Interim results for the six months ended 30 June 2017

6 September 2017

2017: the year of RNAi

Silence Therapeutics plc, AIM:SLN ("Silence" or "the Company") a leader in the discovery, delivery, and development of novel RNA therapeutics for the treatment of serious diseases with unmet medical need, announces its unaudited interim results for the half year to 30 June 2017.

Highlights

- Continued progress on our drug pipeline with plans to file our first GalNAc IND application by end 2018
- First European siRNA company to successfully develop its own proprietary GalNAc platform, demonstrating competitive performance alongside American peer siRNA companies
- Recruitment of Dr. Torsten Hoffmann as Chief Operating Officer, bringing substantial R&D organisational experience from Pharma to our drug development efforts
- Reorganisation of Berlin operations, reducing headcount and increasing outsourced work to improve platform throughput and efficiency
- Continued strengthening of Intellectual Property (IP) estate with granting of important European and US patents in addition to filings of further European and US divisional and continuation patents respectively
- Increased investment in Arrowhead Pharmaceuticals Inc ("Arrowhead") from 4.7% of the outstanding share capital of Arrowhead at 31 December 2016 to 9.2% for a further cash outlay in 2017 of £4.9 million

Post Half-Year Events

- Capital Markets Day to be held November 14th, 2017, to disclose early data from our GalNAc platform and plans for our pipeline programmes
- In July 2017, licensee Quark Pharmaceuticals ("Quark") announced positive results of a Phase 2 trial evaluating the efficacy and safety of an siRNA treatment for the prevention of Acute Kidney Injury (AKI) in subjects at high risk following cardiac surgery, utilising Silence's patented chemical modifications
- Showing commitment to Silence's IP estate, the Company issued a claim in the UK High Courts of Justice (Patents Court) on July 3rd, 2017, naming as defendants Alnylam UK Limited, Alnylam Pharmaceuticals Inc, and The Medicines Company UK Limited

Financial Highlights

- Loss after tax of £5.5 million (2016 H1: £4.7 million)
- Cash and cash equivalents of £29.8 million (H1 2016: £47.6 million, FY 2016 £39.0 million)

Ali Mortazavi, Chief Executive Officer of Silence Therapeutics, commented:
"The first half of 2017 has been a transformative and highly productive period for the Company. Silence now has a broad set of options to create shareholder value. Importantly, our core business of drug discovery and development is fully operational. We have a technology which works, freedom to operate, and the right team to utilise this technology to develop high conviction therapeutic candidates in a range of diseases.

"In addition to our internal efforts, we believe that Silence's critical siRNA stabilisation chemistry is represented in several of the most advanced, late stage RNAi clinical studies. As detailed in our press releases, we believe that Alnylam Pharmaceuticals requires a licence from Silence which, if granted, could have a material financial impact on the market capitalisation of our Company. In July 2017, we were pleased to see the positive outcome of the Phase 2 results of our existing licensee, Quark, in Acute Kidney Injury, further validating our stabilisation chemistry.

"At the start of the year, we increased our stake in Arrowhead to 9.2%, highlighting our expectation that 2017 will be the year of RNAi, and that with our multi-pronged strategy, Silence is well positioned to capitalise on success in the RNAi therapeutic modality and deliver value for shareholders."

Stephen Parker, Non-Executive Chairman of Silence Therapeutics, commented:
"This period has seen a strong performance from all parts of your Company, with improved management and controls adding to the excellent progress of the research group. We look forward to sharing the research progress in November at the Capital Markets Day, when we expect to be able to update shareholders on the progress of our initial GalNAc-siRNA pipeline candidates"

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Notes to Editors

About Silence Therapeutics plc

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

Chief Executive's Report

Overview

Anticipating the flow of important industry-wide study results and data points expected in 2017, we began the year by positioning the company for the long-awaited establishment of RNAi as a validated new class of therapeutics. Firstly, and most importantly, we continued our work from 2016 and optimised our GalNAc technology, which provides highly specific delivery to the liver of therapeutic siRNAs with sustained therapeutic effects. This involved filing new IP, as well as streamlining our drug discovery and development processes and outsourcing some aspects of these activities. Crucially for partners, we offer the ability to accurately predict the resource, time and cost it will take to progress from gene target selection to a viable IND filing.

New targets and indications

With the developments described above, we believe that we can now successfully silence any gene in the liver, with simple subcutaneous "insulin like" injections achieving a long duration of action. This ability allows us to investigate multiple new gene targets, addressing diseases of high unmet need, to create a pipeline of high conviction candidates which we believe will differentiate Silence from competitors and potentially bring highly effective and novel medicines to patients in need.

Personnel

With the emergence of our powerful GalNAc platform technology, there has been a significant influx of new staff in 2017 to support our drug development aspirations. Along with the shift to outsourcing certain processes, we have made significant hires from within the biopharma industry. These new hires and appointments bring with them in-depth experience of drug development which will prove invaluable as Silence transitions into a full-service biopharma company. Hires include Dr. Torsten Hoffmann as Chief Operating Officer (ex-Roche), Alison Gallafent as Head of Intellectual Property (ex-CMS), and Michael Mulqueen as Head of Business Development (ex-Biotie). Internally, Dr. Laura Roca-Alonso has been promoted to Head of Corporate Development, and Dr. Ulrich Zügel to Head of Pre-Clinical Drug Discovery & Site Head, Berlin. Further new important hires are expected in the target identification and product development spheres, where we are currently utilising proven expert consultants to guide this stage of the development pathway.

IP and licensing

As mentioned previously, we believe that 2017 will be remembered as the year where pivotal and important studies made RNAi a significant new modality. Our key siRNA stabilisation chemistry is a valuable asset of our business, and significant time and resource has been dedicated to filing new patents to expand and strengthen this IP portfolio. This reinforces our contention that late stage RNAi studies by competitors such as Alnylam Pharmaceuticals and The Medicines Company will require a license to our IP. It is our belief that these potential licenses will be of significant value to Silence relative to our market capitalisation. In addition to these siRNA stabilising patents, through the normal course of business we have filed and continue to file patent applications for new technology and products, arising from our Technology and Innovations Group.

Arrowhead Pharmaceuticals

In line with our strategy of capitalising on "2017: the year of RNAi", we took the opportunity to acquire a c. 9% stake in Arrowhead. There were and are many motivations behind this strategy. We believe that following the clinical hold of their HBV programme in 2016, a very material opportunity presented itself to invest in, open a dialogue with and potentially collaborate/license certain technologies, IP and/or programmes from Arrowhead. These collaboration and licensing discussions are ongoing. We continue to believe that our stake in Arrowhead will play a significant part in creating shareholder value for us in 2017 and later, and we look forward to their R&D Day, which will update the market on September 14th, 2017.

Quark licensee

In 2005, Quark licensed our key siRNA stabilisation chemistry. This carries a 2% royalty on net sales, or 15% of milestones & royalties received by Quark. In July 2017, Quark announced a successful Phase 2 trial readout in Acute Kidney Injury (AKI), a condition with high unmet need. Quark will share AKI Phase 2 data later this year and Silence should be eligible to receive milestone payments should Quark's partner Novartis take this programme into a Phase 3 pivotal trial.

Outlook

I cannot overstate how these are exciting times for our therapeutic modality, and patients should soon start to see the promise of RNAi drugs become a reality. Although our US competitor companies switched to GalNAc delivery ahead of us, and although they can tap into greater cash resources, Silence has made great progress and I am proud that we are aiming to submit at least one IND application before the end of 2018.

Financial review

Operating expenses

Research & Development Expenses

Research and development expenses decreased by £0.9 million to £3.8 million for H1 2017 (H1 2016: £4.7 million). Material costs decreased by £0.6 million to £0.4 million in H1 2017 (H1 2016: £1.0 million): 2016 costs were primarily related to clinical costs on the Atu027 study which has since been ended, whereas H1 2017 primarily represents costs for the new earlier stage GalNAc pipeline. Payroll related costs decreased by £0.4 million to £1.6 million in H1 2017 (H1 2016: £2.0 million), driven mainly by headcount reduction following restructuring during 2016. During H1 2017 further restructuring was implemented, however severance costs in H1 2017 were lower than in H1 2016.

General and Administration Expenses

General and administration expenses increased by £1.0 million to £3.0 million for H1 2017 (H1 2016: £2.0 million). Payroll related costs increased by £0.6 million to £1.9 million in H1 2017 (H1 2016: £1.3 million) following investment in some key permanent hires. Legal fees increased by £0.2 million, reflecting our commitment to defending our IP and securing the appropriate value from this IP.

Cash flows

The Group continues to maintain a strong cash position, with cash and cash equivalents at 30 June 2017 of £29.8 million (30 June 2016: £47.6 million; 31 December 2016: £39.0 million). The net decrease in cash and cash equivalents, including the effect of exchange rate fluctuations on cash held, was £9.2 million for H1 2017. Of this, £4.9 million was cash spent in January 2017 to acquire an increased stake in Arrowhead Pharmaceuticals Inc.

Taxation

During H1 2017 we accrued £1.1 million recognising a current tax asset in respect of R&D tax Credits (H1 2016: £0.8 million).

Principal risks and uncertainties

The principal risks and uncertainties facing the Group are set out in the 2016 Annual Report which is available on our website, www.silence-therapeutics.com. The Board does not believe that the risks and uncertainties set out in that Annual Report have changed.

Consolidated income statement

six months ended 30 June 2017

	Six months ended 30 June 2017 (unaudited) £000s	Six months ended 30 June 2016 (unaudited) £000s	Year ended 31 December 2016 (audited) £000s
Revenue	16	-	770
Research and development costs	(3,817)	(4,670)	(8,711)
General & administration expenses	(3,021)	(2,047)	(3,965)
Operating loss	(6,822)	(6,717)	(11,906)
Finance and other income	166	1,175	1,544
Loss for the period before taxation	(6,656)	(5,542)	(10,362)
Taxation	1,140	809	1,922
Loss for the period after taxation	(5,516)	(4,733)	(8,440)
Loss per ordinary share (basic and diluted)	(7.9p)	(6.8p)	(12.1p)

Consolidated statement of comprehensive income

six months ended 30 June 2017

	Six months ended 30 June 2017 (unaudited) £000s	Six months ended 30 June 2016 (unaudited) £000s	Year ended 31 December 2016 (audited) £000s
Loss for the period after taxation	(5,516)	(4,733)	(8,440)
Other comprehensive income:			
Exchange differences arising on consolidation of foreign operations	320	1,326	1,705
Unrealised (loss) / gain on financial assets available for sale	(783)	-	118
Total comprehensive expense for the period	(5,979)	(3,407)	(6,617)

Consolidated balance sheet

at 30 June 2017

	Six months ended 30 June 2017 (unaudited) £000s	Six months ended 30 June 2016 (unaudited) £000s	Year ended 31 December 2016 (audited) £000s
Non-current assets			
Property, plant and equipment	1,346	1,062	1,375
Goodwill	7,944	7,499	7,709
Other intangible assets	37	10	45
Available-for-sale financial assets	8,555	-	4,417
Other receivables	233	233	236
	18,115	8,804	13,782
Current assets			
Trade and other receivables	601	510	1,397
R&D tax credit receivable	2,740	2,079	1,600
Investments held for sale	3	3	3
Cash and cash equivalents	29,849	47,594	39,012
	33,193	50,186	42,012
Current liabilities			
Trade and other payables	(2,768)	(1,520)	(1,610)
Net assets	48,540	57,470	54,184
Capital and reserves attributable to the company's equity holders			
Share capital	3,499	3,490	3,490
Capital reserves	163,751	164,519	163,641
Translation reserve	3,323	2,624	3,003
Retained loss	(122,033)	(113,163)	(115,950)
Total equity	48,540	57,470	54,184

Consolidated statement of changes in equity

six months ended 30 June 2017

(Unaudited)	Share Capital £000s	Capital Reserves £000s	Translation Reserve £000s	Accumulated Losses £000s	Total £000s
At 1 January 2017	3,490	163,641	3,003	(115,950)	54,184
Recognition of share-based payments	-	288	-	-	288
Lapse of vested options in period	-	(216)	-	216	-
Share options repurchased	-	-	-	-	-
Proceeds from shares issued	9	38	-	-	47
Transactions with owners	9	110	-	216	335
Loss for six months	-	-	-	(5,516)	(5,516)
Other comprehensive income					
Exchange differences arising on consolidation of foreign operations	-	-	320	-	320
Unrealised loss on financial assets available-for-sale	-	-	-	(783)	(783)
Total comprehensive expense for the period	-	-	320	(6,299)	(5,979)
At 30 June 2017	3,499	163,751	3,323	(122,033)	48,540

year ended 31 December 2016

	Share Capital £000s	Capital Reserves £000s	Translation Reserve £000s	Accumulated Losses £000s	Total £000s
At 1 January 2016	3,490	165,074	1,298	(109,435)	60,427
Recognition of share-based payments	-	475	-	-	475
Lapse of vested options in period	-	(843)	-	843	-
Share options repurchased	-	(1,065)	-	964	(101)
Proceeds from shares issues	-	-	-	-	-
Transactions with owners	-	(1,433)	-	1,807	374
Loss for year	-	-		(8,440)	(8,440)
Other comprehensive income					
Exchange differences arising on consolidation of foreign operations	-	-	1,705	-	1,705
Unrealised loss on financial assets available-for-sale	-	-	-	118	118
Total comprehensive expense for the period	-	-	1,705	(8,322)	(6,617)
At 31 December 2016	3,490	163,641	3,003	(115,950)	54,184

Consolidated cash flow statement

six months ended 30 June 2017

	Six months ended 30 June 2017 (unaudited) £000s	Six months ended 30 June 2016 (unaudited) £000s	Year ended 31 December 2016 (audited) £000s
Cash flow from operating activities			
Loss before tax	(6,656)	(5,542)	(10,362)
Depreciation charges	189	138	302
Amortisation charges	9	2	8
Sale of fixed assets	-	4	-
Charge for the period in respect of share-based payments	288	450	475
Finance and other income	(166)	(1,175)	(1,544)
Corporation tax credits received	-	-	1,594
Decrease/(Increase) in trade and other receivables	796	(118)	(1,030)
Increase in trade and other payables	1,158	363	491
Net cash outflow from operating activities	(4,382)	(5,878)	(10,066)
Cash flow from investing activities			
Acquisition of available-for-sale financial assets	(4,921)	-	(4,299)
Interest received	4	108	161
Purchase of property, plant and equipment	(118)	(49)	(492)
Purchase of intangible assets	-	(5)	(45)
Net cash (outflow)/inflow from investing activities	(5,035)	54	(4,675)
Cash flow from financing activities			
Proceeds from issue of share capital	48	-	-
Share options repurchased	-	-	(101)
Net cash inflow/(outflow) from financing activities	48	-	(101)
Increase/(decrease) in cash and cash equivalents	(9,369)	(5,824)	(14,842)
Cash and cash equivalent at start of period	39,012	51,907	51,907
Net decrease in the period	(9,369)	(5,824)	(14,842)
Effect of exchange rate fluctuations on cash held	206	1,511	1,947
Cash and cash equivalent at end of period	29,849	47,594	39,012

Notes to the financial statements

six months ended 30 June 2017

1. Basis of Preparation and Accounting Policies

This condensed consolidated interim financial information for the six months ended 30 June 2017 has been prepared in accordance with IAS 34 – 'Interim Financial Reporting' as adopted by the European Union. The accounting policies adopted are consistent with those of the financial statements for the year ended 31 December 2016.

This condensed consolidated interim financial information has been neither reviewed nor audited. The interim financial statements do not comprise statutory accounts within the meaning of Section 434 of the Companies Act 2006. The comparative figures for the six months ended 30 June 2016 are not the Company's statutory accounts for that financial period. The 2016 full year accounts have been reported on by the Company's auditors and delivered to the Registrar of companies. The report of the auditors was unqualified and did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

2. Going concern

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

During the period, the Company met its day-to-day working capital requirements through existing cash resources. The Company had a net decrease in the cash and cash equivalent in the period ended 30 June 2017 of £9.2 million and at 30 June 2017 had cash balances of £29.8 million. The Directors have reviewed the working capital requirements of the Company for the next 12 months from the date of the approval of these interim financial statements and are confident that these can be met.

3. Segment reporting

In the six months ended 30 June 2017, the Group operated in the specific technology field of RNA therapeutics.

Business segments

For the Annual Report for the 12 months ended 31 December 2016, the Group had one business segment, the development of RNAi based medicines. Prior to this, including for the presentation in the Interim results announcement for the 6 months ended 30 June 2016, the Group had one business segment – "RNAi therapeutics" – as well as "Group unallocated" shown separately.

The Group has identified the Chief Executive Officer as the Chief Operating Decision Maker ("CODM"). Previously, certain Group overheads were presented as a separate "Group unallocated" category. The CODM and other Directors believe that presentation is not relevant in light of how the business is run and measured. This is in line with reporting to the Executive Committee and senior management. The information used internally by the CODM is the same as that disclosed in the financial statements.

Non-current assets	UK £000s	Germany £000s	Total £000s
As at 30 June 2017	9,200	8,915	18,115
As at 30 June 2016	744	8,060	8,804
As at 31 December 2016	5,113	8,669	13,782

Revenue Analysis	Six months ended 30 June 2017 (unaudited) £'000s	Six months ended 30 June 2016 (unaudited) £000s	Year ended 31 December 2016 (audited) £000s
Research collaboration	16	-	-
Revenue from licencing	-	-	770

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

4. Loss per share

The loss per share is based on the loss for the period after taxation attributable to equity holders of £5.52 million (year ended 31 December 2016 – loss £8.44 million; six months ended 30 June 2016 – loss £4.73 million) and on the weighted average of 69,876,568 ordinary shares in issue during the period (year ended 31 December 2016 – 69,801,624; six months ended 30 June 2016 – 69,801,624).

The options outstanding at 30 June 2017, 31 December 2016 and 30 June 2016 are considered to be non-dilutive in that their conversion into ordinary shares would decrease the net loss per share. Consequently, there is no diluted loss per share to report for the periods reported.

5. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. There are no other related party transactions which would require disclosure.