year	**7,333**	28,342
Impairment	**—**	(20,314)
Translation adjustment	**216**	(695)
Balance at end of year	**7,549**	7,333

The carrying amount of goodwill is attributable to the acquisition of Silence Therapeutics GmbH in 2005. In accordance with IAS 36: Impairment of Assets, the carrying value of goodwill has been assessed comparing its carrying value to its recoverable amount. The recoverable amount is based on value in use, using discounted risk-adjusted projections of the Group's pre-tax cash flows of its cash-generating unit, being its RNA therapeutics operating segment (see note 4), over 21 years (2012: 22 years) which is considered by the Board as a reasonable period given the long development and life-cycle of a medicine.

The projections include assumptions about product launches, competition from rival products and pricing policy as well as the possibility of generics entering the market on patent expiry. In setting these assumptions we consider external sources of information (including information on expected increases and ageing of the populations in our established markets and the expanding patient population in newer markets), our knowledge of competitor activity and our assessment of future changes in the pharmaceutical industry.

The 21 year period is covered by internal budgets and forecasts. Given that internal budgets and forecasts are prepared for all projections, no general growth rates are used to extrapolate internal budgets and forecasts for the purposes of determining value in use. No terminal value is included as these cash flows are more than sufficient to establish that an impairment does not exist.

We use a 15% (2012: 16%) discount rate in our calculations after applying risk factors reflecting the stage of progress of our projects. The discount rate used is based on a conservative rate used by professionals to value publicly traded equities and corporate market-specific risk. As a further check, we compare our market capitalisation to the book value of our net assets and this indicates a significant surplus at 31 December 2013 (and 31 December 2012).

No goodwill impairment was identified. The Group has also performed sensitivity analysis calculations on key assumptions (principally, projected revenue levels) used within the projections used and the discount rate applied.

The value in use calculation is subject to significant estimation, uncertainty and accounting judgements and is particularly sensitive in the following areas:

- in the event that there was a 5% variation in the discount rate used to calculate the potential impairment of the carrying values, which would represent a reasonably possible change, the following would be recorded at 31 December 2013:
    - no impairment loss in the event of a 5% increase in the discount rate
- similarly if there was a variation of 50% in the assumed level of future growth in revenues, which would represent a reasonably likely range of outcomes, the following would be recorded at 31 December 2013:
    - no impairment loss in the event of a 50% decrease in the growth in revenues.

12. Other intangible assets

	Licences £000s	Internally generated £000s	Total £000s
Cost			
At 1 January 2012	2,751	1,152	3,903
Additions	47	152	199
Zamore disposal [1]	(505)	—	(505)
Translation adjustment	(59)	(30)	(89)
At 31 December 2012	2,234	1,274	3,508
Additions	1	17	18
Abandonment of patents	—	(328)	(328)
Translation adjustment	66	37	103
At 31 December 2013	**2,301**	**1,000**	**3,301**
Amortisation			
At 1 January 2012	2,333	599	2,932
Zamore disposal [1]	(64)	—	(64)
Charge for the year	23	166	189
Translation adjustment	(59)	(16)	(75)
At 31 December 2012	2,233	749	2,982
Charge for the year	—	233	233
Abandonment of patents	—	(248)	(248)
Translation adjustment	66	17	83
At 31 December 2013	**2,299**	**751**	**3,050**
Net book value			
As at 31 December 2012	1	525	526
As at 31 December 2013	**2**	**249**	**251**

The licences included above have finite useful lives estimated to be of 10-15 years from the date of acquisition, over which period the licences are amortised. The Group's internally generated patent costs above represent expenses connected with filings for patent registration in respect of technology that has been developed by the Group for use in revenue-generating activities. These costs are amortised on a straight-line basis over 10-15 years, commencing upon the completion of the asset. The charge for amortisation is included in the research and development costs in the income statement.

The Group tests for impairment of definite life intangible assets on a regular basis. If indicators of impairment exist, such as a change of use of the asset, a reduction in operating cash flow or a change in technology, the Company compares the discounted cash flows related to the asset to the carrying value of the asset. If the carrying value is greater than the discounted cash flow amount, an impairment charge is recorded for the amount necessary to reduce the carrying value of the asset to fair value. Fair value for the purpose of the impairment tests is determined based on current market value or discounted future cash flows. In determining the fair value, certain assumptions are made concerning, for example, estimated cash flows and growth of the Group's operations.

Intangible assets include intellectual property relating to AtuPlex and AtuRNAi technologies which are already subject to commercial licences.

1 The Zamore Design Rules were licensed from the University of Massachusetts. These were used by Intradigm as the basis of its intellectual property. The decision was taken to surrender the Zamore licence to the University because activities at Intradigm had been wound down. Previously the licence payments were capitalised within the Group accounts and amortised under accounting policies.

13. Investments

Company	2013 £000s	2012 £000s
Investment in subsidiary undertakings	**33,908**	34,204

The investment in subsidiary undertakings is made up as follows:

	Investment at cost £000s	Impairment provision £000s	Net total £000s
Shares and loans in subsidiary undertakings			
At 31 December 2011	76,830	(22,612)	54,218
Additions	4,121	(24,135)	(20,014)
At 31 December 2012	80,951	(46,747)	34,204
Reduction in loan	(296)	—	(296)
At 31 December 2013	**80,655**	**(46,747)**	**33,908**

At 31 December 2013, a non-interest bearing unsecured loan of £22.4m (2012: £22.4m) was outstanding from Silence Therapeutics plc to Stanford Rook Ltd. This has been fully provided for in both 2012 and 2013. A subordinated 5% interest bearing loan from Silence Therapeutics plc to Silence Therapeutics GmbH of £10.6m (2012: £10.9m) was outstanding.

Silence Therapeutics plc has made an impairment provision against the investment and loans to Stanford Rook Ltd, Innopeg Ltd and Intradigm Corporation to the extent that they are deemed to be not recoverable. No impairment provision has been made against the investment in Silence Therapeutics GmbH as the Directors believe that the fair value exceeds the cost of investment to date.

With regards to the 2012 charge, Intradigm Corporation had been included within the impairment provision of £24.135m; this was reflected in the Company balance sheet and shown in the movements in shares and loans in subsidiary undertakings. The impairments regarding Stanford Rook Ltd and Innopeg Ltd were recognised in a previous period.

Subsidiary companies

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

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

Name	Exempt from audit	Exempt from filing accounts
Silence Therapeutics GmbH	No	No
Intradigm Corporation	Yes	Yes
Stanford Rook Ltd	Yes	No
Innopeg Ltd	Yes	No

14. Trade and other receivables

	2013		2012	
	Group £000s	**Company £000s**	Group £000s	Company £000s
Trade receivables	—	—	2	—
Other receivables	**166**	**56**	70	20
Prepayments	**224**	**136**	76	19
Total trade and other receivables	**390**	**192**	148	39

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

No interest is charged on outstanding receivables.

15. Other financial assets

	2013		2012	
	Group £000s	**Company £000s**	Group £000s	Company £000s
Other financial assets	**5,000**	**5,000**	—	—

£5.0m is on deposit until May 2014 with Investec Bank plc. The rate of interest on this deposit is linked to the sterling euro exchange rate. The Directors consider that the carrying amount of this deposit approximates to the fair value.

16. Cash and cash equivalents

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

	2013		2012	
	Group £000s	**Company £000s**	Group £000s	Company £000s
Cash and cash equivalents	**15,890**	**15,600**	8,909	8,463

17. Trade and other payables

	2013		2012	
	Group £000s	**Company £000s**	Group £000s	Company £000s
Trade payables	**476**	**117**	105	40
Social security and other taxes	**119**	**30**	275	15
Deferred revenues	**293**	**—**	343	—
Accruals and other payables	**836**	**296**	236	98
	1,724	**443**	959	153

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

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

18. Deferred tax

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

	2013 £000s	2012 £000s
Deferred tax liability:		
– in respect of intangible assets	**74**	155
Less: offset of deferred tax asset below	**(74)**	(155)
Liability	**—**	—
Deferred tax asset:		
– in respect of available tax losses	**11,184**	27,278
– in respect of share-based payments	**596**	276
Less: offset against deferred tax liability	**(74)**	(155)
	11,706	27,399
– provision against asset	**(11,706)**	(27,399)
Asset	**—**	—

Due to the uncertainty of future profits, a deferred tax asset was not recognised at 31 December 2013 (2012: £nil).

19. Share capital

	2013 £000s	2012 £000s
Allotted, called up and fully paid		
47,061,555 (2012 recalculated: 37,431,055, previously reported as 1,871,552,737) ordinary shares par value 5p	**2,353**	1,872

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

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

Number of shares in issue at 1 January 2012 (recalculated for consolidation)	11,542,290
Shares issued during 2012:	
– issue of shares for cash at 25p	17,781,764
– issue of shares for conversion of loan at 25p	4,000,000
– issue of shares for cash at 50p	80,000
– issue of shares for cash at 125p	4,000,000
Options at 103.5p	27,000
Total issued in year (recalculated)	25,888,764
Number of shares in issue at 31 December 2012 (recalculated)	**37,431,054**
Shares issued during 2013:	
– exercise of warrants at 1p	3,500,000
– issue of shares (equity placing) at 4p	475,625,000
Consolidation (50 to 1)	9,582,500
Options exercised at 90p	48,000
Total issued in year	9,630,500
Number of shares in issue at 31 December 2013	**47,061,554**

The 2012 figures have been recalculated for the 50 to 1 share consolidation that occurred in April 2013. The Group operates an Unapproved Share Option Scheme which all Directors and Group employees are eligible for. The Group has also granted options to certain Directors and employees under the auspices of an Enterprise Management Incentive Scheme and by individual contract.

At 31 December 2013 there were options outstanding over 4,811,651 (2012 recalculated: 3,282,590, previously reported as 164,129,490) unissued ordinary shares and nil (2012 recalculated: 136,600, previously reported as 6,830,000) warrants outstanding over unissued ordinary shares.

19. Share capital continued

Details of the options outstanding are as follows:

Exercisable from	Exercisable until	Number	Exercise price
Any time until	24 July 2015	20,000	11.50
Any time until	26 July 2016	10,645	6.38
Any time until	24 November 2016	8,000	21.50
Any time until	24 July 2015	200	54.50
Any time until	14 December 2017	200	54.50
Any time until	5 December 2018	200	54.50
Any time until	26 July 2017	10,000	63.50
Any time until	14 December 2017	1,098	33.88
Any time until	7 May 2018	399	20.75
Any time until	25 September 2018	4,300	14.75
Any time until	5 December 2018	30,452	10.00
Any time until	5 January 2020	9,999	10.61
13 October 2012	13 October 2021	666	0.90
13 October 2013	13 October 2021	48,667	0.90
13 October 2014	13 October 2021	48,667	0.90
27 July 2015	27 July 2024	190,000	0.25
1 August 2015	31 July 2024	2,764,926	0.25
31 December 2015	31 December 2024	80,000	1.25
26 June 2016	26 June 2026	1,282,268	1.25
1 July 2016	1 July 2026	23,103	1.85
15 July 2016	15 July 2026	19,919	2.17
12 August 2016	12 August 2026	36,014	2.03
1 October 2016	1 October 2026	10,182	2.75
14 October 2016	14 October 2026	20,663	2.42
21 October 2016	21 October 2026	17,647	2.55
4 November 2016	4 November 2026	31,250	2.40
20 November 2016	20 November 2026	116,000	2.82
1 December 2016	1 December 2026	26,186	2.06
Total options outstanding		**4,811,651**	

The market price of Company shares at the year end was 231p (2012 recalculated: 220p, previously reported as 4.4p). During the year the minimum and maximum prices were 158.5p and 312.5p (2012 recalculated: 35p and 245p, previously reported as 0.7p and 4.9p respectively).

20. Equity-settled share-based payments

The Company has two share option schemes open to all employees of the Group. Options are exercisable at a price equal to the market price of the Company's shares on the date of grant.

In the Inland Revenue Approved Scheme the vesting period is three years and should the options remain unexercised they lapse after ten years from the date of grant. The options also lapse after six months following the employee leaving the Group.

Under the Unapproved Share Option Scheme, the options vest at dates set by the Board at the time the option is granted. The options also lapse after six months following the employee leaving the Group, or twelve months in the case of options granted in 2013.

	2013		2012 (recalculated)	
	Number	**Weighted average exercise price p**	Number	Weighted average exercise price p
Options				
Outstanding at the beginning of the year	**164,129,490**	**1.64**	835,249	528.50
Adjust for consolidation	**(190)**	**—**	—	—
Outstanding after rounding adjustment	**164,129,300**	**—**	—	—
50 to 1 consolidation	**3,282,586**	**—**	—	—
Granted during the year	**1,787,342**	**145.25**	3,034,926	27.50
Lapsed during the year	**(210,277)**	**141.43**	(560,585)	985.00
Exercised during the year	**(48,000)**	**90.00**	(27,000)	103.50
Outstanding at the year end	**4,811,651**	**102.36**	3,282,590	82.00
Exercisable at the year end	**811,494**	**230.22**	455,997	417.00
Warrants				
Outstanding at the beginning of the year	**6,830,000**	**1.24**	9,259	1350.00
50 to 1 consolidation	**136,600**	**—**	—	—
Granted during the year	**—**	**—**	216,600	57.50
Lapsed during the year	**—**	**—**	(9,259)	1350.00
Exercised during the year	**(70,000)**	**50.00**	(80,000)	50.00
Cancelled during the year	**(66,600)**	**75.00**	—	—
Outstanding at the year end	**—**	**—**	136,600	62.00
Exercisable at the year end	**—**	**—**	137,320	62.00

The 2012 figures have been recalculated for the 50 to 1 share consolidation that occurred in April 2013.

The options outstanding at the year end have a weighted average remaining contractual life of 11.1 years (2012: 11.2 years).

The Group granted 1,787,342 options during the year (2012 recalculated: 3,034,926, previously reported as 151,746,298). The fair value of options granted were calculated using a binomial model and inputs into the model were as follows:

	2013	2012 (recalculated)	2012
Weighted average fair value at grant (p)	**144.3**	69.5	1.39
Weighted average share price (p)	**153.6**	74.0	1.48
Expected volatity	**84%-102%**	115%	115%
Risk-free rate	**1.45%-1.55%**	1.61%-1.87%	1.61%-1.87%
Hurdle price (p)	**400.0**	n/a	n/a
Expected dividend yield	**nil**	nil	nil

The Group recognised total charges of £1.4m (2012: £0.7m) related to equity-settled share-based payment transactions during the year.

21. Capital reserves

Group	Share premium account £000s	Merger reserve £000s	Share-based payment reserve £000s	Warrant reserve £000s	Capital redemption reserve £000s	Total £000s
At 1 January 2012	56,736	22,248	2,156	1	—	81,141
On shares issued in the year:	9,219	—	—	—	—	9,219
– less cost of shares issued	(265)	—	—	—	—	(265)
On transfer to capital redemption reserve	—	—	—	—	5,194	5,194
On options in issue during the year	—	—	656	—	—	656
On vested options lapsed during the year	—	—	(1,128)	—	—	(1,128)
On options exercised during the year	24	—	(24)	—	—	—
On issued warrants during the year	—	—	—	32	—	32
Movement in the year	8,978	—	(496)	32	5,194	13,708
At 31 December 2012	65,714	22,248	1,660	33	5,194	94,849
On shares issued in the year:	18,622	—	—	—	—	18,622
– less cost of shares issued	(319)	—	—	—	—	(319)
On options in issue during the year	—	—	1,386	—	—	1,386
On vested options lapsed during the year	—	—	(27)	—	—	(27)
On options exercised during the year	40	—	(40)	—	—	—
On issued warrants during the year	—	—	—	(33)	—	(33)
Movement in the year	18,343	—	1,319	(33)	—	19,629
At 31 December 2013	**84,057**	**22,248**	**2,979**	**—**	**5,194**	**114,478**

Company	Share premium account £000s	Merger reserve £000s	Share-based payment reserve £000s	Warrant reserve £000s	Capital redemption reserve £000s	Total £000s
At 1 January 2012	56,736	22,064	2,156	1	—	80,957
On shares issued in the year:	9,219	—	—	—	—	9,219
– less cost of shares issued	(265)	—	—	—	—	(265)
On transfer to capital redemption reserve	—	—	—	—	5,194	5,194
On options in issue during the year	—	—	656	—	—	656
On vested options lapsed during the year	—	—	(1,128)	—	—	(1,128)
On options exercised during the year	24	—	(24)	—	—	—
On issued warrants during the year	—	—	—	32	—	32
Movement in the year	8,978	—	(496)	32	5,194	13,708
At 31 December 2012	65,714	22,064	1,660	33	5,194	94,665

Company	Share premium account £000s	Merger reserve £000s	Share-based payment reserve £000s	Warrant reserve £000s	Capital redemption reserve £000s	Total £000s
On shares issued in the year:	18,622	—	—	—	—	18,622
– less cost of shares issued	(319)	—	—	—	—	(319)
On options in issue during the year	—	—	1,386	—	—	1,386
On vested options lapsed during the year	—	—	(27)	—	—	(27)
On options exercised during the year	40	—	(40)	—	—	—
On issued warrants during the year	—	—	—	(33)	—	(33)
Movement in the year	18,343	—	1,319	(33)	—	19,629
At 31 December 2013	**84,057**	**22,064**	**2,979**	**—**	**5,194**	**114,294**

The capital redemption reserve was created in 2011 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 retained loss, 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 Atugen AG, now Silence Therapeutics GmbH.

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

22. Capital commitments and contingent liabilities

There were no capital commitments or contingent liabilities at 31 December 2013 (2012: £nil).

23. Commitments under operating leases

At 31 December 2013 the Group and Company had a gross commitment on its serviced office at 1 Lyric Square, Hammersmith equal to £0.3m (against which a prepayment of £50k was made), and a gross commitment on the previous office at 3 Shortlands, Hammersmith of £14k (against which a prepayment of £12k was made) (2012: £0.01m).

No amounts are payable between one to five or greater than five years.

24. Financial instruments and risk management

The Group's financial instruments comprise primarily cash and other financial assets and various items such as trade debtors and trade creditors 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 does not utilise complex financial instruments or hedging mechanisms in respect of its non-sterling 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.

24. Financial instruments and risk management continued

Financial assets by category

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

	2013		2012	
	Group £000s	**Company £000s**	Group £000s	Company £000s
Current assets				
Trade and other receivables	**390**	**192**	148	39
Other financial assets	**5,000**	**5,000**	—	—
Cash and cash equivalents	**15,890**	**15,600**	8,909	8,463
Categorised as loans and receivables	**21,280**	**20,792**	9,057	8,502

All amounts are short term and none are past due dates at the reporting date.

	2013		2012	
	Group £000s	**Company £000s**	Group £000s	Company £000s
Current liabilities				
Trade and other payables	**1,724**	**443**	959	153

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

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

	2013		2012 (restated)	
	Group £000s	**Company £000s**	Group £000s	Company £000s
Loans and receivables	**390**	**192**	**72**	20

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

Capital management

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

Interest rate risk

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

Liquidity risk

The Group's liquid resources are invested having regard to the timing of payments to be made in the ordinary course of the Group's activities. All financial liabilities are payable in the short term (between zero and three months) and the Group maintains adequate bank balances in either instant access or short-term deposits to meet those liabilities as they fall due.

Currency risk

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

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

	2013		2012	
	Group £000s	**Company £000s**	Group £000s	Company £000s
Financial assets	**487**	**—**	554	—
Financial liabilities	**(894)**	**—**	(373)	—
Net financial (liabilities)/assets	**(407)**	**—**	181	—

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

	2013		2012	
	Group £000s	**Company £000s**	Group £000s	Company £000s
Financial assets	**2**	**—**	4	—
Financial liabilities	**(413)**	**—**	(136)	—
Net financial liabilities	**(411)**	**—**	(132)	—

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

During the year sterling depreciated by 3% versus the euro. The table shows the impact of an additional strengthening or falling of sterling against the euro by 20%.

2013	**As reported £000s**	**If sterling rose 20% £000s**	**If sterling fell 20% £000s**
Group result for the year	**(9,002)**	**(8,966)**	**(9,052)**
Euro denominated net financial liabilities	**(407)**	**(339)**	**(509)**
Total equity at 31 December 2013	**27,576**	**28,077**	**26,822**

2012	As reported £000s	If sterling rose 20% £000s	If sterling fell 20% £000s
Group result for the year	(26,284)	(25,579)	(26,989)
Euro denominated net financial assets	181	151	217
Total equity at 31 December 2012	16,116	14,750	18,189

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

25. Related party transactions

In July 2013 the Company was charged £70,000 by Darwin Strategic Limited ("Darwin") for the cancellation of warrants on 66,600 shares (2012: the Company issued 3.33m warrants exercisable at 1.5p to Darwin in consideration for an equity funding facility).

The warrants had a strike price of 75p and the value reflected Silence's share price at the time. Chief Executive Ali Mortazavi holds 35.8% of the ordinary shares of Darwin. The Board approved the transaction as arm's length. Separately, in April 2013 the Company signed a contract with Darwin for £25,000 per year for services preparing corporate presentations. This contract was terminated in November 2013.

Pharmalogos Limited, a company controlled by Dr Stella Khan, wife of Dr Michael Khan, supplies research services to Silence Therapeutics plc at an agreed price of £100,000 per annum.

Key management personnel are considered to be the Directors and their remuneration is disclosed within note 6.

In the summer 2012 refinancing, Robert Keith, a major shareholder, bought a £1.0m loan note at nil yield convertible into shares at 0.5p from the Company. The loan note was converted in December 2012.

26. Subsequent events

On 29 April 2014 the Company announced it had raised £11.4m gross (£10.9m after expenses) with a placing of 4,938,555 shares at 230p per share.

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