SILENCE THERAPEUTICS

Silence Therapeutics plc
Centre Point
103 New Oxford Street
London WC1A 1DD
United Kingdom

Tel: +44 (0)207 307 1620
Fax: +44 (0)207 307 1680

www.silence-therapeutics.com

2007 ANNUAL REPORT AND ACCOUNTS

ANNUAL REPORT AND ACCOUNTS 2007

SILENCE THERAPEUTICS

Silence Therapeutics plc

Silence Therapeutics plc is a leading European RNAi company. RNA interference (RNAi), a Nobel Prize winning technology, is one of the most exciting areas of drug discovery today as it can selectively "silence" genes linked to the onset of disease, thus leading to the creation of a new class of therapeutic products, RNAi therapeutics.

Contents

2007 Highlights	1
Chairman's Statement	2
Chief Executive's Review	4
Financial Review	7
Technology Briefing	8
Glossary	12
Management Team	13
Directors' Report	16
Report of the Independent Auditors	20
Consolidated Income Statement	22
Consolidated Balance Sheet	23
Consolidated Statement of Changes in Equity	24
Company Balance Sheet	25
Company Statement of Changes In Equity	26
Cash Flow Statements	27
Notes to the Financial Statements	29

Highlights 2007.

Operational Highlights

- Collaboration signed with AstraZeneca to develop novel AtuRNAi molecules against five specific, principally respiratory, targets. Silence Therapeutics received an initial access fee payment of £2.5m (~US$5m) plus an equity investment of £5m (~US$10m) and will receive milestone payments of up to £200m (~US$400m) as well as royalties on product sales.
- Two AtuRNAi products commenced human clinical trials:
  - RTP801i-14 which is being developed by Pfizer and Quark Pharmaceuticals for the treatment of Age-Related Macular Degeneration (AMD), and
  - AKIi-5 which is being developed by Quark Pharmaceuticals for the treatment of Acute Kidney Injury.
- Silence's lead internal product Atu027 successfully completed single and repeat dose toxicology and geno-toxicology studies as well as 28-day toxicology studies using multiple dosing schedules. A regulatory filing is scheduled in 2008 for this product to enter clinical trials.
- Core patent covering AtuRNAi granted in Europe, providing commercial protection to Silence Therapeutics and its partners.
- Management team strengthened with appointments of Jeff Vick as Group CEO and Dr. John Lucas as General Counsel and Vice President, Intellectual Property.
- Expansion of collaboration with Quark Pharmaceuticals granting Quark non-exclusive license options against three specific targets.

Financial Highlights

- Revenue increased to £4.05m in 2007 from £1.95m in 2006, reflecting milestone and licence fee revenues from agreements with AstraZeneca, Pfizer and Quark.
- Research and Development expenditures rose to £4.8m in 2007 from £3.2m in 2006 due to investment in our pipeline of novel RNAi molecules targeting cancer indications and our world leading delivery expertise.
- Cash position at year-end is £10.17m, an increase of £1.35m from the end of 2006 as a result of increased payments from our collaboration partners.

Post Period Highlights ....

- Collaboration signed with AstraZeneca for the development of novel approaches for the delivery of siRNA molecules.

SILENCE THERAPEUTICS

Chairman's Statement.

Silence Therapeutics has made tremendous progress in 2007 as we work towards our goal of global leadership in the field of RNAi therapeutics. During the course of the year we have achieved a number of significant milestones; signing a major collaborative deal with AstraZeneca to generate new RNAi therapeutics, developing our product pipeline and strengthening our intellectual property position.

In parallel with these achievements we have also been investing in our organisation so that we have the skills necessary to ensure we continue to be a driving force in the field of RNAi therapeutics. A key step in the development of your Company was the appointment of Jeff Vick as CEO. Jeff has come on board with a first class, international background in the biotech industry and has the appropriate scientific, technical, commercial and financial experience to lead the Company going forward.

The decision to change your Company's name to Silence Therapeutics in 2007 reflects our ambitions for the future. We believe our clear focus on RNAi technologies and the significant potential we see in this area will create substantial value for you, our shareholders, moving forward.

In conjunction with our unique RNAi chemistry, we are also developing "state-of-the-art" delivery systems for administering siRNA systemically

World Leading RNAi Technology

Silence Therapeutics decision to focus on its proprietary AtuRNAi technology is based on its potential not only to significantly shorten the time taken to screen and identify drug candidates but also to develop treatments for conditions which, up until now, have not been treatable using conventional approaches to drug therapies. The potential of our AtuRNAi technology was clearly validated with our collaborative deal with AstraZeneca to develop new therapeutics, principally in the respiratory field, which was signed in July 2007.

In conjunction with our unique RNAi chemistry, we are also developing "state-of-the-art" delivery systems for administering siRNA systemically. We already have nine years experience in developing solutions for functional delivery of oligonucleotides (RNAi molecules) and are increasingly being approached by pharmaceutical companies partnered with other RNAi technology companies enquiring about access to our innovative delivery technology and capabilities.

Our recent deal with AstraZeneca, announced in March 2008, to develop novel delivery solutions is the first of a number of agreements in this area which we expect to sign in the next few years. Based on our progress to-date I am confident that we can generate significant additional value for our shareholders from both our AtuPLEX delivery system and our world leading expertise in RNAi delivery.

"I remain confident that in 2007 we have created a platform from which we can move ahead rapidly towards our goal of becoming a leader in RNAi therapeutics"

Strong Financial Performance

For the third consecutive year we have achieved a strong financial performance in line with analyst expectations. Our revenues have increased to £4.05m (2006: £1.95m) and we ended the year with a cash balance of £10.17m (2006: £8.82m). With continued, prudent financial management we aim to surpass this performance in 2008.

In my role as Chairman of Silence Therapeutics the performance of the Company's shares is obviously something on which I am focused. In the first half of 2007 your Company's share price rose dramatically reflecting some of the key milestones which I have outlined above and investors' interest in the siRNA area in general. However since the announcement of our ground breaking deal with AstraZeneca at the end of July 2007 the price has declined significantly and I share the disappointment of many shareholders. Having said this, the business is fundamentally stronger than it was 12 months ago, our internal and external development programmes have progressed, and we are confident that further significant technology and commercial milestones will be achieved in 2008.

The recent volatility in the financial markets, coupled with the high liquidity in our stock has resulted in the Company's share price fluctuating dramatically on a daily basis and declining to a level which, in my opinion, is unwarranted and reflects neither the progress that we have made over the last 15 months nor the underlying value of the business.

"we are confident that further significant technology and commercial milestones will be achieved in 2008"

As a result, in 2008 we are placing even greater efforts behind our overall investor relations activities. A key goal in the coming twelve months is to attract the interest of larger European and US institutions with a specific interest in, and knowledge of, the pharma/biotechnology sector. Our view is that they will take a longer term view and provide some stability going forward. In addition, in view of the competitive landscape, we are looking to strengthen our efforts, specifically in the US, in terms of collaborative agreements, investor, and public relations initiatives.

Finally on a personal basis, I remain extremely committed and confident that in 2007 we have created a platform from which we can move ahead rapidly towards our goal of becoming a leader in RNAi therapeutics, an objective, which I believe will create significant shareholder value. I would like not only to thank the Board, management and staff for their efforts during the year but also the shareholders for their continued support.

Iain G Ross
Chairman

2007 has seen Silence Therapeutics progress across all facets of our business and also has seen an increased interest in RNA interference technologies – technologies which are now being recognised as having the potential to improve existing therapies and fundamentally change the way in which new pharmaceutical treatments are identified and developed.

R&D Programmes

During the year significant progress was made in the development of siRNA molecules utilising our proprietary chemistry (AtuRNAi) and, as appropriate, our proprietary delivery technologies. This has been achieved both in partnership with our collaborators and through our own internal programmes. This success is reflected in the fact that two out of the six siRNA products in the clinic globally are based on Silence Therapeutics' innovative and proprietary siRNA chemistry. RTP801i-14, which is being developed by Pfizer and Quark Pharmaceuticals for the treatment of Age-related Macular Degeneration (AMD), moved into human clinical trials as did AKIi-5 which is being developed by Quark Pharmaceuticals for the treatment of Acute Kidney Injury.

Our internal programs have advanced considerably in 2007 with Atu027, which is designed to silence the function of a novel kinase protein involved in tumour growth and metastases, moving through preclinical development. Atu027 furthermore utilizes our proprietary drug delivery system AtuPLEX to deliver active drug into the appropriate cells following systemic administration. We have successfully completed single and repeat dose toxicology and geno-toxicology studies as well as 28-day toxicology studies using multiple dosing schedules. Additional studies are underway currently to establish the MABEL (minimum anticipated biological effect level) which is recommended by the European Medicines Agency (EMEA) in calculating starting doses for clinical studies.

In 2008 we hope to finalise these pre-clinical studies and make the regulatory filing that will allow us to progress Atu027 into the clinic. What also is very exciting about Atu027 is that, in the hands of our investigators, we are not only seeing unprecedented activity against gastrointestinal cancers including pancreatic cancer, particularly in respect of halting metastasis, but the activity in the lung indicates that this product potentially could also be developed as a systemic treatment for lung cancer. Previously we believed it might be necessary to have different formulations of our lead molecule, Atu027 and Atu093, to treat different cancers but these recent data suggest a single formulation could be suitable for multiple indications.

"we were very excited to announce that, based on our significant expertise in siRNA delivery, AstraZeneca chose to collaborate with us in the first deal specifically focused on developing novel approaches for the delivery of siRNA molecules"

Products	Indications	Partners	Research	Preclinical	Clinical	Milestones
RTP801i	Age related Macular Degen	Pfizer/Quark Pharma				2008: Complete Ph.I Clinical Study, Initiate Ph.II Clinical Study
AKLi-5	Acute Kidney Injury	Quark Pharma				2008: Continue Ph.I Clinical Study
Atu027/ Atu093	GI, Lung and Other Cancer	Internal				2008: Regulatory filing to commence Ph.I Clinical Study
RTP801i	Diabetic Retinopathy	Pfizer/Quark Pharma				2008: Progress Pre-clinical studies
AHLi-11	Chemo Induced Hearing Loss	Quark Pharma				2008: Pre-clinical; possible Ph.1
Atu111	Prostate Cancer	Internal				2008: Progress Pre-clinical studies
Atu150	Liver Cancer (HCC)	Internal				2008: Progress Pre-clinical studies
5 Programs	Respiratory Possible Other	AstraZeneca				2008: Advance research toward Pre-clinical studies

Third Party Collaborations and Licences

In July 2007, we signed a major R&D collaboration with AstraZeneca which primarily covers the respiratory field but also includes an option to allow for targets that extend into other disease areas of interest to AstraZeneca. Silence Therapeutics will receive milestone payments of up to £200m (~US$400m) as well as royalties on product sales and we have already received an initial access fee payment of £2.5m (~US$5m) plus an equity investment of £5m (~US$10m). The collaboration has progressed well since signature, the working relationship between AstraZeneca and us is strong and we are on schedule for the development of products under this agreement.

Also in July we expanded our strategic licensing agreement with Quark Pharmaceuticals, Inc.

I would like to emphasise that in both of these agreements we have maintained our strategy of signing target-specific agreements with our partners. This is important as it allows us not only to enter multiple collaborations but also to continue to develop our own programmes while maintaining our corporate flexibility. We believe this approach will allow us to generate significantly more shareholder value than a much broader collaboration with one single pharma partner and we anticipate signing additional target-specific collaborations over the next 12 months.

Drug Delivery

In 2007 we continued to explore a wide range of delivery approaches with partners and academic collaborators. We are pursuing this strategy as we see the successful functional delivery of siRNA molecules as one of the key factors in realising the clear potential of this novel therapeutic approach.

The key challenge in delivering siRNA molecules, whether our own AtuRNAi molecules or those of our competitors, is that they do not readily cross cell membranes into the cell when given systemically. Without entering the cell, siRNA molecules cannot exert their potential therapeutic benefits.

Historically, drug delivery systems, including liposomes and polymers, which are capable of delivering siRNA molecules or other drugs into cells have had unacceptable toxicity levels associated with them, precluding them from human use.

We have however shown that our AtuPLEX delivery technology is able to deliver one of our AtuRNAi molecules effectively and safely. This has been achieved in repeat-dose toxicology experiments using systemic administration. These experiments have allowed us to identify a dose range for one of our AtuRNAi molecules that achieves biologic effect with minimal toxicity.

In March 2008, we were very excited to announce that, based on our significant expertise in siRNA delivery, AstraZeneca chose to collaborate with us in the first deal specifically focused on developing novel approaches for the delivery of siRNA molecules. The financial details of this, our second collaboration with AstraZeneca, in which both parties will contribute expertise, intellectual property and know-how, have not been disclosed.

The collaboration signed with AstraZeneca is important strategically for a number of reasons. This is the first collaboration in the industry signed by a large pharmaceutical company focused on the delivery of siRNA molecules highlighting its importance to the successful and broad utilization of RNAi therapeutics. It also underscores Silence Therapeutics' world leading expertise in the delivery area and demonstrates the confidence that AstraZeneca has in the Company, based on the strong, successful working relationship we have built via our earlier AtuRNAi therapeutics collaboration.

Importantly in this collaboration with AstraZeneca, Silence Therapeutics retains all rights to its AtuPLEX drug delivery system as well as any improvements to it. AstraZeneca obtains a licence to use AtuPLEX in connection with the five products under our first collaboration agreement. In addition, Silence Therapeutics has the right to use and partner any of the technologies that we jointly develop under this collaboration.

We are looking forward to working closely with AstraZeneca to expand the capabilities of AtuPLEX and develop additional novel "state-of-the-art" delivery systems for administering siRNA therapeutics which we believe will help secure the future success of this exciting technology.

We also anticipate the potential to sign drug delivery collaborations over the course of the next twelve to eighteen months with other large pharmaceutical companies who have an interest in siRNA therapeutics.

Intellectual Property

A strong intellectual property position is key to our future success. In 2007, the company's commercial protection, as well as that of our partners, was confirmed when the European Patent Office granted our core patent (EP1527176 B1). This patent not only covers Silence's novel, stabilised, small interfering RNA molecules – AtuRNAi – which have blunt ends and positional modifications but also covers structures with "overhangs" and positional modifications.

As anticipated, our competitors filed oppositions, the procedure for which will commence sometime in 2008. These oppositions are expected to take 18 – 36 months to resolve and we, our advisers and R&D partners, remain confident that any potential changes to the scope of our core patent will not impact our business opportunity.

In September 2007 we began a dialogue with the US Patent and Trademark Office (PTO) with regard to gaining a similar patent position in the US. In these discussions we are focused on the elements of this patent application required to differentiate and protect our technology and via this approach we are confident that this US patent will be allowed. At present our management team and external advisers, who are well versed in this process, remain confident that we will receive a US patent allowance in 2008.

Continuing to Build a Strong Team

In November 2007 we appointed Dr. John Lucas as Vice President of Intellectual Property and General Counsel. We were very happy to recruit John to the team given his wealth of experience in the biotech sector, including a period as an Examiner for the US PTO. Having John on board has already begun to benefit the Company in terms of progressing our IP strategy and ongoing business development discussions. We envisage further significant appointments being made in 2008 as we seek to establish a world-class management team.

In addition, in late 2007 we appointed new financial advisors and a new broker and nominated advisor to provide us with the world-class level of support we need to successfully execute our ambitious corporate strategy.

As our deals with AstraZeneca illustrate, Silence Therapeutics operates in one of the most exciting areas of the pharmaceutical industry and with the advice and support of Lazard and Nomura Code, we will continue to build on the progress we have made to become one of the global leaders in the RNAi space. In 2008, to reflect this ambition we are looking to attract additional institutional shareholders and to broaden the geographic spread of our investor base. To this end we have an ongoing programme of investor road shows planned through 2008, both in Europe and the USA.

Summary

At the beginning of 2007 we set out to achieve a number of important milestones including progressing our own product pipeline, further validating our AtuRNAi platform by signing additional collaborations and strengthening our IP position. We have achieved these goals while at the same time continuing to build the Silence organisation and to invest in our RNAi delivery expertise.

We have made a good start to 2008 with the signing of our drug delivery collaboration with AstraZeneca and I fully expect to make further significant progress during the next 12 months towards our goal of being recognised as one of the leading RNAi companies globally.

Over the next 12 months we expect to:

- Make the regulatory filing that will allow us to start clinical trials with our most advanced product, Atu027, in patients with systemic cancer indications,
- Sign a number of additional collaborations based on our AtuRNAi and AtuPLEX technologies,
- Achieve allowance of our core AtuRNAi patent application in the US, and
- Further strengthen our organisation so that we can support our value creating collaborations appropriately, while advancing our own internal pipeline.

I have great confidence in our future prospects and I look forward to keeping you updated on the development of our business, as the Silence team continues to work to create significant value for our shareholders.

Jeffery S Vick
Chief Executive Officer

The group is able to report another positive set of financial figures for 2007. Increased revenue allowed the group to raise its investment in Research and Development as well as continue to build its infrastructure. Despite these additional cash demands, the group closed the year with bank balances increased by over £1m from the end of 2006 to £10.2m.

Operating Results

Revenue for the year rose from £1.95m to £4.05m. This reflects principally the milestone and licence fee revenues from Silence's agreements with AstraZeneca and with Pfizer and Quark Pharmaceuticals. The agreement with AstraZeneca, covering the development of AtuRNAi therapeutics, signed in July 2007 resulted in Silence receiving an upfront access fee of £2.5m. Due to the nature of the agreement, this entire sum has been recorded as revenue in 2007. In addition, the group received milestone payments from its arrangements with Quark and Pfizer during the year and, again, all such receipts are treated as revenue in the year.

The Group continues to invest in its research and development activities in order to expand and develop its own pipeline of RNAi molecules targeting oncology indications. As predicted last year, the rate of expansion increased during 2007 compared to 2006. This is in line with our plan to maintain and capitalise on the lead we have established with our unique RNAi molecules and our world leading delivery technology. With significant expenditure on both toxicology trials and manufacturing development of our molecules and delivery systems, Research and Development costs rose from £3.2m in 2006 to £4.8m in 2007. We plan to continue to expand our investment in R&D over the coming years.

The charge for administration expenses is heavily influenced by the amount calculated as the impact of the granting of share options. For 2006 the total charge relating to options was £0.7m, but this non-cash item has risen to £1.4m in 2007. This is likely to rise again in future years as the group seeks to attract and reward the high calibre staff essential to the successful execution of our growth strategy. Aside from the increase of this element of costs, other administration expenses rose from £2.3m in 2006 to £3.6m in 2007, which reflects both the expansion of the management capabilities and rewarding the achievements during the year.

Cash Flow

As noted above, the operating loss continues to contain a number of large non-cash items, such as option charges but also depreciation and amortisation, which significantly impact on the Group's profitability. After adjusting for these items the cash absorbed in the Group's operating activities for the year was just £3.8m (2006: £4.0). With the benefit of the equity investment by AstraZeneca during the year and cash realised from the exercise of options and warrants, amounting in aggregate to almost £5.2m (2006: £3.5m), the Group's net cash position increased by £1.35m in the year (2006: decrease £0.27m).

Future

The Group will continue to add value to its portfolio of RNAi based assets by expanding and developing its technology, either alone or with selected development partners. The mix and speed of this expansion will be dependent upon the availability of resources to the Group. The Group continues to look for licensing and collaboration opportunities that will generate either revenues or other financing or resource opportunities to aid in this development drive. Further expansion of the Group's management and administrative capabilities are likely to enable it to adequately support and exploit its research and development activities.

The Board continues its commitment to maintaining a strong cash balance relative to current cash usage, enabling a secure basis for the planning of future activities and giving the Group a sound financial platform from which to progress the Group's various licensing discussions.

Melvyn Davies
Finance Director

About RNAi

RNA interference (RNAi) is a new approach in "silencing" or inactivating disease relevant genes. It has the potential to create a new class of therapeutic products (RNAi therapeutics) for a broad range of diseases. Confidence in the ability of RNA interference to selectively silence disease-causing proteins is reinforced by the fact that RNAi is a naturally occurring process that silences specific messenger RNA (mRNA), the genetic information that encodes proteins.

Many disease-linked genes have been identified. However, therapeutic approaches based on small molecules, biologics or other existing drug entities have had little effect on many of these targets. RNAi has the potential to selectively inactivate genes implicated in a wide range of diseases, many of which have been regarded as incurable. The great promise of RNAi therapeutics has been recognised by the scientific community: Science magazine elected siRNA as "Molecule of Year" in 2001; RNAi was named "Scientific Discovery of the Year" in 2002; and discoverers of RNAi, Andrew Fire and Craig Mello, received the Nobel Prize in Physiology or Medicine in 2006.

Why are RNAi therapeutics so exciting?

Target a broad range of diseases

In principle, RNAi therapeutics could be used to selectively silence any of the 30 - 40,000 genes in the human body. They, therefore, have the potential to treat diseases currently thought untreatable.

Great efficacy

RNAi therapeutics have the ability to prevent the production of disease-causing proteins. They are much more potent than other oligonucleotide-based technologies previously used to inactivate genes and have the potential to be used at much lower doses.

Direct and specific mode of action

In contrast to other classes of therapeutics, RNAi targets specific mRNA expressing a disease-related protein directly. It does not require any additional means of targeting (such as a protein-specific ligand).

Well defined chemical entities giving a facilitated path to market

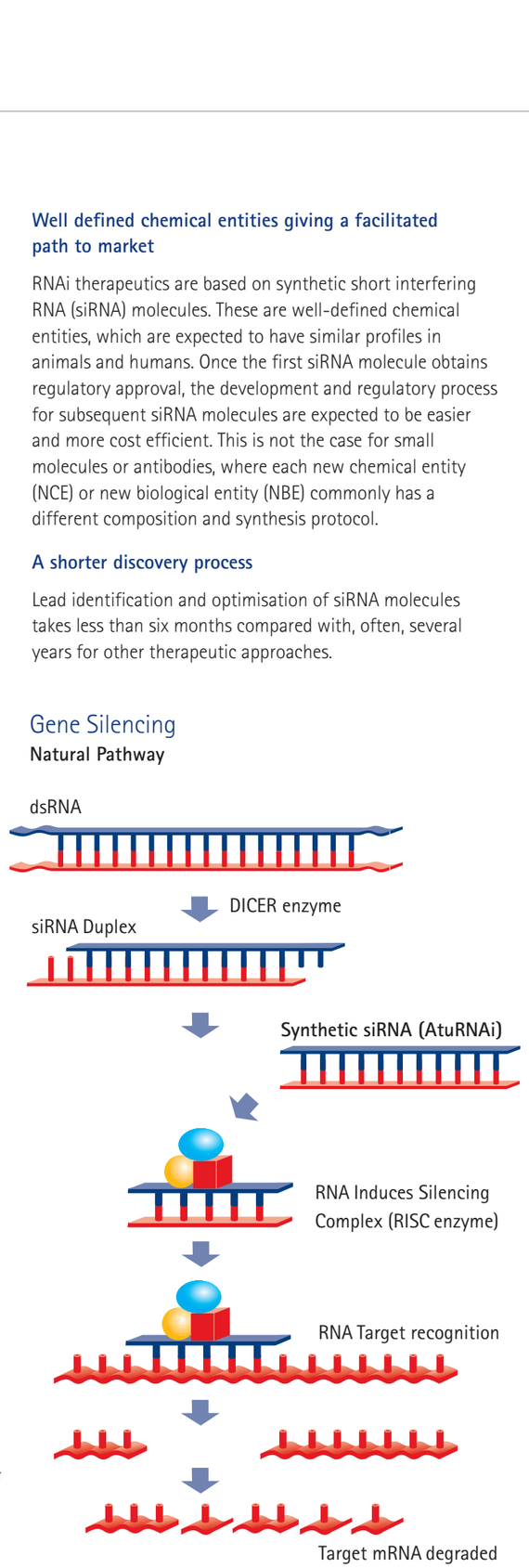
RNAi therapeutics are based on synthetic short interfering RNA (siRNA) molecules. These are well-defined chemical entities, which are expected to have similar profiles in animals and humans. Once the first siRNA molecule obtains regulatory approval, the development and regulatory process for subsequent siRNA molecules are expected to be easier and more cost efficient. This is not the case for small molecules or antibodies, where each new chemical entity (NCE) or new biological entity (NBE) commonly has a different composition and synthesis protocol.

A shorter discovery process

Lead identification and optimisation of siRNA molecules takes less than six months compared with, often, several years for other therapeutic approaches.

Gene Silencing

Natural Pathway



Double-stranded RNA is cleaved by the DICER enzyme into short interfering RNA (siRNA) molecules. SiRNA is bound in a multi-protein complex termed RISC (RNA induced silencing complex). The RISC/siRNA complex scans for the target mRNA. A nuclease cuts the target mRNA at the homologous region. The RISC/siRNA complex stays assembled and resumes scanning for the next target mRNA. Because the mRNA instruction templates are eliminated, production of the corresponding target protein halts; it is "silenced". Silence Therapeutic enters the RNA interference pathway by introducing synthetic siRNA molecules, termed AtuRNAi.

Silence Therapeutics – the leading RNAi company in Europe

Silence Therapeutics has developed a new class of siRNA molecules, called AtuRNAi, and a systemic delivery system, AtuPLEX.

Silence Therapeutics' in-house RNAi therapeutic programmes focus on the development of systemic applications of AtuRNAi molecules in oncology. The Group's lead preclinical development candidates are directed against targets involved in cancer indications such as gastrointestinal cancers.

Silence Therapeutics plans a regulatory filing in 2008 to commence clinical trials for its first in-house, systemically delivered AtuRNAi molecule for gastrointestinal cancers.

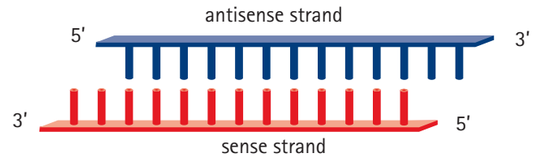
Silence Therapeutics' leadership in siRNA therapeutics is based on nine years experience in gene silencing and delivery. This leadership has been validated by a number of collaborations with pharmaceutical and biotech companies including AstraZeneca, Sanofi-Aventis, Pfizer, BayerSchering, Sankyo and Altana.

AtuRNAi: novel, proprietary siRNA molecules

AtuRNAi molecules are novel, stabilised small interfering RNA (AtuRNAi) molecules that provide significant advantages over current unmodified RNAi. In particular, AtuRNAi molecules demonstrate a longer half-life when administered through the bloodstream to reach diseased parts of the body. Key features of AtuRNAi include:

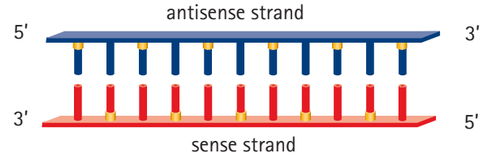
- Stability against nuclease attack.
  A proprietary chemical modification pattern protects AtuRNAi molecules from degradation. The resulting longer half-life may lead potentially to lower doses and less frequent administration.
- Elimination of toxic metabolites.
  AtuRNAi molecules consist of naturally occurring building blocks only. The chemical modifications at the 2' sugar backbone position are adapted from endogenous modifications of ribosomal RNA molecules.
- Accelerated lead finding and development.
  Proprietary algorithms have been developed for an accelerated selection and screening of AtuRNAi molecules. All AtuRNAi molecules display the same pattern of alternating modifications and therefore show similar physical and chemical properties which facilitate a standardised scale-up process.
- Lower cost of manufacturing.
  AtuRNAi molecules are produced at significantly lower cost compared to conventional siRNA molecules due to cheaper building blocks, and higher yields in the synthesis process.

Conventional siRNA



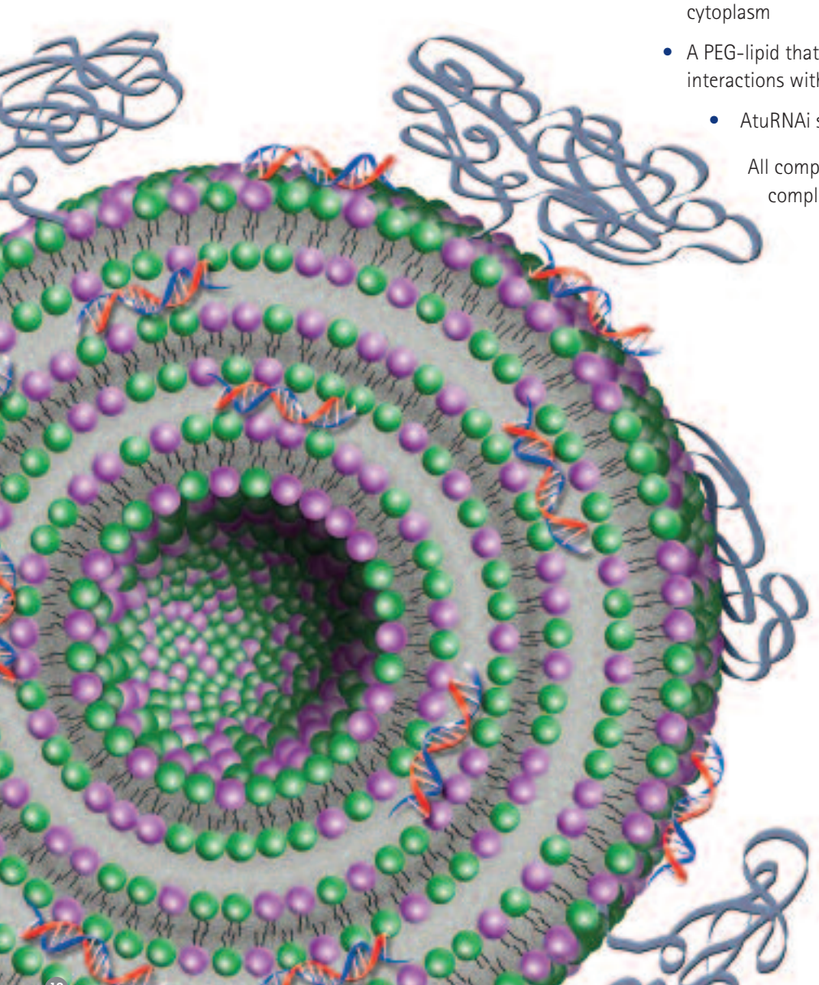
Silence's stabilized AtuRNAi

- Both strands with blunt ends
- Alternating pattern of modifications



RNAi delivery: critical to clinical success

It is now widely recognised by the scientific and pharmaceutical community that, to be clinically effective, siRNA must be delivered efficiently to target tissues and enter the interior of the target cells. Unfortunately, siRNA molecules, whether our own AtuRNAi molecules or those of our competitors, do not readily cross cell membranes. Therefore, siRNA must be formulated with a suitable delivery system which works as a "taxi" to bring them across the cell membrane into the interior of the target cell. Furthermore, delivery systems can be helpful to maximise in vivo stability and provide tissue specific targeting as well as to minimise unwanted activation of the immune system. Although a number of delivery approaches have been devised, such as electroporation; use of viral vectors; and liposome encapsulation; effective delivery is still considered a significant bottle-neck in the industry.



AtuPLEX, a novel, proprietary systemic delivery system

Silence Therapeutics has developed a novel, proprietary lipid-based delivery technology, AtuPLEX. AtuPLEX is designed to deliver AtuRNAi molecules systemically, via the bloodstream, to target diseased tissues and cells throughout the body. Importantly, unlike most lipid-based delivery systems that encapsulate siRNA within liposomes, AtuPLEX® delivers siRNA on the outside of the lipid particle and thereby increases siRNA accessibility to target mRNA.

Components of the AtuPLEX delivery system:

- A cationic (positively charged) lipid that binds anionic (negatively charged) RNA by electrostatic interaction.
- A 'helper' or 'fusiogenic' lipid that integrates in the cationic lipid to help the lipid complex enter the cell cytoplasm
- A PEG-lipid that "shields" the lipid complex from interactions with blood proteins and macrophages
- AtuRNAi siRNA to target and silence specific mRNA

All components are combined to form a lipid complex ("lipoplex").

How AtuPLEX works to provide functional delivery

AtuPLEX delivers siRNA following intravenous injection into the blood stream and, therefore, has the potential to reach a wide range of organs previously thought to be relatively inaccessible. The PEG-lipid helps AtuPLEX evade the immune system and interaction with blood borne proteins - effectively increasing the half-life (and hence bioavailability) in circulation.

Mammalian cells take up the lipid complex from the blood stream by 'endocytosis to create an internal sac (the endosome) within the cell cytoplasm. Normally, endosome contents are rapidly destroyed by conversion of the endosome to a lysosome, a vesicle with destructively low pH. The 'helper' fusiogenic lipid, however, helps the siRNA escape the endosome before it becomes a lysosome, thereby preventing destruction of its contents and enabling the siRNA to enter the cell cytoplasm. Once inside the cell, the siRNA is accessible to its target mRNA.

By facilitating uptake into cells and then triggering escape of active drug from the endosome, AtuPLEX provides functional delivery of siRNA into cells. Because AtuPLEX delivers siRNA on its outside surface, the siRNA dose is not constrained by the internal volume of the lipid particle, enabling greater flexibility in dose adjustment. Similarly the charge characteristics of the complex can be finely tuned by titrating binding of anionic siRNA enabling more precise targeting of specific tissues and cells.

AtuPLEX: Long term stability through lyophilisation

A unique and highly beneficial feature of the AtuPLEX delivery system is that it can be lyophilised (freeze dried) and stored, without degradation, at room temperature for over one year. AtuPLEX can be reactivated simply by adding water. Importantly, lyophilisation and rehydration processes do not affect the bioactivity of the molecule. This is a major breakthrough, which will facilitate storage and transport in clinical applications and commercial products.

Targeting tumour vasculature

The current formulation is ideal for the development of anti-angiogenic therapies for solid cancers. The positively charged lipid complex binds easily to the negatively charged vasculature. Present in-house work is focused on silencing a kinase protein (PKN3) involved in tumour growth and metastasis. Single and repeat dose toxicology and geno-toxicology studies have been completed successfully as well as 28-day toxicology studies with multiple dose regimens.

Key advantages of the AtuPLEX delivery system

- Long term stability through lyophilisation
- Increased bioavailability, half-life and circulation time
- Protection from interaction with immune system cells and proteins, and other blood-borne proteins

All components in the manufacture of the AtuRNAi and AtuPLEX, including the lyophilisation process, together with all pre-clinical laboratory testing are carried out to GMP and GLP standards.

Intellectual property

Silence Therapeutics has a core chemistry RNAi patent, EP 1527176, which covers the proprietary AtuRNAi structure. This was granted by the European Patent Office in January 2007 and is the first patent granted for this new class of siRNA molecule. The granted patent includes claims relating to the blunt ends and positional modifications of the AtuRNAi molecule. The Company is seeking similar patent protection from the US Patent Office.

Silence Therapetuics has patents and patent applications covering relevant aspects of RNA interference (RNAi). These patents and patent applications include the novel chemically modified and stabilised siRNA molecules (AtuRNAi) and transfection technology (AtuFECT and AtuPLEX) to deliver siRNA molecules into mammalian cells. Moreover, Silence Therapeutics has certain target-specific patents and patent applications.

Silence Therapeutics' patent estate is strengthened significantly by more than 100 exclusively in-licensed patents and patent applications covering other gene silencing technologies.

Glossary.

Anti-angiogenic	Inhibiting the growth of blood vessels
Antisense molecules	A sequence of nucleic acids, typically created in the laboratory, whose sequence is exactly complementary/ opposite to an mRNA molecule made by the body. mRNA molecules made by the body serve as templates for the synthesis of protein (see Translation). Since the "antisense" mRNA molecule binds tightly to its mirror image, it can prevent a particular protein from being made.
Biologic	A product that is derived from a living thing (plant/animal/ human) used to prevent, treat or cure disease
Cancer	A group of diseases in which cells grow unrestrained in an organ or tissue in the body. Cancer can spread to tissues around it and destroy them or be transported through blood or lymph pathways to other parts of the body.
Catalytic	A chemical reaction happens more quickly without changing the catalyst
Cytoplasm	The contents of a cell other than its nucleus and other organelles
Deoxyribonucleic acid	See DNA
Desoxyribonucleotides	Building blocs of DNA
Development	The process by which a compound discovered in research is progressed through human clinical trials prior to approval to market
Diabetes	A range of conditions characterised by high blood sugar and glucose intolerance
Diagnostics	A tool, gene or protein, that supports the identification of a disease
DNA	The molecule that encodes genetic information and serves as a template for the production of RNA and, indirectly, also proteins
Drug optimisation	A method to improve the efficacy of a drug
Drug target	A gene or gene product (protein) against small molecule drugs will be screened and developed
Electroporation	The process of creating temporary holes in a cell membrane using an electric current
Endocytosis	The process by which a cell takes up material from its environment by surrounding and engulfing the material to form a tiny membrane covered sac (vesicle)
Endogenous	Something produced by the body itself
Enzyme	A protein that catalyses a chemical reaction
Expression	The process by which the information in a gene is used to create proteins
Formulation	A combination of an active drug and pharmacologically inactive ingredients used to achieve adequate bioavailability
Gene	Structurally, a basic unit of hereditary material; an ordered sequence of nucleotide basis that encodes a product (this product could be just RNA like rRNA or finally coding for a protein)
GeneBloc© molecules	Specific antisense molecule consisting of DNA and RNA building blocks and blocking groups at the 5' and 3' ends to enhance stability against molecular degradation
Gene silencing	Targeting or interfering with a specific gene and preventing its expression (in other words, preventing it from leading to a protein)
Gene target	A gene or its product (protein) which plays a critical role in pathology
Genome	DNA sequence of an organism; its size is generally given as its total number of base pairs
GMP	Good manufacturing practice: that part of the measures taken to ensure the quality of investigatory or medicinal products concerned with consistent and controlled production
IND	Investigational New Drug. The notification of data relating to a drug candidate, which must be given to the FDA before it may be administered to patients in clinical studies.
IND application	Investigational new drug application authority given by the FDA following application to test drug products in patients
Indication	A relevant patient condition
In vitro	A biological or biochemical process carried out in a test tube or similar vessel
In vivo	A biological or biochemical process carried out in a living organism
Kinase	An enzyme that specifically adds phosphate groups to a wide variety of substances
Ligand	Any molecule that binds to the surface of another molecule
Liposome	A microscopic sphere made of fat-like molecules (lipids)
Liposome encapsulation	The process of trapping molecules (usually drugs) inside a liposome
Metabolite	A chemical produced from the break down of another substance inside a living organism
mRNA	messenger RNA
NCE	New Chemical Entity
Nucleotide sequence	The chemical linkage of nucleic acids (adenine, guanine, cytosine or thymine) attached to a phosphate and a sugar group.
Oligonucleotides	A molecule made up of a small number of nucleotides, typically fewer than 25. These are frequently used as DNA synthesis primers.
Oncology	The study of cancer
Organelle	An intra-cellular structure having a specialised function
Pre-clinical development	Activities prior to testing in humans including pilot manufacture, toxicology and metabolism studies
Proteins	Organic compounds made up of amino acids. Proteins are responsible for most of the function and much of the structure of living organisms, including humans
R&D	Research and development
Ribonucleotides	Building blocs of RNA
Ribosomal	Relating to the small dense organelle in cells that assemble proteins
RNA	Ribonucleic acid
RNAi	RNA interference: a technique used to prevent Translation of specific genes by targeting and degrading the mRNA embodying the genetic sequence of the relevant gene with the intention of inhibiting production of disease causing proteins/peptides
Sequence	The order of nucleotides in a DNA or RNA molecule, or the order of amino acids in a protein molecule
siRNA	Short interference RNA: short double stranded (19 to 21 nucleotides in length) RNAi molecule
Small molecule	Chemical entity used for screening against drug targets
Specificity	The ability of a chemical, which can either be synthetic or of natural origin, to distinguish between highly similar target molecules
Systemic	Affecting the whole body rather than a part of it
Target	The molecule that a substance or a drug binds to (often targets are proteins).
Therapeutic	A pharmaceutical product targeted to treat a specific disease
Tissue-specific	A gene is expressed only in specific tissues of the human body
Transfection	The alteration of the genetic code within a cell by the addition of exogenous genetic sequences
Translation	The process of using a messenger RNA sequence to build a protein. The messenger RNA serves as a template on which transfer RNA molecules, carrying amino acids, are lined up. The amino acids are linked together to form a protein chain.
Validate, Validation	Proof of relevance and/or correctness, for example the relevance of a gene for a disease.
Vesicle	A small, membrane-surrounded spherical sac inside a cell
Viral vector	A tool used to deliver genetic material into cells

Board and Senior Management.

Jeffery S. Vick *

Chief Executive Officer

Jeffery Vick holds an MBA from Stanford, an MS Chemistry from the University of California, San Diego, and a BS Chemistry from the University of Virginia. Mr. Vick has more than 20 years experience in the business and research side of the biotechnology industry in both Europe and the USA. He has participated in all aspects of the drug discovery, development and registration process and has raised substantial funding in public and private capital markets and through corporate partnerships and company trade-sales. Most recently Mr. Vick served as Vice President Corporate Development and Intellectual Property for Centelion, a subsidiary of Aventis focused on the development of pro and anti-angiogenic therapies. From 2001 to 2002 he was Vice President, World-Wide Corporate Development and Licensing with Genset, a genomics company based in Paris, France, where he is credited with the successful sale of Genset to Serono Pharmaceuticals at a substantial premium. From 1998 to 2000 Mr. Vick was Vice President Corporate Development at Cytovia Inc., where he negotiated multi-million dollar collaborations with BioChem Pharma, Aurora Biosciences and Axys Pharmaceuticals before the business was sold for several times the capital invested. From 1997 to 1998 Mr. Vick worked with Sanderling Ventures where he helped found and/or fund numerous ventures including Cytovia, Dendreon, Kadmus, Genteric, Pharmdel and Valley Forge Pharmaceuticals. In 1992 Mr. Vick joined the founding Senior Management team of the drug-delivery company DepoTech Corporation. Here he held responsibility for corporate development, intellectual property and market research. Over the next six years Mr. Vick helped build DepoTech into a successful business which developed and launched two products: DepoCyt® an oncology product, and DepoDur® a pain-management product. Previously Mr. Vick served as a business analyst with Advanced Cardiovascular Systems and performed cancer research at the University of California San Diego Cancer.

Melvyn Davies *

Finance Director & Company Secretary

Melvyn Davies is the Finance Director and Company Secretary of the group. Mr. Davies qualified as a Chartered Accountant in 1981 and was a partner with a medium sized firm of London based Chartered Accountants for five years until 1994 where he specialised in the practice's more complex audit and accounting issues. He has 25 years experience advising and assisting both large and small businesses across a wide range of industry sectors. Mr. Davies has advised the Group since its foundation in 1992 and joined the Board in 1994 to help prepare for its initial public offering in 1995. Since then he has been instrumental in negotiating licensing and collaboration agreements and securing several rounds of fundraising in the process of moving the Group onto the Alternative Investment Market and to a full London Listing before moving the shares back to AIM in 2004. Following the restructuring of the Group in 2005, his main responsibilities are to control and direct the Group's governance, financial and taxation affairs.

Thomas Christély

Chief Operating Officer

Thomas Christély has more than 18 years experience in finance and, corporate and business development. His track record includes multiple financing transactions as well as M&A, divestments and strategic restructurings and more than 8 years in cross-border management at board level. Mr. Christély joined Silence Therapeutics AG (Atugen AG) in 2001 as CFO and became COO in 2002 prior to being appointed its CEO in 2006. From 1996 to 2000, he held the position of Senior VP and CFO at OXO Chemie AG, a Swiss pharmaceutical company, and founded its subsidiary OXO Chemie Inc. in San Francisco, where he stayed from 1997 to 2000. Mr. Christély was managing partner of the investment firm Löschen & Partner, Hamburg and Moscow, from 1992 to 1995. He worked in mergers & acquisitions of Enskilda Corporate Finance, London from 1989 to 1992. Mr. Christély has also worked for two international accounting and consultancy firms and for the Commission of the European Union in Brussels. After his studies in Hamburg and Geneva, he received degrees in Business Administration (equivalent to MBA) and Law from the University of Hamburg and was admitted as attorney-at-law.

* Member of the Board of Directors

business strategy which culminated in the acquisition of Transform by Johnson and Johnson. Dr. Lucas also served as Vice President, World-wide Intellectual Property at Genset of Paris, France and as Patent Examiner with the United States Patent and Trademark Office. Dr. Lucas holds a J.D. from George Washington University and a Ph.D. in molecular genetics from Ohio State University. He also holds a M.S. in microbiology and a B.Ed. from Ohio University. In addition, Dr. Lucas' scientific experience includes a post-doctoral fellowship in cancer research at the National Cancer Institute, National Institutes of Health in Bethesda, Maryland.

Dr. Klaus Giese

Chief Scientific Officer

Dr. Klaus Giese has over 18 years of relevant experience in both the US and Europe, including the management of more than 20 international collaborations with pharmaceutical and biotech companies and more than four years in cross-border management as CSO. Dr. Giese joined Silence Therapeutics AG in 1999, where he continues his position as CSO. Prior to Silence Therapeutics, Dr. Giese was Group Leader at Chiron Corporation, Emeryville, CA from 1994 to 1998 where he was responsible for coordinating and managing part of Chiron's obesity and oncology program. His efforts in this program included the development of several different gene expression profiling approaches and the development of a novel high-throughput screening assay to identify inhibitors of HIV-1 transcription. Prior to joining Chiron, Dr. Giese acted as research scientist and postdoctoral fellow at the Howard Hughes Medical Institute, University of California, San Francisco, as well as at the Max-Planck-Institute for Molecular Genetics in Berlin. Dr. Giese studied Biochemistry at the Free University of Berlin, where he also received his Ph.D.

Iain Ross *

Chairman

Iain Ross BSc (Hons) Biochemistry, is an experienced business entrepreneur with more than 25 years experience in the pharmaceutical and biotechnology sector. Between 1980 and 1995 he held senior commercial positions with companies in the UK and internationally, including Sandoz AG, Fisons plc, Hoffmann-La Roche AG and Celltech Group Plc where he was a main board director from 1991 to 1995. Since 1995 he has undertaken and provided input to a number of biotech turnarounds and start-ups as a board member on behalf of banks and private equity groups. From 1995 to 2000 he was CEO of Quadrant Healthcare plc and in 2001/2002 as Chairman and CEO he was responsible for the operational and financial turnaround of Allergy Therapeutics Ltd. Mr. Ross has raised substantial funds both publicly and privately, has been involved in four Initial Public Offerings and has direct experience of mergers and acquisitions both in the UK and USA. Currently Mr. Ross is Chairman of Biomer Technology Ltd and is a Non-Executive Director of Powerstax Ltd. Mr Ross is a Chartered Director of the UK Institute of Directors, a Trustee of the Breast Cancer Haven and a member of the Council of Royal Holloway College, London University.

Dr. John Lucas

General Counsel and Vice President, Intellectual Property

Dr. John Lucas brings over 18 years of legal, intellectual property and research experience to Silence Therapeutics. Prior to Joining Silence Therapeutics, Dr. Lucas was Vice President of Intellectual Property at Metabasis Therapeutics, a biopharmaceutical company in La Jolla, California. At Metabasis he served as the Company's first in-house counsel and was responsible for a wide range of legal matters including intellectual property, contracts and agreements and corporate compliance. Prior to Metabasis, Dr. Lucas held the position of Vice President, Intellectual Property at Transform Pharmaceuticals of Lexington Massachusetts, which specialized in small molecule drug form and formulation. In addition to his other duties at Transform, he was heavily involved in the company's

Jeremy Curnock Cook *

Non-Executive Director

Jeremy Curnock Cook is Executive Chairman of Bioscience Managers Limited, a corporate and investment advisory company. Mr. Curnock Cook founded Bioscience Managers Limited in February 2001, following his time at N.M. Rothschild & Sons Limited. During his 13 years at Rothschild, Mr. Curnock Cook created and led the Rothschild Bioscience Unit - the international and multidisciplinary team responsible for the investment advisory and management of a number of funds. Prior to joining Rothschild, Mr. Curnock Cook founded the International Biochemicals Group (IBG) in 1975, and built an 80-person company which he sold to Royal Dutch Shell in 1985. Mr. Curnock Cook has served on more than 30 boards of directors in the life science sector in the UK, Europe, USA, Canada, Japan and Australia and his current directorships include Biocompatibles International plc and Targeted Genetics Inc (USA).

Dr. David U'Prichard *

Non-Executive Director

Prior to joining the Board of Silence Therapeutics, Dr. David U'Prichard was, Chief Executive Officer and a member of the Board of Directors of 3-Dimensional Pharmaceuticals, Inc., Yardley PA ("3DP") from 199-2003. During that time he took 3DP public and secured major collaborations with Bristol-Myers Squibb and Johnson & Johnson. In March 2003, 3DP become a part of Johnson & Johnson Pharmaceutical R&D. From 1997 to 1999, Dr. U'Prichard served as Chairman of Research and Development at SmithKline Beecham, where he oversaw the entry of approximately ten compounds into global development; four compounds into Phase III trials and six compounds into early clinical trials. Additionally, he was involved in several major restructuring efforts at the company. Prior to SmithKline Beecham, Dr. U'Prichard worked for ICI/Zeneca from 1986 to 1997, as Executive Vice President and International Research Director from 1994 to 1997.

* Member of the Board of Directors

Peter Reynolds *

Non-Executive Director

Peter Reynolds has spent over 30 years as a director of a range of both public and private companies. Currently, he is a director of a number of companies including Chairman of Eckoh Technologies plc and a non-executive director of Swallow Ventures Limited. Peter Reynolds is Chairman of Silence Therapeutics's Remuneration Committee and a member of Silence Therapeutics's Audit Committee.

Iain Rügheimer *

Non-Executive Director

Iain Rügheimer was appointed a Non-Executive Director of Silence Therapeutics in 1994. He previously specialised in pharmaceutical and healthcare company research as an investment banker and director, with a number of UK and European investment banks. More recently he has focused on financing and developing new enterprises, particularly in the rapidly expanding Central and Eastern European economies. Mr. Rügheimer is Chairman of Silence Therapeutics' Audit Committee and a member of Silence Therapeutics' Nomination Committee.

Prof. Dr Bernd Wetzel *

Non-Executive Director

Prof. Dr. Bernd Wetzel is a member of the advisory and supervisory board of several biotech companies. Originally trained as a synthetic and theoretical organic chemist, he has acquired, in almost 30 years in the global pharmaceutical industry, extensive experience in many disease areas and enabling technologies in strategic research and development and management across functions and sites. Since 1982, Professor Wetzel served in various senior management positions of Boehringer Ingelheim, amongst them Chief Scientific Officer and member of the board of Boehringer Germany. In 1997 he was appointed Head of Worldwide Research and Non-Clinical Development with responsibility for Boehringer's international research sites, a position he held until the end of 2002. In 1990, Bernd Wetzel was appointed Honorary Professor at the Ludwig Maximilian University in Munich, lecturing in Medicinal Chemistry.

The Directors present their report and the financial statements for the year ended 31 December 2007.

Review of the business

The Group carries out research and development of pharmaceutical products. In particular the Group is focussing on the development of its RNAi technology, which is currently moving from the pre-clinical into clinical development phase. The Group's key performance indicators are the cash position in relation to cash flow, the expenditure on research and development activities and the development milestones reached together with the signing of research collaborations and licences to bring in both development partners and revenues. Details of the financial performance, including comments on the cash position and research and development expenditure, are given in the Financial Review above. The product development pipeline is also shown above with a briefing on the Group's technology. The Chief Executive's Review provides details of the Group's progress during the year against all its performance targets.

The Group recorded a loss for the year before taxation of £5,243,897 (2006: loss £3,940,578). Further details are given in the preceding Financial Review.

Directors

The Directors who served at any time during the year and their interests in the shares of the Company were:

	Ordinary shares of 1p each at	
	31 December 2007	1 January 2007
Chairman		
I G Ross	194,316	nil
Executive Directors		
J S Vick	nil	nil
J M Davies	62,125	62,125
Non- Executive Directors		
J L Curnock Cook	140,328	140,328
H R P Reynolds	172,408	172,408
I N H Rugheimer	nil	nil
D C U'Prichard	nil	nil
B O Wetzel	nil	nil

The interests of the Directors in the share options of the Company are set out in note 20 to the financial statements.

Since the year end, all of the directors have bought shares in the Company on the open market as follows:

	Number bought	New holding
I G Ross	100,644	294,960
J S Vick	31,000	31,000
J M Davies	50,000	112,125
J L Curnock Cook	11,359	151,687
H R P Reynolds	175,000	347,408
I N H Rugheimer	11,359	11,359
D C U'Prichard	50,000	50,000
B O Wetzel	22,720	22,720

Substantial Interests

At 4 June 2008 the Company had been informed of the following substantial interests of over 3% of the issued share capital of the Company:

	Number	Percentage of Issued Share Capital
Credit Agricole Chevreux Ltd	3,677,659	3.07%
Fidelity International Ltd	6,311,831	5.26%
Goldman Sachs & Co	3,628,292	3.03%
Insight Investments Ltd	8,455,562	7.47%
Morgan Stanley Securities Ltd	5,740,244	4.78%
Orbimed Advisers LLC	3,681,000	3.07%

Corporate Governance

The Board continues to give careful consideration to the principles of corporate governance as set out in the Combined Code ("the Code") appended to the Listing Rules issued by the Financial Services Authority. Although the Company is not required to comply with the Code as its shares are traded on AIM, the Board has implemented most but not all of the Code provisions. It is the opinion of the Directors that not all of the provisions of the Code are either relevant or desirable for a Company of this size.

The Board meets regularly and has ultimate responsibility for the management of the Group and sub- committees, comprising of non-executive Directors, meet as and when required to deal with Remuneration and Audit matters.

Committee Structure

Remuneration: Peter Reynolds (Chairman), Jeremy Curnock Cook, David U'Prichard

Audit: Iain Rugheimer (Chairman), Jeremy Curnock Cook, Peter Reynolds

Nominations: Iain Ross (Chairman), David U'Prichard, Bernd Wetzel, Iain Rugheimer

Remuneration Committee

The Group has established a Remuneration Committee comprising of three non-executive directors to determine and review the emolument packages of the Directors of both the parent and subsidiary companies. The Committee meets at least twice a year and is responsible for setting the Group's overall policy on executive remuneration and employment conditions, including setting the specific remuneration, benefits and terms of employment for each Executive Director.

The Board of Directors has considered the Remuneration Committee's proposals in respect of the remuneration of the Directors and senior executives and has accepted them without substantial revision.

Audit Committee

The Board seeks to present a balanced and understandable assessment of the Group's position and prospects in all interim, final and price-sensitive reports and information required to be presented by statute.

The Audit Committee comprises three non-executive directors and its terms of reference include keeping under review the scope and results of the external audit and its cost-effectiveness. The committee reviews the independence and objectivity of the external auditors, including the nature and extent of non-audit services supplied by them to the Group.

Shareholder Communications

The Company uses its corporate website (www.silence-therapeutics.com) to ensure that the latest announcements, press releases and published financial information are available to all shareholders and other interested parties.

The AGM is used to communicate with both institutional shareholders and private investors and all shareholders are encouraged to participate. Separate resolutions are proposed on each issue so that they can be given proper consideration and there is a resolution to approve the Annual Report and Accounts. The Company counts all proxy votes and will indicate the level of proxies lodged on each resolution after it has been dealt with by a show of hands.

Compliance with BIA Code

The Group is a member of the BioIndustry Association (BIA) and has complied with the BIA code of best practice throughout the year. The BIA code consists of principles and provisions relating to corporate governance, access to external advice, release of sensitive information and public announcements concerning the Group's products and technology. The Code, which is obligatory for members of the BIA, is designed to operate with reference to the particular circumstances of biotechnology companies.

Directors' responsibilities for the financial statements

The Directors are responsible for preparing the Annual Report and Financial Statements in accordance with applicable law and regulations.

The Financial Statements for the Group are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the Board has also elected to prepare Financial Statements for the Company in accordance with IFRSs. Company law requires the Directors to prepare such financial statements in accordance with IFRSs and the Companies Act 1985.

IAS 1 requires that Financial Statements present the Company's and the Group's financial position, financial performance and cash flows fairly (i.e. give a true and fair view for each financial year). This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the IAS Board's "Framework for the preparation and presentation of Financial Statements". In nearly all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs.

In preparing the 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 applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Insofar as the Directors are aware:

- there is no relevant audit information of which the Company's auditors are unaware; and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

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. Certain of these risk factors affect the majority of businesses, some are common to businesses in the biotechnology sector and others are more specific to the Group.

Risks common to most businesses

- Failure to maintain legal and regulatory compliance
- New accounting standards causing a material adverse impact on reported financial results
- Failure to balance product portfolio against market projections and demands
- Increasing cost and decreasing availability of insurance
- Lack of control over external economic factors affecting business
- Unforeseen events which would be classified as force majeure, e.g., fire, flood, loss of utilities
- Inability to access sufficient resources to trade as a going concern

Risks applicable to the biotechnology sector and the Group

Clinical and regulatory risk

- The nature of pharmaceutical development is such that 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 the satisfaction of appropriate regulatory bodies, such as the Food and Drug Administration (FDA) in the US and the European Medicines Agency (EMEA) in Europe. The Group will have limited control over the type and cost of trial required to obtain regulatory approval.
- The Group will rely on third parties to conduct clinical trials. If these third parties do not successfully carry out their contractual duties or meet expected deadlines, the programs of the Group may be delayed or it may not be able to obtain regulatory approval for its products. Any failure or delay of projects in development or clinical trials could have an adverse effect on the business.
- With the prime focus of the Group being on such a new area of technology, there can be no assurance that the Group's products will receive and maintain regulatory approval.

Product development risk

- The Group is involved at the leading edge of a revolutionary technology. Within the pharmaceutical sector more drugs fail in development than progress to market and there is no guarantee that the Group will be able to successfully develop this new technology or bring any of the drug candidates it is developing to market. Further, the drugs that the Group does bring to market may not be commercially successful.
- The Group has no track record of successful development and registration of any product and will need to acquire or gain access to relevant additional expertise.
- In order to progress the Group's product development plans it may be desirable or necessary to find collaborators on certain projects. The Group cannot guarantee that it will be able to find and maintain suitable collaborators under acceptable terms, or that, once found, such collaborators will devote sufficient resources to the collaboration to make it commercially successful.
- The Group's suppliers may encounter unexpected difficulties in the design and construction of manufacturing processes and the scale-up of production to viable commercial levels or may otherwise be unable to supply materials to the Group in a timely manner.
- Competition for employees in the biotechnology sector may lead to increased costs or decreased availability of staff. As a result, the Group may be unable to recruit or retain certain important employees. This could weaken the Group's scientific and management capabilities and could delay or halt the development of products and technologies.

Competition risk

- RNAi technology is attracting increased interest and with that is increased competition. Competitors in the sector may have greater financial, human and other resources and more experience to develop competing products or technology.
- Many companies are trying to develop competing technologies and one or more of these may restrict the potential commercial success of the Group's products or render them obsolete.
- Increasing competition may also have an adverse effect on the timing or scale of commercialisation of the Group's technology.

Intellectual property risk

- Intellectual property issues from challenges by others or lack of protection for its own products may negatively impact the Group. Other companies may have or develop intellectual property that restricts the Group's freedom of use or imposes high additional costs to obtain licenses.
- The Group may be unable to successfully establish and protect its intellectual property which is significant to the Group's competitive position.
- The Group's intellectual property may become invalid or expire before its products are successfully commercialised.

Financial risk

- There are very high costs of product development, where products have lead times to market of many years.
- The lack of a substantial recurrent revenue stream and the significant resources needed for ongoing investment in its R&D pipeline require the Group to gain access to additional funding from licensing, capital markets or elsewhere. There can be no assurances that such funding will be achieved on favourable terms, if at all.
- Additional funding will be required to give the Group time to reach profitability. If the Group is unable to raise those funds, there may be insufficient finance for product development or operations and consequent delay, reduction or elimination of development programmes could result.
- The Group has a small portfolio of products. Success or failure with individual products could have a significant impact on the share price. This in turn may make it difficult for the Group to continue funding its development programme.
- The Group may be unable to secure adequate insurance at an acceptable cost.

This list should not be considered an exhaustive statement of all potential risks and uncertainties.

Going concern

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

Payment of creditors

It is the Group's policy to make payments to creditors in accordance with individually agreed terms, generally within 30 days either of the invoice date or from the end of the month the invoice was raised. Using the method set out in the Companies Act, the ratio for the Group of trade creditors at the year end to total costs was 22 days (2006: 27 days). The Company, Silence Therapeutics PLC, had no trade creditors outstanding at the year end.

On behalf of the board

Melvyn Davies
Secretary
11 June 2008

Report of the Independent Auditors.

To the members of SILENCE THERAPEUTICS PLC

We have audited the group and parent company financial statements (the "financial statements") of Silence Therapeutics plc for the year ended 31 December 2007 which comprise the consolidated income statement, the consolidated balance sheet, the consolidated statement of changes in equity, the parent company balance sheet, the parent company statement of changes in equity, the consolidated and parent company cash flow statements and notes 1 to 27. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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 auditors' 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 auditors

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted for use in the European Union are set out in the statement of Directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition, we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Highlights, the Chairman's Statement, the Chief Executive's Review, the Technology Briefing, the Financial Review, the Board and Senior Management information and the Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2007 and of its loss for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 December 2007;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

Grant Thornton UK LLP

Grant Thornton UK LLP

Registered Auditors
Chartered Accountants
London
11 June 2008

(1) The maintenance and integrity of the Silence Therapeutics plc website is the responsibility of the directors: the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

(2) Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

Consolidated Income Statement.

Year Ended 31 December 2007

	Note	2007	2006
		£	£
Revenue	3	4,046,974	1,947,301
Research and development costs		(4,842,529)	(3,185,886)
Gross loss		(795,555)	(1,238,585)
Administrative expenses		(4,992,159)	(3,029,764)
Operating loss	5	(5,787,714)	(4,268,349)
Finance income	7	543,817	347,676
Finance costs	8	-	(19,905)
Loss for the year before taxation		(5,243,897)	(3,940,578)
Taxation credit for the year	9	136,019	114,094
Loss for the year after taxation		(5,107,878)	(3,826,484)
Loss per share (basic and diluted)	10	(4.39)p	(4.02)p

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

Consolidated Balance Sheet.

At 31 December 2007

	Note	2007	2006
		£	£
Non-current assets			
Property, plant and equipment	11	398,764	146,897
Goodwill	12	6,653,990	6,239,679
Other intangible assets	13	779,703	728,489
		7,832,457	7,115,065
Current assets			
Trade and other receivables	15	1,340,860	732,453
Tax recoverable		130,000	80,000
Cash and cash equivalents	16	10,174,389	8,824,044
		11,645,249	9,636,497
Liabilities - current			
Trade and other payables	17	1,801,946	929,607
Provisions - current	18	-	115,342
		1,801,946	1,044,949
Net assets		17,675,760	15,706,613
Equity			
Share capital	20	1,198,835	1,130,650
Capital reserves	21	46,465,165	40,212,619
Translation reserve		636,594	(47,466)
Retained loss		(30,624,834)	(25,589,190)
Total equity		17,675,760	15,706,613

The financial statements were approved by the Board of Directors on 11 June 2008.

J S Vick

J M Davies

Directors

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

Consolidated Statement of Changes in Equity.

	Share capital	Capital reserves	Translation reserve	Retained loss	Total
	£	£	£	£	£
At 1 January 2006	903,116	36,405,031	142,803	(21,763,819)	15,687,131
Changes in equity for 2006					
Exchange differences arising on consolidation of foreign operations	-	-	(190,269)	-	(190,269)
Net income recognised directly in equity	-	-	(190,269)	-	(190,269)
Loss for the year ended 31 December 2006	-	-	-	(3,826,484)	(3,826,484)
Total recognised income and expense for the year	-	-	(190,269)	(3,826,484)	(4,016,753)
Recognition of share-based payments	-	491,489	-	-	491,489
Transfer upon exercise of options in year	-	(1,113)	-	1,113	-
Shares and options issued in the year	227,534	3,317,212	-	-	3,544,746
Movement in the year	227,534	3,807,588	(190,269)	(3,825,371)	19,482
At 31 December 2006	1,130,650	40,212,619	(47,466)	(25,589,190)	15,706,613
Changes in equity for 2007					
Exchange differences arising on consolidation of foreign operations	-	-	684,060	-	684,060
Net income recognised directly in equity	-	-	684,060	-	684,060
Loss for the year ended 31 December 2007	-	-	-	(5,107,878)	(5,107,878)
Total recognised income and expense for the year	-	-	684,060	(5,107,878)	(4,423,818)
Recognition of share-based payments	-	1,221,952	-	-	1,221,952
Transfer upon exercise of options in year	-	(72,234)	-	72,234	-
Shares and options issued in the year	68,185	5,102,828	-	-	5,171,013
Movement in the year	68,815	6,252,546	684,060	(5,035,644)	1,969,147
At 31 December 2007	1,198,835	46,465,165	636,594	(30,624,834)	17,675,760

Company Balance Sheet.

At 31 December 2007

	Note	2007	2006
		£	£
Non-current assets			
Investment in subsidiary undertakings	14	13,679,474	12,856,331
Current assets			
Cash and cash equivalents	16	9,567,224	7,136,031
Net assets		23,246,698	19,992,362
Equity			
Share capital	20	1,198,835	1,130,650
Capital reserves	21	46,281,249	40,028,703
Retained loss		(24,233,386)	(21,166,991)
Total equity		23,246,698	19,992,362

The financial statements were approved by the Board of Directors on 11 June 2008.

J S Vick

J M Davies

Directors

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

Company Statement of Changes in Equity.

	Share capital	Capital reserves	Retained loss	Total
	£	£	£	£
At 1 January 2006	903,116	36,221,115	(20,332,752)	16,791,479
Loss for the year ended 31 December 2006	-	-	(835,352)	(835,352)
Recognition of share-based payments	-	491,489	-	491,489
Transfer upon exercise of options in year	-	(1,113)	1,113	-
Shares and options issued in the year	227,534	3,317,212	-	3,544,746
Movement in the year	227,534	3,807,588	(834,239)	3,200,883
At 31 December 2006	1,130,650	40,028,703	(21,166,991)	19,992,362
Loss for the year ended 31 December 2007	-	-	(3,138,629)	(3,138,629)
Recognition of share-based payments	-	1,221,952	-	1,221,952
Transfer upon exercise of options in year	-	(72,234)	72,234	-
Shares and options issued in the year	68,185	5,102,828	-	5,171,013
Movement in the year	68,185	6,252,546	(3,066,395)	3,254,336
At 31 December 2007	1,198,835	46,281,249	(24,233,386)	23,246,698

Cash Flow Statements.

	Group		Company	
	2007	2006	2007	2006
Cash Flow from Operating Activities	£	£	£	£
Loss before taxation	(5,243,897)	(3,940,578)	(3,138,629)	(835,352)
Adjustments for:				
Depreciation charges	78,069	142,053	-	-
Amortisation charges	240,021	211,416	-	-
Impairment of goodwill	153,915	-	-	-
Loss on sale of property, plant and equipment	39	2,255	-	-
Charge for the year in respect of Share-based payments	1,221,952	491,489	934,375	491,489
Foreign exchange movement	25,856	(27,712)	-	-
Impairment provision against loan to subsidiary	-	-	728,797	1,030,452
Recovery of loan provided for in previous years	(36,000)	(33,000)	(36,000)	(33,000)
Finance income	(507,817)	(314,676)	(430,243)	(283,320)
Finance expense	-	1,360	-	-
	(4,067,862)	(3,467,393)	(1,941,700)	370,269
(Increase) in trade and other receivables	(608,407)	(287,101)	-	-
Decrease in inventories	-	81,852	-	-
Increase/(decrease) in trade and other payables	756,997	(440,692)	-	-
Cash (absorbed)/generated by operations	(3,919,272)	(4,113,334)	(1,941,700)	370,269
Interest paid	-	(1,360)	-	-
Taxation received	86,019	84,466	-	-
Net cash (outflow)/inflow from operating activities	(3,833,253)	(4,030,228)	(1,941,700)	370,269

	Group		Company	
	2007	2006	2007	2006
Cash Flow from investing activities	£	£	£	£
Investment in subsidiary undertakings	-	-	(532,210)	(3,144,005)
Loans to subsidiary undertakings	-	-	(732,153)	(1,484,630)
Recovery of loan made in previous years	36,000	33,000	36,000	33,000
Interest received	507,817	314,676	430,243	283,320
Additions to property, plant and equipment	(306,463)	(48,434)	-	-
Additions to intangible assets	(224,769)	(80,917)	-	-
Net cash generated from/(used in) investing activities	12,585	218,325	(798,120)	(4,312,315)
Cash flows from financing activities				
Proceeds from issue of share capital and options	5,171,013	3,544,746	5,171,013	3,544,746
Increase/(decrease) in cash & cash equivalents	1,350,345	(267,157)	2,431,193	(397,300)
Cash and cash equivalents at start of year	8,824,044	9,091,201	7,136,031	7,533,331
Net increase/(decrease) in the year	1,350,345	(267,157)	2,431,193	(397,300)
Cash and cash equivalents at end of year	10,174,389	8,824,044	9,567,224	7,136,031
Cash and cash equivalents includes				
Instant access bank accounts	10,174,389	1,794,893	9,567224	106,880
Bank deposit accounts	-	7,029,151	-	7,029,151
Cash and cash equivalents	10,174,389	8,824,044	9,567,224	7,136,031

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

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 limited liability corporation incorporated and domiciled in England, is the Group's ultimate parent company. The address of Silence Therapeutics' registered office is 22 Melton Street, London NW1 2EP and the principal place of business is Centre Point, 103 New Oxford Street, London WC1A 1DD.

1.2 Company income statement

The Company has taken advantage of section 230 of the Companies Act 1985 and has not included its own profit and loss account in these financial statements. The loss for the financial year dealt with in the accounts of the Company, including provision against the loans to and investment in subsidiary companies, amounted to £3,138,629 (2006: loss £835,352).

2. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and on the historical cost basis.

The Group has applied IFRS7: Financial Instruments: Disclosures for the first time in 2007. This has not had an effect on the reported figures of either the current or prior periods.

The Group has not adopted the following new International Financial Reporting Standards and International Accounting Standards that have been issued but are not yet effective:

		Effective from:
IFRS2:	Share-based payments (as amended)	1 January 2009
IFRS3:	Business combinations (revised 2008)	1 July 2009
IFRS8:	Operating segments	1 January 2009
IAS1:	Presentation of financial statements (revised 2007)	1 January 2009
IAS27:	Consolidated and separate financial statements (revised 2008)	1 July 2009
IAS32:	Financial in.5ts: Presentation (as amended)	1 January 2009

None of these are expected to have a significant impact on the financial statements.

The principal accounting policies adopted are set out below.

2.1 Basis of consolidation

The group financial statements consolidate those of the Company and its controlled subsidiary undertakings drawn up to 31 December 2007. 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 results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal.

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.

2.2 Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair values at the acquisition date.

In arriving at the cost of acquisition, the fair value of the shares issued by the Company is taken to be the mid-market price of those shares at the date of issue. Where this figure exceeds the nominal value of the shares, the excess amount is treated as an addition to the share premium account.

2.3 Goodwill

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

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

2.4 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.

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.

Government grants are dealt with as per note 2.5 below.

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.

2.5 Government grants

Government grants towards the cost of staff employed in research and development activities are recognised as income over the periods necessary to match them with the related costs.

Government grants towards the cost of plant and equipment are treated as a reduction in the cost of the asset to which they relate.

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 profit or loss 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 profit or loss, any exchange component of that gain or loss is also recognised in profit or loss.

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 actual exchange rates. 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.

2.7 Defined contribution pension funds

The group pays 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. No separate provision is made in respect of non-UK employees.

2.8 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 lives of between 3 and 5 years. Estimated useful lives and residual values are reviewed each year and amended if necessary.

2.9 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 are recognised as intangible assets, stated at cost incurred to establish and maintain those rights, and are subject to the same subsequent measurement method as externally acquired intellectual property. However, until completion of the development project, the assets are subject to impairment testing only as described below. Amortisation commences upon completion of the asset.

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 rate used is 10% per annum. Amortisation is included within research and devlopment 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.

2.10 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.

In the case of goodwill and any intangible asset with either an indefinite useful life or which is not yet ready for use, the Group tests for impairment at each balance sheet date.

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 assets 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.

2.11 Investments in subsidiaries

Investments in subsidiaries comprise shares in the subsidiaries and loans from the Company. Investment in shares of the subsidiaries are stated at cost less provisions for impairment. Loans to subsidiaries are recorded at fair value.

2.12 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 and held-to-maturity investments. 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.

Derecognition 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 receivables

Trade 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 profit or loss 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 profit or loss.

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.

2.13 Operating leases

All leases are operating leases and the payments made under them are charged to the profit and loss account on a straight line basis over the lease term.

2.14 Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

2.15 Share-based payments

The Group issues equity-settled share-based payments to certain employees and advisers. 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.

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-transferrability, exercise restrictions and behavioural considerations.

2.16 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.

2.17 Taxation

The tax credit recognised in the Income Statement represents the sum of the tax currently payable or receivable and deferred tax.

The tax currently 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. The Group's liability for current tax is 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 profit or loss, 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.

2.18 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 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 2007 amounting to £4,842,529 (2006: £3,185,886). The Board has decided not to capitalise any development costs to date as 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.

Goodwill is carried in the accounts at a value of £6,653,990 as at 31 December 2007 (2006: £6,239,679). The movement in the year represents a provision for impairment of £153,915 plus an adjustment in respect of fluctuations in foreign exchange rates. Details of the annual impairment review are set out in note 12.

Other intangible assets have a carrying value at 31 December 2007 of £779,703 (2006: £728,489) and details of the movement in the year, the capitalisation and amortisation policy and the basis of the impairment review are set out in note 13.

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

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

	2007	2006
	£	£
Europe	2,844,910	431,078
North America	1,202,064	1,198,750
Asia/Pacific region	-	317,473
	4,046,974	1,947,301

4. SEGMENT REPORTING

2007 Business Segments	RNAi Therapeutics	Immunotherapy	Group Unallocated	Consolidated
	£	£	£	£
Revenue	3,994,974	52,000	-	4,046,974
Operating loss	(1,829,201)	(1,058,347)	(2,900,166)	(5,787,714)
Net finance income	42,153	35,421	466,243	543,817
Net loss for the year before taxation	(1,787,048)	(1,022,926)	(2,433,923)	(5,243,897)
Segment assets	9,161,135	766,426	9,550,145	19,477,706
Segment liabilities	675,651	1,126,295	-	1,801,946
Costs to acquire property, plant and equipment	297,536	8,927	-	306,463
Costs to acquire intangible assets	224,769	-	-	224,769
Depreciation and amortisation	311,507	6,583	-	318,090
Impairment of goodwill	153,915	-	-	153,915
Charge for non-cash expenses: share-based payments charge	286,261	1,316	934,375	1,221,952

2006 Business Segments	RNAi Therapeutics	Immunotherapy	Group Unallocated	Consolidated
	£	£	£	£
Revenue	1,938,301	9,000	-	1,947,301
Operating loss	(2,806,425)	(1,347,786)	(114,138)	(4,268,349)
Net finance income	17,049	6,324	304,398	327,771
Net (loss)/profit for the year before taxation	(2,789,376)	(1,341,462)	190,260	(3,940,578)
Segment assets	9,103,570	511,961	7,136,031	16,751,562
Segment liabilities	331,232	713,717	-	1,044,949
Costs to acquire property, plant and equipment	48,434	-	-	48,434
Costs to acquire intangible assets	80,917	-	-	80,917
Depreciation and amortisation	346,596	6,873	-	353,469
Charge for non-cash expenses: share-based payments charge	35,793	5,675	450,021	491,489

The business segments operate within the same geographic areas for the purpose of IAS 14: Segment Reporting and thus there is no Geographic segmental analysis to report

5. Operating Loss

	2007	2006
	£	£
This is stated after crediting:		
Receipt of Government grants relating to research and development expenditure	-	247,574
Utilisation of provision against premises costs	115,342	137,654
Release of provision against premises costs	-	78,944
and after charging:		
Depreciation of property, plant and equipment	78,069	142,053
Amortisation of intangibles	240,021	211,416
Impairment of goodwill	153,915	-
Share-based payments charge	1,221,952	491,489
Accrual for employers national insurance on options	202,688	221,248
Auditors' remuneration		
- audit of parent company	35,000	30,000
- non-audit services:		
audit of subsidiary	9,650	7,011
nominated adviser fees	20,028	20,085
Operating lease payments on offices	130,219	173,625

Fees payable to auditors other than the auditors of the Company amounted to £16,743 (2006: £13,626).

6. Directors and staff costs

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

	2007	2006
	£	£
Wages and salaries	2,743,116	1,963,218
Social security costs	328,287	230,966
Pension costs	24,250	23,592
	3,095,653	2,217,776

The average number of employees, including both Executive and Non-Executive Directors, during the year was 46 (2006: 44).

There are no employees of the parent company itself other than the directors (2006: nil).

Management remuneration paid and other benefits supplied to the Directors during the year was as follows:

Remuneration	1,090,805	581,000
Benefits in kind	3,409	7,009
	1,094,214	588,009
Charge in respect of share-based payments	909,478	323,808
Pension contributions to defined contribution schemes for 1 director (2006: 1 director)	17,500	17,500
	2,021,192	929,317

Included in the amounts shown above are payments to third parties amounting to £60,000 for the services of certain directors (2006: £50,000).

The amounts set out above include remuneration to the highest paid director as follows:

	2007	2006
	£	£
Remuneration	315,000	300,000
Benefits in kind	-	5,106
Compensation for change in employment contract	200,000	-
Pension contribution	-	-
	515,000	305,106
Charge in respect of share-based payments	138,417	191,267
	653,417	496,373

7. Finance income

The finance income comprises:

	2007	2006
	£	£
Bank interest receivable	503,570	296,088
Other interest receivable	4,247	18,588
Release of provision against loan	36,000	33,000
	543,817	347,676

8. Finance costs

The finance costs comprise:

	2007	2006
	£	£
Foreign exchange losses	-	18,545
Bank interest payable	-	1,360
	-	19,905

9. Taxation

The credit for the year is made up as follows:

	2007	2006
	£	£
Corporate Taxation on the results for the year		
UK	-	-
Non-UK	-	-
Research and development tax credit (UK)	130,000	80,000
Adjustment in respect of prior years (UK)	6,019	34,094
Taxation credit for the year	136,019	114,094

The credit for UK Corporation Tax arises from the Group taking advantage of the legislation regarding the treatment of certain qualifying research and development costs.

A reconciliation of the tax credit appearing in the income statement to the tax credit that would result from applying the standard rate of tax to the results for the year is:

	2007	2006
	£	£
Loss per accounts	(5,243,897)	(3,940,578)
Tax credit at the standard rate of corporation tax of 30% (2006: 30%)	(1,573,169)	(1,182,173)
Impact of costs disallowable for tax purposes	277,600	185,978
Deferred tax in respect of timing differences	(362)	(161)
Impact of unrelieved tax losses not provided for	1,295,931	996,356
Sub-total	nil	nil
Relief and refund available in respect of R&D expenditure	130,000	80,000
Adjustment to that relief in respect of prior periods	6,019	34,094
Taxation credit for the year	136,019	114,094

Estimated tax losses of £34,000,000 (2006: £35,000,000) are available for relief against future profits.

The deferred tax asset not provided for in the accounts based on the estimated tax losses and the treatment of the equity settled share based payments, net of any other timing differences, is approximately £9,600,000 (2006: £11,500,000).

10. Loss per Share

The calculation of the loss per share is based on the loss for the financial year after taxation of £5,107,878 (2006: loss £3,826,484) and on the weighted average of 116,296,656 (2006: 95,138,708) ordinary shares in issue during the year.

The options outstanding at 31 December 2007 and 31 December 2006 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.

11. Property, plant & equipment

	Scientific Equipment	Office equipment & Furniture	Total
Group	£	£	£
Cost			
As at 1 January 2006	2,009,405	1,158,904	3,168,309
Additions	32,014	16,420	48,434
Disposals	(217,066)	(145,215)	(362,281)
Translation adjustment	(39,935)	(22,346)	(62,281)
At 31 December 2006	1,784,418	1,007,763	2,792,181
Additions	255,369	51,094	306,463
Disposals	(39,014)	(23,771)	(62,785)
Translation adjustment	174,505	86,705	261,210
At 31 December 2007	2,175,276	1,121,792	3,297,068
Depreciation			
As at 1 January 2006	1,829,251	1,092,088	2,921,339
Charge for the year	113,933	28,120	142,053
Eliminated on disposal	(215,026)	(145,000)	(360,026)
Translation adjustment	(36,893)	(21,189)	(58,082)
At 31 December 2006	1,691,265	954,019	2,645,284
Charge for the year	40,354	37,715	78,069
Eliminated on disposal	(38,976)	(23,770)	(62,746)
Translation adjustment	156,005	81,693	237,698
At 31 December 2007	1,848,647	1,049,657	2,898,304
Net book value			
As at 31 December 2006	93,153	53,744	146,897
As at 31 December 2007	326,629	72,135	398,764

12. Goodwill

The carrying amount of goodwill is wholly attributable to the acquisition of Silence Therapeutics AG in 2005.

	2007	2006
	£	£
Balance at start of year	6,239,679	6,380,166
Impairment of goodwill (see below)	(153,915)	-
Translation adjustment	568,226	(140,487)
Balance at end of year	6,653,990	6,239,679

At the date of acquisition, Silence Therapeutics AG had goodwill of €218,787 in its own accounts regarding acquisitions it had made in previous years. As part of the 2007 impairment review, it was decided that due to advances in technology there was no longer any continuing benefit from those acquisitions and therefore provision was made in full against that sum.

The Group tests annually for impairment, or more frequently if there are indications that goodwill might be impaired. Apart from goodwill, the Group, through Silence Therapeutics AG, also holds other intangible assets, and the impairment review implemented in respect of those definite life assets is described below. This impairment review is carried out at both the group level and by each company.

The impairment review in respect of goodwill has been carried out upon Silence Therapeutics AG as a whole.

As primarily a research and development group, the use of discounted cash flow or similar tools forms just one component of the overall assessment of potential impairment, given the inherent risks and uncertainties in the sector and the long timespans involved. In reviewing the carrying value of goodwill, the Board has considered the known and anticipated cash flows from current licence arrangements, restricted to the next five years, weighted as to probability and discounted to current values. In addition, the Board has considered the probability of further licence deals as well as the group's own exploitation of the group's technology and other longer term indicators of impairment.

Revenue has been generated from deals made in 2007 and those previously concluded by Silence Therapeutics AG and the Board considers this a strong indication of the longer term revenue generating capacity of Silence Therapeutics AG's underlying technology. The Group has also made progress in further developing that technology, thus enhancing the revenue generating capacity.

Consequently, it is the view of the Board that no other impairment of the Group's goodwill has occurred during the year.

13. Other Intangible Assets

	Licences	Internally Generated Patents & Patent Applications	Total
	£	£	£
Cost			
As at 1 January 2006	1,884,406	242,762	2,127,168
Additions	6,892	74,025	80,917
Translation adjustment	(41,570)	(6,161)	(47,731)
At 31 December 2006	1,849,728	310,626	2,160,354
Additions	6,228	218,541	224,769
Disposals	-	-	-
Translation adjustment	170,840	38,716	209,556
At 31 December 2007	2,026,796	567,883	2,594,679
Amortisation			
As at 1 January 2006	1,209,218	41,090	1,250,308
Charge for the year	184,547	26,869	211,416
Translation adjustment	(28,658)	(1,201)	(29,859)
At 31 December 2006	1,365,107	66,758	1,431,865
Charge for the year	193,168	46,853	240,021
Eliminated on disposal	-	-	-
Translation adjustment	134,775	8,315	143,090
At 31 December 2007	1,693,050	121,926	1,814,976
Net book value			
As at 31 December 2006	484,621	243,868	728,489
As at 31 December 2007	333,746	445,957	779,703

The licences included above have finite useful lives estimated to be of 10 years from date of initial acquisition, over which period the assets 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 years, commencing upon the completion of the relevant asset. The charge for amortisation is included within Research and development costs in the income statement.

The Group tests for possible impairment of definite-lived intangible assets on a regular basis. If indicators of possible impairment exist, such as a change of use of the asset or a reduction in operating cash flow, 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 flow and growth of the Group's operations.

14. Investments

Company	2007	2006
	£	£
Investment in subsidiary undertakings	13,679,474	12,856,331

The investment in subsidiary undertakings is made up as follows:

	Investment at cost	Impairment provision	Net Total
	£	£	£
Shares in subsidiary undertakings			
As at 1 January 2006	8,755,378	(203,000)	8,552,378
Additions	3,144,005	-	3,144,005
At 31 December 2006	11,899,383	(203,000)	11,696,383
Additions	819,786	(6,991)	812,795
At 31 December 2007	12,719,169	(209,991)	12,509,178
Loans to subsidiary undertakings			
As at 1 January 2006	21,048,988	(20,343,218)	705,770
Additions	1,484,630	(1,030,452)	454,178
At 31 December 2006	22,533,618	(21,373,670)	1,159,948
Additions	732,154	(721,806)	10,348
At 31 December 2007	23,265,772	(22,095,476)	1,170,296
Total investment			
As at 31 December 2006	34,433,001	(21,576,670)	12,856,331
As at 31 December 2007	35,984,941	(22,305,467)	13,679,474

Subsidiary Companies:

The principal activity of all subsidiaries is the research and development of pharmaceutical products.

Name	Place of incorporation And operation	Principal Technology Area	Proportion of ownership interest
Silence Therapeutics AG	Germany	RNAi therapeutics	100%
Stanford Rook Ltd	England	Immunotherapy	100%
Innopeg Ltd	England	not active	100%

The Company has made additional investment in its operating subsidiaries, Stanford Rook Limited and Silence Therapeutics AG. Silence Therapeutics plc has made an impairment provision against the investment and loans to Stanford Rook Limited and Innopeg Limited to the extent that they are deemed to be not recoverable. No impairment provision has been made against the investment in Silence Therapeutics AG as the Directors believe that the fair value exceeds the cost of investment to date.

15. Trade & other receivables

	Group 2007	Company 2007	Group 2006	Company 2006
	£	£	£	£
Trade receivables	200,505	-	167,529	-
Other receivables	60,030	-	28,483	-
Prepayments	1,080,325	-	536,441	-
	1,340,860	-	732,453	-

The directors consider that the carrying amount of trade and other receivables approximates to their fair value. Fair values have been calculated by discounting cash flows at prevailing interest rates. See also note 26.

No interest is charged on outstanding trade receivables.

16. Cash & cash equivalents

	Group 2007	Company 2007	Group 2006	Company 2006
	£	£	£	£
Cash at bank	10,174,389	9,567,224	8,824,044	7,136,031

Cash at bank comprises of 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. Although the sums are held on short term fixed rate deposit, they are instantly available to the Group but only by breaking the terms of the deposit which may incur minor penalties. During the year, the effective rates of interest on fixed rate deposits ranged between 4.88% and 6.37% per annum.

17. Trade & other payables

	Group 2007	Company 2007	Group 2006	Company 2006
	£	£	£	£
Trade payables	615,316	-	354,400	-
Social security and other taxes	272,082	-	97,067	-
Deferred revenues	37,103	-	-	-
Accruals and other payables	877,445	-	478,140	-
	1,801,946	-	929,607	-

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. Fair values have been calculated by discounting cash flows at prevailing interest rates. See also note 26.

18. Provisions

Prior to the relocation of its head office at the end of its lease in September 2007, the Group held surplus office accommodation. The Group had made a provision in previous years for the estimated cost of the surplus space up to the date of termination of the lease. The provision was used in full during the year by releasing it to the profit and loss account.

The changes in the level of provision during the year are as follows:

	£
Balance at 31 December 2006	115,342
Used in the year against rent costs	(115,342)
Balance at 31 December 2007	-

19. Deferred taxation

	2007	2006
	£	£
The following are the major deferred tax liabilities and assets recognised by the Group:		
Deferred tax liability:		
In respect of intangible assets	235,000	215,000
Liability	235,000	215,000
Less: offset of deferred tax asset below	(235,000)	(215,000)
	Nil	Nil
Deferred tax asset:		
In respect of available tax losses	9,600,000	13,100,000
In respect of share based payments	708,000	581,000
Deferred tax asset	10,308,000	13,681,000
Less: offset against deferred tax liability	(235,000)	(215,000)
provision against asset	(10,073,000)	(13,466,000)
Asset	Nil	Nil

20. Share Capital

	2007	2006
	£	£
Authorised: 1,000,000,000 ordinary shares of 1p each	10,000,000	10,000,000
Allotted called up and fully paid:		
119,883,536 (2006: 113,064,951) ordinary shares	1,198,835	1,130,650

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

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 2006		90,311,576
Shares issued during 2006		
• Upon the conversion of warrants at 1p per share	2,731,739	
• Upon the exercise of staff share options at 12.75p per share	21,636	
• for cash at 19p per share in order to provide the Group with further working capital	20,000,000	
Total issued in the year		22,753,375
Number of shares in issue at 31 December 2006		113,064,951
Shares issued during 2007		
• Upon the conversion of warrants at 1p per share	2,731,739	
• Upon the exercise of staff share options at 12.75p per share	162,188	
• Upon the exercise of staff share options at 23p per share	300,000	
• Upon the exercise of staff share options at 27p per share	200,000	
• Issue of shares for cash at 146p to collaboration partner	3,424,658	
Total issued in the year		6,818,585
Number of shares in issue at 31 December 2007		119,883,536

The Group operates both an Inland Revenue Approved Share Option Scheme and an Unapproved Share Option Scheme. All Directors and UK employees are eligible for both schemes. The Group has also granted options to certain Directors and employees under the auspices of an Enterprise Management Incentive Scheme.

At 31 December 2007 there were options outstanding over 17,601,728 unissued ordinary shares and warrants outstanding over 925,926 unissued ordinary shares.

Details of the options outstanding are as follows:

Exercise date:	Number	Exercise Price
At any time up to 30 September 2009	1,000,000	75p
At any time up to 2 January 2012	7,500	42.0p
At any time up to 10 October 2012	20,000	19.0p
At any time up to 27 May 2014	900,000	27.0p
At any time up to 6 October 2014	20,000	28.5p
At any time up to 24 July 2015	6,300,000	23.0p
Between 25 July 2008 and 24 July 2015	2,550,000	23.0p
At any time up to 25 July 2016	100,000	12.75p
At any time up to 26 July 2016	501,544	12.75p
Between 27 July 2008 and 26 July 2016	342,684	12.75p
At ant time up to 23 November 2016	450,000	43.0p
Between 24 November 2008 and 23 November 2016	375,000	43.0p
Between 24 November 2009 and 23 November 2016	375,000	43.0p
At any time up to 29 May 2017	16,668	109p
Between 31 March 2008 and 29 May 2017	10,000	109p
Between 31 October 2008 and 29 May 2017	16,666	109p
Between 31 March 2009 and 29 May 2017	10,000	109p
Between 31 October 2009 and 29 May 2017	16,666	109p
Between 31 March 2010 and 29 May 2017	10,000	109p
Between 26 July 2008 and 26 July 2017	834,000	127p
Between 26 July 2009 and 26 July 2017	834,000	127p
Between 26 July 2010 and 26 July 2017	832,000	127p
Between 14 December 2008 and 14 December 2017	193,335	67.75p
Between 14 December 2009 and 14 December 2017	193,334	67.75p
Between 14 December 2010 and 14 December 2017	193,331	67.75p
Between 21 December 2008 and 21 December 2017	500,000	64.75p
Between 21 December 2009 and 21 December 2017	500,000	64.75p
Between 21 December 2010 and 21 December 2017	500,000	64.75p
Total	17,601,728	

The options granted to any director during the year and the options held by the Directors at the beginning and end of the year are as follows:

Director	At 1 January 2007	Granted/ (Exercised) in the year	At 31 December 2007	Exercise price	Earliest date of exercise	Latest date of exercise
				Pence		
I G Ross						
- Unapproved scheme	500,000		500,000	27p	28/05/04	27/05/14
- Unapproved Scheme	1,000,000		1,000,000	23p	25/07/05	24/07/15
- Unapproved Scheme	1,000,000		1,000,000	23p	25/07/06	24/07/15
- Unapproved Scheme	1,000,000		1,000,000	23p	25/07/07	24/07/15
- Unapproved Scheme	1,000,000		1,000,000	23p	25/07/08	24/07/15
- Unapproved Scheme	150,000		150,000	43p	24/11/07	23/11/16
- Unapproved Scheme	125,000		125,000	43p	24/11/08	23/11/16
- Unapproved Scheme	125,000		125,000	43p	24/11/09	23/11/16
J M Davies						
- EMI scheme	200,000		200,000	27p	28/05/07	28/05/14
- Unapproved Scheme	250,000		250,000	23p	25/07/05	24/07/15
- Unapproved Scheme	300,000		300,000	23p	25/07/06	24/07/15
- Unapproved Scheme	350,000		350,000	23p	25/07/07	24/07/15
- Unapproved Scheme	400,000		400,000	23p	25/07/08	24/07/15
- Unapproved Scheme	75,000		75,000	43p	24/11/07	23/11/16
- Unapproved Scheme	62,500		62,500	43p	24/11/08	23/11/16
- Unapproved Scheme	62,500		62,500	43p	24/11/09	23/11/16
J L Curnock Cook						
- Unapproved Scheme	50,000		50,000	23p	25/07/05	24/07/15
- Unapproved Scheme	60,000		60,000	23p	25/07/06	24/07/15
- Unapproved Scheme	70,000		70,000	23p	25/07/07	24/07/15
- Unapproved Scheme	70,000		70,000	23p	25/07/07	24/07/15
- Unapproved Scheme		200,000	200,000	75p	30/09/07	30/09/09
H R P Reynolds						
- Unapproved scheme	200,000		200,000	27p	28/05/04	27/05/14
- Unapproved Scheme	50,000		50,000	23p	25/07/05	24/07/15
- Unapproved Scheme	60,000		60,000	23p	25/07/06	24/07/15
- Unapproved Scheme	70,000		70,000	23p	25/07/07	24/07/15
- Unapproved Scheme	70,000		70,000	23p	25/07/08	24/07/15
- Unapproved Scheme		200,000	200,000	75p	30/09/07	30/09/09
I N H Rugheimer						
- Unapproved scheme	200,000	(200,000)	0	27p	28/05/04	27/05/14
- Unapproved Scheme	50,000		50,000	23p	25/07/05	24/07/15
- Unapproved Scheme	60,000		60,000	23p	25/07/06	24/07/15
- Unapproved Scheme	70,000		70,000	23p	25/07/07	24/07/15
- Unapproved Scheme	70,000		70,000	23p	25/07/08	24/07/15
- Unapproved Scheme		200,000	200,000	75p	30/09/07	30/09/09
D C U'Prichard						
- Unapproved Scheme	50,000		50,000	23p	25/07/05	24/07/15
- Unapproved Scheme	60,000		60,000	23p	25/07/06	24/07/15
- Unapproved Scheme	70,000		70,000	23p	25/07/07	24/07/15
- Unapproved Scheme	70,000		70,000	23p	25/07/08	24/07/15
- Unapproved Scheme		200,000	200,000	75p	30/09/07	30/09/09
B O Wetzel						
- Unapproved Scheme	50,000		50,000	23p	25/07/05	24/07/15
- Unapproved Scheme	60,000		60,000	23p	25/07/06	24/07/15
- Unapproved Scheme	70,000		70,000	23p	25/07/07	24/07/15
- Unapproved Scheme	70,000		70,000	23p	25/07/08	24/07/15
- Unapproved Scheme		200,000	200,000	75p	30/09/07	30/09/09
J S Vick						
- Unapproved Scheme		500,000	500,000	127p	26/07/08	26/07/17
- Unapproved Scheme		500,000	500,000	127p	26/07/09	26/07/17
- Unapproved Scheme		500,000	500,000	127p	26/07/10	26/07/17
- Unapproved Scheme		500,000	500,000	64.75p	21/12/08	21/12/17
- Unapproved Scheme		500,000	500,000	64.75p	21/12/09	21/12/17
- Unapproved Scheme		500,000	500,000	64.75p	21/12/10	21/12/17
Total	8,250,000	3,800,000	12,050,000			

None of the options granted under any of the schemes have any future performance or qualifying conditions attached to them, other than remaining as an employee. The Remuneration Committee did not believe that the inclusion of such conditions for staff or Directors was appropriate at the time of granting these options.

The market price of the shares at the year end was 68.5p per share (31 December 2006: 47.5p).

During the year, the minimum and maximum prices were 47.5p and 145.25p per share respectively.

The Group has the following warrants outstanding:

	Convertible at 1p	Convertible at 27p	Total
At 31 December 2006	2,731,739	925,926	3,657,665
Converted during the year	(2,731,739)	-	(2,731,739)
At 31 December 2007	-	925,926	925,926

All warrants may be exercised at any time up to 24 July 2010.

21. Capital Reserves

GROUP	Share Premium Account £	Merger Reserve £	Share-Based Payment Reserve £	Total £
At 1 January 2006	28,192,197	6,140,874	2,071,960	36,405,031
On shares issued in the year	3,600,000	-	-	3,600,000
- less costs of share issue	(285,355)	-	-	(285,355)
On options exercised during the year	2,567	-	(1,113)	1,454
On warrants converted during the year	676,105	-	(676,105)	-
On options issued during the year	-	-	491,489	491,489
Movement in the year	3,993,317	-	(185,729)	3,807,588
At 31 December 2006	32,185,514	6,140,874	1,886,231	40,212,619
On shares issued in the year	4,965,754	-	-	4,965,754
On options exercised during the year	137,057	-	(72,234)	64,823
On warrants converted during the year	676,105	-	(676,105)	-
On options issued during the year	17	-	1,221,952	1,221,969
Movement in the year	5,778,933	-	473,613	6,252,546
At 31 December 2007	37,964,447	6,140,874	2,359,844	46,465,165

COMPANY	Share Premium Account £	Merger Reserve £	Share-Based Payment Reserve £	Total £
At 1 January 2006	28,192,197	5,956,958	2,071,960	36,221,115
On shares issued in the year	3,600,000	-	-	3,600,000
- less costs of share issue	(285,355)	-	-	(285,355)
On options exercised during the year	2,567	-	(1,113)	1,454
On warrants converted during the year	676,105	-	(676,105)	-
On options issued during the year	-	-	491,489	491,489
Movement in the year	3,993,317	-	(185,729)	3,807,588
At 31 December 2006	32,185,514	5,956,958	1,886,231	40,028,703
On shares issued in the year	4,965,754	-	-	4,965,754
On options exercised during the year	137,057	-	(72,234)	64,823
On warrants converted during the year	676,105	-	(676,105)	-
On options issued during the year	17	-	1,221,952	1,221,969
Movement in the year	5,778,933	-	473,613	6,252,546
At 31 December 2007	37,964,447	5,956,958	2,359,844	46,281,249

Due to the size of the Retained Loss, the Company has no distributable reserves.

22. Equity-settled share-based payments

The Company has two share option schemes open to all employees of the Group. Options are exerciseable 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.

As part of the fee structure in respect of the acquisition of Silence Therapeutics AG and the subsequent fundraising in mid-2005, the Group issued warrants to its advisers which could be exercised at any time within 5 years from the date of issue. Most of those warrants have been converted into shares, see note 21 above. The holders may convert the remaining warrants into a maximum of 925,926 ordinary shares at a price of 27p per share.

Details of the share options and warrants outstanding at the year end are as follows:

Options	2007 Number	2007 Weighted average exercise price – p	2006 Number	2006 Weighted average exercise price – p
Outstanding at the beginning of the year	12,603,916	24.37p	10,297,500	23.44p
Granted during the year	5,660,000	94.99p	2,328,052	28.34p
Lapsed during the year	-	-	-	-
Exercised during the year	662,188	21.70p	21,636	12.75p
Outstanding at the year end	17,601,728	47.18p	12,603,916	24.37p
Exerciseable at the year end	9,315,712	29.45p	5,548,548	22.88p

Warrants	2007 Number	2007 Weighted average exercise price – p	2006 Number	2006 Weighted average exercise price – p
Outstanding at the beginning of the year	3,657,665	7.58p	6,389,404	4.77p
Granted during the year	-	-	-	-
Lapsed during the year	-	-	-	-
Exercised during the year	2,731,739	1.00p	2,731,739	1.00p
Outstanding at the year end	925,926	27.00p	3,657,665	7.58p
Exerciseable at the year end	925,926	27.00p	3,657,665	7.58p

The weighted average share prices at each date when share options were exercised during the year were:

Date option exercised	Weighted average share price – p
17 April 2007	86p
2 May 2007	105p
17 May 2007	118.5p
12 June 2007	113p
2 July 2007	134.5p
2 October 2007	111p
4 October 2007	115p

The options outstanding at the year end have a weighted average remaining contractual life of 8.0 years (2006: 8.7 years). The exercise price of the options outstanding at the year end range from 12.75p to 127p per share. Full details are given in note 20 above.

During the year the group issued the following options:

Date of issue	Number	Exercise price	Weighted average fair value
2 April 2007	1,000,000	75p	33.043p
30 May 2007	80,000	109p	63.138p
26 July 2007	2,500,000	127p	72.859p
14 December 2007	580,000	67.75p	39.751p
21 December 2007	1,500,000	64.75p	37.937p

Those fair values were calculated using a Binomial model. The inputs into the model were as follows:

	2007	2006
Weighted average share price	88.596p	27.65p
Weighted average exercise price	94.989p	28.34p
Expected volatility	72-78%	50-72%
Risk free rate	4.56-5.52%	4.7-4.71%
Expected dividend yield	Nil	Nil

Expected volatility was determined using as a base the share price movements recorded over the previous 4 years and taking into account any specific factors impacting during that period.

The expected life used in the model has been adjusted, based on management's best estimate for the effects of non-transferability, exercise restrictions and behavioural considerations.

The Group recognised total charges of £1,221,952 (2006: £491,489) related to equity-settled share-based payment transactions during the year.

23. Capital commitments

There were no capital commitments at 31 December 2007 or 31 December 2006.

24. Contingent liabilities

There were no contingent liabilities at 31 December 2007 or at 31 December 2006.

25. Commitments under operating leases

At 31 December 2007 the Group had no commitments under operating leases (2006: £155,000).

26. Financial instruments and risk management

The Group's financial instruments comprise primarily cash 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.

Financial assets by category

The categories of financial assets (as defined by International Accounting Standard 39: Financial Instruments: Recognition and Measurement – IAS39) included in the balance sheet and the heading in which they are included are as follows:

	2007	2006
	£	£
Current assets		
Trade and other receivables	1,340,860	732,453
Cash and cash equivalents	10,174,389	8,824,044
Categorised as loans and receivables	11,515,249	9,556,497

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

Financial liabilities by category

The categories of financial liabilities (as defined by IAS39) included in the balance sheet and the heading in which they are included are as follows:

	2007	2006
	£	£
Current liabilities		
Trade and other payables	1,801,946	929,607
Categorised as financial liabilities measured at amortised cost	1,801,946	929,607

All amounts are short term and payable in 0 to 3 months.

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

	2007	2006
	£	£
Loans and receivables	11,645,249	9,636,497

Credit risk

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

	2007	2006
	£	£
Loans and receivables	11,645,249	9,636,497

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 three 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 0 and 3 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, US Dollars 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:

	2007	2006
	£	£
Financial assets	1,335,923	1,993,408
Financial liabilities	(552,600)	(360,386)
Net financial assets	783,323	1,633,022

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.

For a number of years this exchange rate has operated within a relatively close trading range prior to a sharp fall in Sterling towards the end of 2007, which has continued into 2008. The table shows the impact of a further fall or strengthening of Sterling against the Euro by 10%.

	2007 As reported	if Sterling rose 10%	if Sterling fell 10%
	£	£	£
Group result for the year	(5,107,878)	(5,026,368)	(5,189,477)
Euro denominated net financial assets	783,323	712,118	865,720

27. Related party transactions

During the year, Stanford Rook Limited (a subsidiary group company) paid £15,000 to Bioscience Managers Ltd, a company specialising in the pharmaceutical sector and of which Mr Curnock Cook is a director and minority shareholder, for assistance in the presentation and marketing of part of its technology. The contract was negotiated on normal commercial terms at an arm's length basis and price.

Secretary
J M Davies

Registered Office
22 Melton Street
London NW1 2BW
Registered Number 2992058

Trading Address
Centre Point
103 New Oxford Street
London WC1A 1DD

Tel: +44(0) 20 7307 1620
Fax: +44(0) 20 7307 1680
email: mail@silence-therapeutics.com
website: www.silence-therapeutics.com

Nominated Advisers
Nomura Code Securities Ltd
1 Carey Lane
London
EC2V 8AE

Registrars
Capita IRG plc
Northern House
Woodsome Park
Fenay Bridge
Huddersfield HD8 0LA

Auditors
Grant Thornton UK LLP
Grant Thornton House
Melton Street
Euston Square
London NW1 2EP