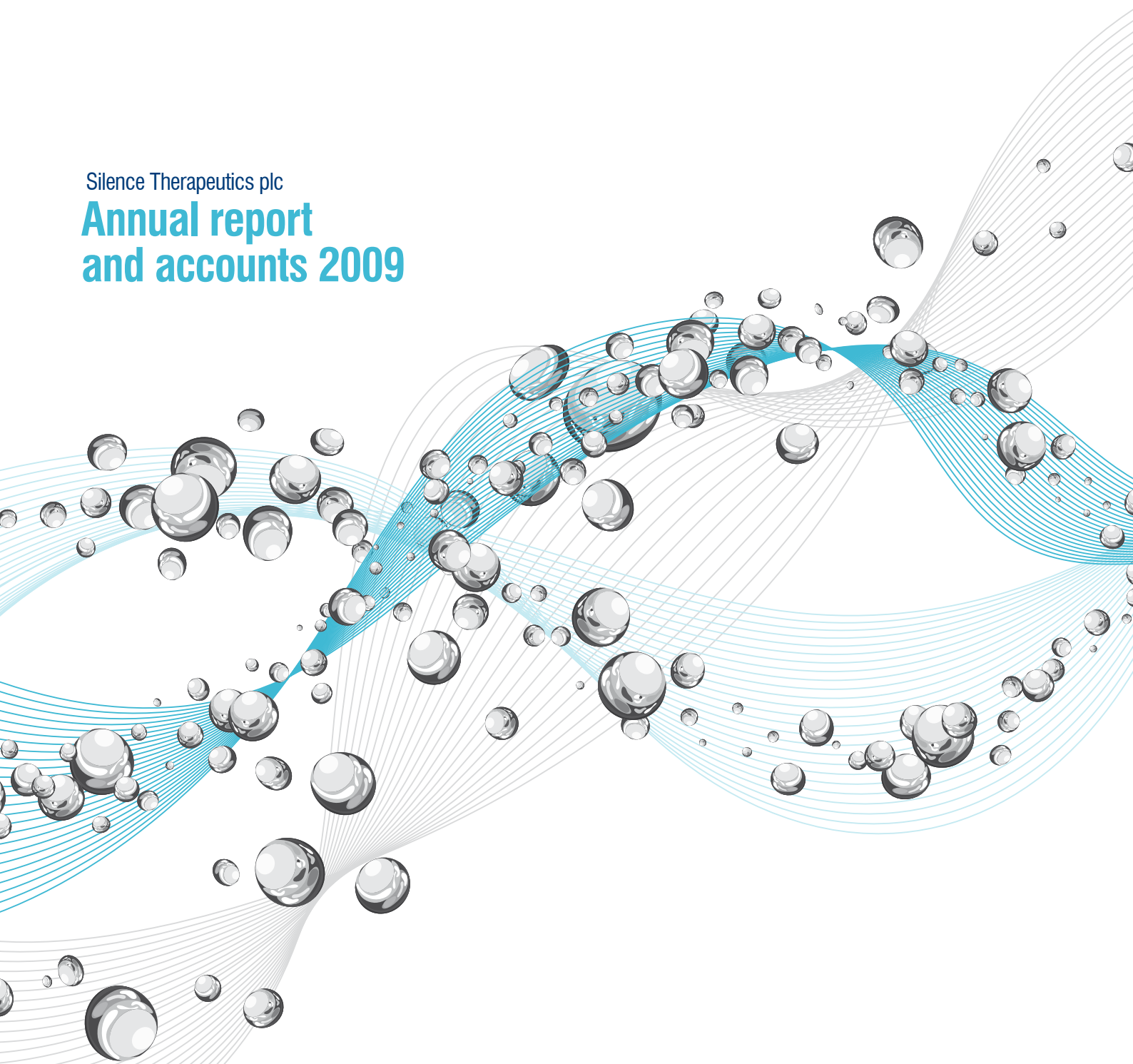
SILENCE THERAPEUTICS

Silence Therapeutics plc

Annual report and accounts 2009



Silence Therapeutics plc is a leader in the discovery, development and delivery of novel RNA interference (RNAi) therapeutics for the treatment of serious diseases.

RNA interference, a Nobel Prize winning technology, is one of the most exciting areas of drug discovery today 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.

We aim to establish Silence Therapeutics as a partner-of-choice for the world's leading pharmaceutical companies.

Highlights of 2009

Operational

- **Silence initiated a Phase I clinical trial of Atu027,** its lead drug candidate for the treatment of advanced solid tumours. The trial, being conducted at the Marienhospital, Herne, Germany, is an open-label, dose-finding study to address the safety, tolerability and pharmacokinetics of Atu027. It is expected that results from the trial will be available in the second half of 2011.
- **Silence's licensing partner, Quark Pharmaceuticals, commenced Phase I/II clinical trials with QPI-1002,** a short interfering RNA (siRNA) therapeutic product candidate in development for use in kidney transplants. QPI-1002 is based on Silence's proprietary AtuRNAi chemistry.
- **The European Patent Office (EPO) granted a patent on protein kinase N3 (PKN3),** the target gene for Silence's lead compound Atu027.
- **The Technical Board of Appeal of the European Patent Office revoked in its entirety European patent EP1 214 945, which is a fundamental competitor patent owned by Alnylam Europe AG.**
- **Silence entered into a delivery collaboration with Dainippon Sumitomo Pharma Co., Ltd of Japan** to demonstrate the functional delivery of Silence's proprietary siRNA molecules to specific targets. The collaboration is evaluating Silence's proprietary AtuRNAi, a novel proprietary siRNA molecule which is chemically modified to improve stability, reduce manufacturing costs and increase yield. The collaboration is also making use of Silence's AtuPLEX delivery technology, which has been shown to improve functional intracellular uptake.
- **The Opposition Division of the EPO upheld Silence's core AtuRNAi patent EP 1 527 176 ('176) in amended form.** The amended form of patent '176 covers Silence's proprietary blunt-ended siRNA molecules containing alternating 2'-O-Methyl modifications.

Financial

- **Revenue** generated in the year was £1.72m (2008: £2.21m).
- **Administrative expenses** increased to £4.20m (2008: £3.29m).
- **Research and development expenditure** decreased to £5.07m (2008: £6.71m).
- The **cash position** at year-end was £1.13m. A further £15.0m (gross) was raised shortly after the year end through an institutional placing that closed in January 2010. At the end of 2008, Silence had cash of £3.35m.

02 Post year-end highlights

Our product pipeline

Product	Indications	Partners	Preclinical	Phase I	Phase II	Status
PF-4523655 (AtuRNAi)	Diabetic macular oedema	Pfizer/Quark	Naked siRNA			Local delivery to the eye
PF-4523655 (AtuRNAi)	Age-related macular degen	Pfizer/Quark	Naked siRNA			Local delivery to the eye
QPI-1002 (AtuRNAi)	Acute kidney injury	Quark	Naked siRNA			Systemic delivery to the kidney
QPI-1002 (AtuRNAi)	Prevention of delayed graft function	Quark	Naked siRNA			Systemic delivery to the kidney
Atu027 (AtuRNAi)	GI & lung and other cancers	Internal	AtuPlex			Systemic delivery to tumour endothelium
Atu134 (AtuRNAi)	Acute lung injury	Internal	DACC8			Systemic delivery to lung endothelium
Atu111 (AtuRNAi)	Solid tumours	Internal	AtuPlex			Systemic delivery to tumour endothelium
Atu150 (AtuRNAi)	Solid tumours	Internal	AtuPlex			Systemic delivery to tumour endothelium

At least half of the siRNA therapeutics currently in clinical trials are based on Silence technology.

By combining the expertise of both Intradigm and Silence, we now have one of the industry's most comprehensive and versatile **delivery technology platforms.**

Post year-end operations

- **Silence merged with US-based RNAi therapeutic company Intradigm Corporation (Intradigm) on 5 January 2010 to form a leading company in the field of RNA interference.** The merger was effected by the issue of Silence shares to the shareholders of Intradigm such that the Intradigm shareholders at the time of the merger owned approximately 36% of the issued share capital of Silence. The merger offers a number of strategic benefits including multiple RNAi discovery, development and delivery technologies, a broad internal and partnered product pipeline and a strong portfolio of intellectual property.

  In parallel with the merger, Silence Therapeutics raised £15m (gross) through an institutional placing and a subscription of shares at a price of 23p per share. The funds raised will support the Company's ongoing development efforts and provide the strength from which to pursue additional partnerships and development deals.

  Upon completion of the merger, Philip Haworth, J.D. PhD, former chief executive officer of Intradigm, assumed the role of Chief Executive Officer of the enlarged Group.

- **The United States Patent and Trademark Office (USPTO) issued the Company a notice of allowance on a patent application directed to methods of treatment using PKN-3, a high-value therapeutic target in the area of oncology.**

- **Silence and Dainippon Sumitomo Pharma Co., Ltd agreed to expand their ongoing siRNA delivery collaboration** to examine delivery of RNAi therapeutics to additional disease targets selected by Dainippon Sumitomo.

- **Silence announced a strategic plan designed to optimally organise its resources** following its recent merger with Intradigm. Moving forward, all research activities related to Silence's novel RNAi therapeutic platforms, including technologies that have emerged from both Silence and Intradigm, will take place at the Company's Berlin location. Other functions including operations, business development, legal and certain drug development activities will be conducted in Palo Alto. Silence expects this move to result in a significant reduction in the Company's operating costs moving forward.

- **Silence and AstraZeneca agreed to an extension of their ongoing siRNA delivery collaboration** to examine new and enhanced delivery approaches for RNAi therapeutics.

Post year-end Board and management changes

- **Silence announced a Board change** with the resignation of Iain Ross as Chairman. Jerry Randall, who was appointed to the Silence Board in 2008, was appointed Non-executive Chairman.

- **Silence announced a management and Board change** with the resignation of Melvyn Davies as Chief Financial Officer. Silence also announced the appointment of Max Herrmann as the Company's Chief Financial Officer and Company Secretary with effect from 4 May 2010.

04 Chairman's statement

"A key factor in establishing Silence as a partner-of-choice for pharmaceutical companies is our ability to provide novel and effective siRNA delivery solutions."

2009 was a defining year for Silence Therapeutics. Each of the Company's internal programmes advanced steadily – we entered into a new collaboration with Dainippon Sumitomo and made excellent progress with each of our pharma partnerships, and we strengthened our intellectual property position by expanding our portfolio of filed and issued patents.

Despite our many internal successes, the turbulence of the world's financial markets created a significant degree of uncertainty that required the Company's attention and decisive action. In an effort to address the declining opportunity for financing and the erosion of our share value, we began to evaluate our options, with the goal of achieving the following objectives:

- **establish Silence as a partner-of-choice for the world's leading pharmaceutical companies;**
- **expand our technology base to allow us to best address the challenges of RNAi delivery; and**
- **secure additional financing for the Company.**

The merger with Intradigm Corporation, which was completed in January 2010, took Silence Therapeutics a long way to achieving these goals including a concurrent financing of £15.0m (gross). As a result, Silence is now better funded and holds a strong strategic position in the three areas we believe are critical to building, protecting and commercialising RNAi therapeutics:

- **Proprietary delivery technologies**

  Silence's delivery platform is one of the industry's broadest, including both lipid and polymer technologies, offering drug developers an increased opportunity for successful delivery to specific tissues to cause specific therapeutic benefits.

- **Potent siRNA sequences**

  Silence has issued and pending patents on multiple high-value siRNA sequences of varying structure.

- **Innovative siRNA structural features**

  Silence has issued and pending patents directed to one of the industry's most advanced siRNA chemical modification technologies optimised for improved stability, yield and safety.

  Silence's exclusive licences from the University of Massachusetts provide access to issued and pending patents associated with the Zamore "Design Rules" including methods for increased potency and reduced off-target effects.

A key factor in establishing Silence as a partner-of-choice for pharmaceutical companies is our ability to provide novel and effective siRNA delivery solutions. As it is not likely that the vast range of siRNA delivery challenges will be addressed by a single platform, we believe it's critical to build a broad toolbox of solutions and technologies. By combining the impressive expertise of both Silence and Intradigm, we now have one of the industry's most comprehensive and versatile delivery technology platforms, providing Silence with unmatched potential to develop solutions for successful siRNA delivery to particular tissues to cause specific therapeutic benefits. The combined assets of the new Company have drawn the attention of a number of leading pharmaceutical companies worldwide and we are actively engaged in partnering discussions spanning a range of new and exciting development opportunities.

In summary, the merger combined the strength of two innovative entities and created a new leadership in RNAi therapeutic development.

The merger combined the strength of two innovative companies and created a new leadership in RNAi therapeutic development.

As a result, we have succeeded in establishing a new company with the following strengths and advantages:

- **Comprehensive platform of technologies capable of addressing the discovery, development and delivery of RNAi therapeutics.** Capabilities extend to all essential areas for successful product development including formulation and drug delivery, siRNA structure and chemistry and a diverse library of therapeutic siRNA sequences.
- **Advancing pipeline of internal and partnered product candidates.** At least half of the siRNA programmes currently in clinical development globally incorporate Silence's technology. These include product candidates that are being advanced by partners such as Pfizer and Quark Pharma.
- **Broad and diverse intellectual property portfolio.** IP protection covering essential areas of RNAi therapeutic development (target sequences, delivery and siRNA structural features).
- **Validating partnerships with global pharmaceutical companies.** The multiple major partnerships with companies such as AstraZeneca, Pfizer, Quark Pharma and Dainippon Sumitomo demonstrate the credibility of Silence's technologies.
- **Experienced management team and Board of Directors.** Our new management team, Board and recent reorganisation provide the expertise and focused skills required to advance Silence's discovery and development activities.
- **Expanded financial support and stability to facilitate new growth opportunities.** International shareholder base offers broader access to capital, which should ultimately provide additional strength to negotiate favourable strategic transactions.

We believe the merger produced a stronger, more stable and technologically sophisticated Company that is well positioned as a new leader in RNAi therapeutic development. We are actively developing our strategic plan for the near term, and we will continue to take all steps required to advance our internal and partnership programmes, as well as establish new collaborations to fuel our pipeline in the future.

We are grateful for the support of our shareholders and new investors alike and we wish to assure them both that we are committed to building corporate value through meaningful scientific progress and additional high-value partnerships with the pharmaceutical industry.

Thank you for your continued support of Silence Therapeutics.

Jerry Randall ACA
Chairman

06 Chief Executive's review

Overview

In 2009, a number of pivotal events provided the foundation and framework that will propel Silence forward in 2010 and beyond. During the year, the Company made progress on all fronts – in the clinic, with partnerships, financially and in securing critical intellectual property (IP). These successes opened the door for further opportunity, culminating in the merger with Intradigm on 5 January 2010. We believe post-merger Silence is a new leader in RNAi therapeutic development with a unique potential to develop delivery solutions that can be tailored to address various therapeutic requirements. With our expanded technologies and assets, we are aggressively executing a plan designed to further strengthen the business and create increasing value for our shareholders.

Before looking ahead, I'd like to address each of the critical 2009 events that contributed to our new Company and our future opportunities.

Operational

Progress in the clinic

In 2009, we made great strides in the clinic with two of our programmes in human trials. In January 2009, our licensing partner, Quark Pharmaceuticals, commenced a Phase I/II clinical trial with QPI-1002, its RNAi drug targeting the p53 gene for the prevention of delayed graft function (DGF) following kidney transplants. QPI-1002 incorporates Silence's AtuRNAi technology and we believe this independent advancement of our technology represents a significant validation of Silence's science and drug candidates. While this programme is managed by Quark, we believe the trial is progressing as planned and we look forward to the results.

In June 2009, Silence initiated a Phase I study of Atu027, our lead drug candidate for the treatment of advanced solid tumours. The trial, being conducted at the clinical study centre of the Cancer Hospital SanaFontis in Freiburg, Germany, is an open-label, dose-finding study to address the safety, tolerability and pharmacokinetics of Atu027. This trial has eleven dosing regimens. We are advancing through the dosing protocol as planned and we remain on target to have results in the second half of 2011.

Atu027 specifically targets PKN3, a molecule involved in cancer growth and metastasis formation. Atu027 is Silence's most advanced clinical candidate for a systemically delivered siRNA using the Company's proprietary AtuPLEX delivery technology. It is our belief that Atu027 may ultimately be a valuable treatment option for cancer patients that do not respond to standard therapy.

We are executing a plan designed to further strengthen the business and create increasing value for our shareholders.

"In August 2009, Silence expanded its partnerships with the addition of a new collaboration with Dainippon Sumitomo Pharma Co., Ltd of Japan."

Silence is also working to develop three pre-clinical programmes. Atu134 is being evaluated for potential treatment of acute lung injury and Atu111 and Atu150 are both being evaluated for the potential treatment of solid tumours.

Expanding our collaborations
In August 2009, Silence expanded its partnerships with the addition of a new collaboration with Dainippon Sumitomo Pharma Co., Ltd of Japan. The purpose of the collaboration is to demonstrate the functional delivery of Silence's proprietary siRNA molecules to specific targets. The ongoing collaboration is currently evaluating Silence's proprietary AtuRNAi molecule that is chemically modified to improve safety, reduce manufacturing costs and increase stability. The collaboration is also making use of Silence's AtuPLEX delivery technology, which has been shown to improve functional intracellular uptake.

Though this collaboration is currently only seven months old, we were pleased to announce in March 2010 that Dainippon Sumitomo has elected to expand this collaboration by examining delivery to additional disease targets that were not originally specified under the initial collaboration.

As a company focused on addressing the challenges of RNAi delivery, we are very pleased that Dainippon Sumitomo has elected to expand our collaboration so quickly. We believe this is a strong testimony to the potential of our delivery technology as well as the value we bring our partners.

In addition to our partnership with Dainippon Sumitomo, we currently have two ongoing collaborations with AstraZeneca, which were initiated in June 2007 and March 2008. The June 2007 collaboration was established for the purpose of developing novel siRNA therapeutics against specific targets exclusive to AstraZeneca, and the March 2008 collaboration seeks to develop a range of novel approaches for the delivery of siRNA molecules. These collaborations continue to advance as planned and we, together with our partners, are very pleased with the progress to date. We look forward to providing updates on these collaborations in the near future.

Building financial strength
In January 2009, Silence raised £2.65m net of expenses through the issue of 15m shares at a price of 18p per share. Concurrent with our merger with Intradigm in January 2010, we raised an additional £15m (gross) at a price of 23p per share. Such funds are intended to support the Company's ongoing development efforts and provide a position of strength as we work to pursue additional partnerships and development deals.

Beyond the funding itself, it is important to note who invested in each of these rounds. We are fortunate to have the support of several pre-eminent institutions in the UK, as well as several leading US institutions. We are also very fortunate to have the financial backing of a number of strategic pharmaceutical venture groups including Lilly Ventures, Roche Finance and Astellas Venture, who were investors in Intradigm.

Enhancing our intellectual property estate
The importance of intellectual property to success in the RNAi therapeutic field cannot be overstated. Yet, we argue that the true value of IP lies in the specific claims as opposed to the number of patents. During 2009 and continuing in 2010, both Silence and the former Intradigm secured a number of pivotal patents that are all now owned by post-merger Silence. The following events contributed significantly to the strength of Silence's IP estate:

- the European Patent Office (EPO) granted a patent on protein kinase N3 (PKN3), the target gene for Silence's lead compound Atu027;
- the Technical Board of Appeal of the European Patent Office revoked in its entirety European patent EP1 214 945, which is a fundamental competitor patent owned by Alnylam Europe AG;
- the Opposition Division of the EPO upheld Silence's core AtuRNAi patent EP 1 527 176 ('176) in amended form. The amended form of patent '176 covers Silence's proprietary blunt-ended siRNA molecules containing alternating 2'-O-Methyl modifications; and

Silence is a clear leader **in the enablement of clinical development of RNAi therapeutic candidates.**

"Silence successfully strengthened its financial position through the completion of two financings in 2009 and early 2010 that generated proceeds of approximately £17.7m (gross)."

Operational continued

Enhancing our intellectual property estate continued

- the United States Patent and Trademark Office (USPTO) issued a notice of allowance on a patent application directed to methods of treatment using PKN-3, a high-value therapeutic target in the area of oncology. The allowed subject matter is directed to, among other things, methods of treating cancer with siRNA or antisense molecules that target the PKN-3 messenger RNA (mRNA). The claims cover the siRNA molecule in Silence's lead clinical compound, Atu027, an RNAi therapeutic that targets PKN-3 for the treatment of advanced solid tumours.

In addition to these events, Silence also now owns key intellectual property rights previously secured by Intradigm as follows:

- issued and pending patents on multiple high-value siRNA sequences of varying structure;
- issued and pending patents directed to one of the industry's most advanced siRNA chemical modification technologies optimised for improved stability, yield and safety; and
- three exclusive licences from the University of Massachusetts to the issued and pending patents associated with the Zamore "Design Rules" including methods for increased potency and reduced off-target effects.

With these combined assets, we believe our patent estate today is one of the most useful, most functional portfolios in the RNAi field and we believe it will provide us with the opportunity to actively pursue all our areas of interest.

Financial

Silence successfully strengthened its financial position through the completion of two financings in 2009 and early 2010 that generated proceeds of approximately £17.7m (gross). This funding provided cash resources that will support the Company's operations into the second quarter of 2011. This is without taking into account any milestone or other receipts that the Company believes it could receive in 2010.

Revenue
Revenue generated in the year declined to £1.72m in 2009 from £2.21m in 2008. The decrease in revenue was primarily attributable to receiving milestone income from previous deals in 2008 which did not arise in 2009.

Administrative expenses
Administrative expenses during the year increased to £4.20m in 2009 from £3.29m in 2008. The increase in administrative expenses is primarily attributed to costs incurred in respect of the acquisition of Intradigm subsequent to the year end.

Research and development expenses
Research and development expenses during the year decreased to £5.07m in 2009 from £6.71m in 2008. The decrease in research and development expense is primarily attributed to the Group having incurred substantial pre-clinical development costs in 2008 prior to the commencement of its clinical trials of Atu027 which commenced in 2009.

Interest
Interest income fell from £0.25m in 2008 to less than £0.1m in 2009 due to lower average balances on deposit and the marked fall in interest rates during 2008 and 2009.

Taxation
The taxation credit arises through the availability of UK R&D tax credits in respect of some of the Group's research and development costs.

Liquidity, cash, cash equivalents and money market investments
The Group's cash position at year-end was £1.13m. A further £15.0m (gross) was raised shortly after the year-end through an institutional placing that closed in January 2010. At the end of 2008, Silence had cash of £3.35m.

The net cash outflow from operating activities was £4.65m against an operating loss of £7.55m primarily reflecting the impact of changes in other working capital of £1.6m and of non-cash items such as depreciation, amortisation and share option charges of £1.0m.

Summary and outlook

I'd like to conclude by reviewing the rationale for the recent merger and the subsequent goals we aim to achieve.

In setting out to combine these two companies, our objective was to dramatically change the competitive landscape in the field of RNAi therapeutics. While other companies in the sector may claim leadership, this merger created one of the most sophisticated platforms in RNAi therapeutic development. As a result of this merger, Silence now holds a powerful and strategic position in the three areas we believe are critical to building, protecting and commercialising RNAi therapeutics: proprietary delivery technologies, potent siRNA sequences and innovative siRNA structural features.

This unique combination of technology has created an unparalleled technology platform that we believe will drive many of the most critical advances in the field. Perhaps most exciting about the merger is the powerful range of RNAi delivery technology solutions possessed by the new Company. The most significant hurdle to overcome in realisation of the vast potential of RNAi therapeutics is that of enabling safe and effective delivery of siRNA payloads.

By combining the expertise of both Intradigm and Silence, we now have one of the industry's most comprehensive and versatile delivery technology platforms, providing Silence with unmatched potential to develop delivery solutions that can be tailored to address various therapeutic requirements.

Beyond our technology platform, Silence is a clear leader in the enablement of clinical development of RNAi therapeutic candidates. At present, we believe that at least half of the siRNA programmes currently in clinical trials worldwide are based on Silence's technology, representing the significant impact that our technology platform has within the sector. This impressive pipeline of products not only validates the strength of Silence's technology, it also validates the team of researchers that has guided the development path.

In summary, the rationale driving this merger was to combine the strength of two innovative entities to create a new leadership in RNAi therapeutic development. With the transaction complete, it is now our task to establish a path that allows us to optimise our resources and efficiently advance our development programmes and clinical efforts. To this end, we recently announced a restructuring of the Company to focus research in Berlin, and business operations in Palo Alto. We will continue to evaluate the most beneficial strategies to address the challenges ahead.

In closing, I wish to express my sincere appreciation to our dedicated employees and the shareholders who support our Company. In the coming year, we will continue to work diligently to advance our groundbreaking science and to continue to build shareholder value.

Thank you for your continued support of Silence Therapeutics.

Philip Haworth PhD
Chief Executive Officer

10 Board of Directors

Jerry Randall

Non-executive Chairman

Mr Randall is a qualified Chartered Accountant. Most recently he was chief financial officer of Sinclair Pharmaceuticals plc, which he joined in 2000 as part of a management buy-in team. Prior to this, Mr Randall worked in corporate finance with Gambit Corporate Finance and had previously been involved in two other buy-ins. He acted as adviser to both private and quoted companies between 1993 and 2000, in both the capacity of nominated adviser and in practice with KPMG. During this period, he was involved in a number of flotations and transactions on the Official List, Unlisted Securities Market and the Alternative Investment Market, as well as raising private equity.

Dr Phil Haworth

Chief Executive Officer

Dr Haworth was appointed Chief Executive Officer of Silence Therapeutics in January 2010 following the Company's merger with Intradigm Corporation. Prior to this role, Dr Haworth served as chief executive officer of Intradigm, following his tenure as the company's vice president of business development. He joined Intradigm in 2007, having spent the previous 15 years in senior business development roles at several leading biotechnology companies including Genencor International, COR Therapeutics and Affymax/Affymetrix, among others. In these positions, he led the identification and negotiation of numerous collaborative and licensing agreements with a range of global and regional pharmaceutical companies. He most recently served as vice president, business development at Codexis, Inc. He possesses deep deal-making expertise that spans establishing discovery and development partnerships, technology and product in- and out-licensing, mergers and acquisitions, and financing support. Dr Haworth earned his JD from Stanford University Law School and his PhD in biochemistry from the University of Manchester in the UK.

Max Herrmann

Chief Financial Officer and Company Secretary

Mr Herrmann was appointed Chief Financial Officer of Silence Therapeutics in May 2010. He is a qualified Chartered Accountant and possesses more than 20 years of biotechnology and pharmaceutical industry experience having held key management positions with leading development stage companies, as well as several investment banks. Prior to joining Silence, Mr Herrmann served as chief financial officer of Intercytex Group plc, a publicly traded company focused on the emerging area of regenerative medicine. Before joining Intercytex, he spent over ten years as a sell-side equity analyst, most recently as managing director and head of European pharmaceutical and biotechnology research at ING. He has also held the position of financial controller for US-based Onyx Pharmaceuticals Inc. and currently serves on the boards of Regenerative Medicine Assets Limited, as well as the company's subsidiaries Intercytex Ltd and Axordia Ltd.

Committee composition

Audit Committee

Assisting Board oversight of accounting and financial reporting processes and the audits of the Company's financial statements.

- Jerry Randall (Chairman)
- David U'Prichard

Nomination Committee

Recommending to the Board those persons to be nominated for election as Directors at any shareholders meeting.

- David U'Prichard
- Annette Clancy
- David Mack

Remuneration Committee

Assisting the Board in the discharging of its responsibilities related to remuneration of the Company's Executive officers.

- Annette Clancy (Chairman)
- Jamie Topper
- David U'Prichard
- David Mack
- Jerry Randall

Annette Clancy

Non-executive Director

Ms Clancy has had a distinguished career spanning 30 years with GlaxoSmithKline (GSK). She has 15 years' experience in Business Development, leading GSK's global Transactions and Alliance Management teams for the past three years, and during her tenure she and her team have been responsible for concluding a large number of research, development and commercial business collaborations on behalf of GSK. Prior to her role in Business Development, Ms Clancy held a number of positions in Clinical Research, R&D project management and Commercialisation. Ms Clancy has a BSc (Hons) Pharmacology from Bath University.

Dr David Mack

Non-executive Director

Dr Mack is a director at Alta Partners where he led the investment in Angiosyn as a director and acting CEO (acquired by Pfizer in 2005). He joined Intradigm's board in May 2006 and served on that board until the merger with Silence Therapeutics. He is currently on the board of directors of Aerie Pharmaceuticals, Ceregene and Proacta. Prior to Alta, Dr Mack co-founded and served as Vice President of Genomics Research at Eos Biotechnology (acquired by Protein Design Labs in 2003). From 1995 to 1997, he served at Affymetrix as head of cancer biology where he oversaw the development and application of DNA array technology in the areas of oncology and inflammation. He was also a pivotal member of the Polymerase Chain Reaction (PCR) invention group at Cetus (now Chiron) in the mid 1980s. Dr Mack received his PhD in 1992 from the University of Chicago.

Dr James Topper

Non-executive Director

Dr Topper is a general partner at Frazier Healthcare Ventures' Palo Alto office and was the chairman of the board of Intradigm from May 2006 to the date of the merger with Silence Therapeutics. Since joining Frazier Healthcare in 2003, Dr Topper has led several biopharma investments including Arête Therapeutics, Cotherix, and MacuSight. Dr Topper is also an advisory board member to the Harvard-Partners Center for Genetics and Genomics. Prior to joining Frazier Healthcare, he served as head of the cardiovascular research and development franchise at Millennium Pharmaceuticals and ran Millennium San Francisco (formerly COR Therapeutics). Prior to the merger of COR and Millennium, he served as the vice president of biology at COR and was responsible for managing all of its research activities. Dr Topper received his MD and PhD in Biophysics from Stanford University School of Medicine in 1991. He continues to hold an appointment as a Clinical Assistant Professor of Medicine at Stanford University.

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 1999 to 2003. During that time he took 3DP public and secured major collaborations with Bristol-Myers Squibb and Johnson & Johnson. In March 2003, 3DP became 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.

Directors' report
year ended 31 December 2009

The Directors present their report and the financial statements for the year ended 31 December 2009.

Review of the business and future developments

The Group carries out research and development of pharmaceutical products. In particular the Group is focusing 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 section of the Chief Executive's review on pages 8 and 9. The product development pipeline is also shown above with a briefing on the Group's technology. The Chairman's statement provides details of the Group's progress during the year against all its performance targets. The Chief Executive's review describes the research and development activity during the year as well as outlining future planned developments.

Post balance sheet events

A description of post balance sheet events is set out in note 26 to the financial statements.

Results and dividends

The Group recorded a loss for the year before taxation of £7,470,597 (2008: £7,434,641). Further details are given in the preceding Financial review. The Group is not yet in a position to pay a dividend and the loss for both periods has been added to the accumulated deficit on reserves.

Directors

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

Chairman
I G Ross

Executive Directors
J M Davies

Non-executive Directors
J L Curnock Cook
A Clancy
J A P Randall
H R P Reynolds
D C U'Prichard
B O Wetzel

The interests of the Directors in the share options of the Company are set out in note 18 to the financial statements.

Since the year end, on 5 January 2010 P Haworth, J Topper, and D Mack were appointed to the Board and on 26 February 2010, I G Ross and J M Davies resigned. M Herrmann was appointed to the Board in May 2010.

Substantial interests

At 31 March 2010 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 %
Frazier Healthcare Ventures	27,265,465	9.74%
ACP Capital	25,356,422	9.06%
Fidelity Investments	22,753,009	8.13%
Gartmore Investment Ltd	19,477,919	6.96%
Lilly Ventures	16,747,951	5.98%
Neue Bank, Vaduz	10,023,270	3.58%
Roche Finance	8,515,906	3.04%

Corporate governance

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.

Corporate governance continued

Committee structure

Remuneration

A Clancy (Chairman), J A P Randall, D C U'Prichard, D Mack and J Topper

Audit

J A P Randall (Chairman) and D C U'Prichard

Nominations and Governance Committee

D C U'Prichard (Chairman), A Clancy and D Mack

Remuneration Committee

The Group has established a Remuneration Committee comprising five 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 two 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. Company law requires the Directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for the period.

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.

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 IFRS have been followed, subject to any material departures disclosed and explained in the financial statements; and
- 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 adequate 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 2006. 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.

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

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 programmes of the Group may be delayed or the Group 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 licences.
- 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.

Risk factors continued

Risks applicable to the biotechnology sector and the Group continued

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. Further details are given in note 2.3 to the financial statements. For this reason the Directors 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 47 days (2008: 29 days).

On behalf of the Board

Jerry Randall
Chairman
17 May 2010

Independent auditors' report
to the members of Silence Therapeutics plc

We have audited the financial statements of Silence Therapeutics plc for the year ended 31 December 2009 which comprise the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated balance sheet, the Consolidated statement of changes in equity, the Company balance sheet, the Company statement of changes in equity, the Consolidated and Company cash flow statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006. This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an 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

As explained more fully in the Directors' responsibilities statement, set out on page 13, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/UKNP.

Opinion on financial statements

In our opinion:

- the Group financial statements give a true and fair view of the state of the Group and of the parent company's affairs as at 31 December 2009 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRS as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRS as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Emphasis of matter – going concern

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of disclosures made in note 2.3 of the financial statements concerning the ability of the Company to continue as a going concern. The Group made a loss for the year of £7.5m and had net assets of £8.9m at 31 December 2009. As explained in note 2.3, there are uncertainties regarding the Group's ability to access additional funding through grants, milestone and licence fee payments, relating to either new or existing agreements, to meet working capital requirements.

These conditions explained in note 2.3 to the financial statements indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments that would result if the Company were unable to continue as a going concern.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

Christopher Smith
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London
17 May 2010

Consolidated income statement
year ended 31 December 2009

	Note	2009 £	2008 £
Revenue	3	**1,723,289**	2,208,699
Research and development costs		**(5,073,333)**	(6,712,032)
Gross loss		**(3,350,044)**	(4,503,333)
Administrative expenses		**(4,204,371)**	(3,288,304)
Operating loss	5	**(7,554,415)**	(7,791,637)
Finance income	7	**46,104**	356,996
Loss for the year before taxation		**(7,508,311)**	(7,434,641)
Taxation credit for the year	8	**37,714**	—
Loss for the year after taxation		**(7,470,597)**	(7,434,641)
Loss per share (basic and diluted)	9	**(5.55)p**	(6.20)p

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

Consolidated statement of comprehensive income
year ended 31 December 2009

	2009 £	2008 £
Loss for the year after taxation	**(7,470,597)**	(7,434,641)
Other comprehensive income:		
Exchange differences arising on consolidation of foreign operations	**(410,482)**	2,654,895
Total comprehensive income for the year	**(7,881,079)**	(4,779,746)

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

Consolidated balance sheet
at 31 December 2009

	Note	2009 £	2008 £
Non-current assets			
Property, plant and equipment	10	**376,676**	535,909
Goodwill	11	**8,130,972**	8,611,087
Other intangible assets	12	**736,117**	812,696
		9,243,765	9,959,692
Current assets			
Trade and other receivables	14	**560,190**	998,702
Current tax assets		**59,198**	70,000
Cash and cash equivalents	15	**1,131,146**	3,350,187
		1,750,534	4,418,889
Liabilities – current			
Trade and other payables	16	**2,103,144**	934,601
		2,103,144	934,601
Net assets		**8,891,155**	13,443,980
Equity			
Share capital	18	**1,350,334**	1,199,134
Capital reserves	19	**49,810,071**	47,010,414
Translation reserve		**2,881,007**	3,291,489
Retained loss		**(45,150,257)**	(38,057,057)
Total equity		**8,891,155**	13,443,980

The financial statements were approved by the Board of Directors on 17 May 2010.

Jerry Randall
Chairman

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

Consolidated statement of changes in equity
year ended 31 December 2009

	Share capital £	Capital reserves £	Translation reserve £	Retained loss £	Total £
At 1 January 2008	1,198,835	46,465,165	636,594	(30,624,834)	17,675,760
Recognition of share-based payments	—	544,158	—	—	544,158
Transfer upon:					
– exercise of options in year	—	(1,687)	—	1,687	—
– lapse of vested options in year	—	(731)	—	731	—
Shares issued in the year	299	3,509	—	—	3,808
Transactions with owners	299	545,249	—	2,418	547,966
Loss for the year ended 31 December 2008	—	—	—	(7,434,641)	(7,434,641)
Other comprehensive income					
Exchange differences arising on consolidation of foreign operations	—	—	2,654,895	—	2,654,895
Total comprehensive income for the year	—	—	2,654,895	(7,434,641)	(4,779,746)
At 1 January 2009	1,199,134	47,010,414	3,291,489	(38,057,057)	13,443,980
Recognition of share-based payments	—	661,704	—	—	661,704
Transfer upon:					
– exercise of options in year	—	(4,514)	—	4,514	—
– lapse of vested options in year	—	(372,883)	—	372,883	—
Shares issued in the year	151,200	2,515,350	—	—	2,666,550
Transactions with owners	151,200	2,799,657	—	377,397	3,328,254
Loss for the year ended 31 December 2009	—	—	—	(7,470,597)	(7,470,597)
Other comprehensive income					
Exchange differences arising on consolidation of foreign operations	—	—	(410,482)	—	(410,482)
Total comprehensive income for the year	—	—	(410,482)	(7,470,597)	(7,881,079)
At 31 December 2009	**1,350,334**	**49,810,071**	**2,881,007**	**(45,150,257)**	**8,891,155**

20 Company balance sheet
at 31 December 2009

	Note	2009 £	2008 £
Non-current assets			
Investment in subsidiary undertakings	13	**23,494,482**	19,917,264
Current assets			
Trade and other receivables		**91,236**	65,747
Cash and cash equivalents	15	**358,256**	1,914,188
		449,492	1,979,935
Liabilities – current			
Trade and other payables	16	**1,185,705**	146,774
		1,185,705	146,774
Net assets		**22,758,269**	21,750,425
Equity			
Share capital	18	**1,350,334**	1,199,134
Capital reserves	19	**49,626,155**	46,826,498
Retained loss		**(28,218,220)**	(26,275,207)
Total equity		**22,758,269**	21,750,425

The financial statements were approved by the Board of Directors on 17 May 2010.

Jerry Randall
Chairman

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

Company statement of changes in equity
year ended 31 December 2009

	Share capital £	Capital reserves £	Retained loss £	Total £
At 1 January 2008	1,198,835	46,281,249	(24,233,386)	23,246,698
Loss for the year ended 31 December 2008	—	—	(2,041,821)	(2,041,821)
Recognition of share-based payments	—	544,158	—	544,158
Transfer upon:				
– exercise of options in year	—	(1,687)	—	(1,687)
– lapse of vested options in year	—	(731)	—	(731)
Shares issued in the year	299	3,509	—	3,808
Movement in the year	299	545,249	(2,041,821)	(1,496,273)
At 31 December 2008	1,199,134	46,826,498	(26,275,207)	21,750,425
Loss for the year ended 31 December 2009	—	—	(2,313,382)	(2,313,382)
Recognition of share-based payments	—	661,704	—	661,704
Transfer upon:				
– exercise of options in year	—	(4,514)	—	(4,514)
– lapse of vested options in year	—	(372,883)	370,369	(2,514)
Shares issued in the year	151,200	2,515,350	—	2,666,550
Movement in the year	151,200	2,799,657	(1,943,013)	1,007,844
At 31 December 2009	**1,350,334**	**49,626,155**	**(28,218,220)**	**22,758,269**

22 Cash flow statements
year ended 31 December 2009

	Group		Company	
	2009 £	2008 £	**2009 £**	2008 £
Cash flow from operating activities				
Loss before taxation	**(7,508,311)**	(7,434,641)	**(2,313,382)**	(2,041,821)
Adjustments for:				
Depreciation charges	**150,293**	116,489	**—**	—
Amortisation charges	**220,658**	306,916	**—**	—
Loss on sale of property, plant and equipment	**19,577**	307	**—**	—
Charge for the year in respect of share-based payments	**661,704**	544,158	**318,027**	125,353
Foreign exchange movement	**198,717**	73,410	**—**	—
(Reduction)/increase in impairment provision against loan to subsidiary	**—**	—	**(140,667)**	596,533
Recovery of loan provided for in previous years	**—**	(31,000)	**—**	(31,000)
Finance income	**(46,104)**	(253,634)	**(43,971)**	(198,464)
	(6,306,466)	(6,677,995)	**(2,179,993)**	(1,549,399)
Decrease/(increase) in trade and other receivables	**438,512**	668,891	**(25,489)**	(65,747)
Increase/(decrease) in trade and other payables	**1,168,543**	(1,032,708)	**1,038,931**	146,774
Cash (absorbed) by operations	**(4,696,411)**	(7,041,812)	**(1,166,551)**	(1,468,372)
Taxation received	**48,516**	60,000	**—**	—
Net cash outflow from operating activities	**(4,647,895)**	(6,981,812)	**(1,166,551)**	(1,468,372)
Cash flow from investing activities				
Investment in subsidiary undertakings	**—**	—	**(3,409,986)**	(6,308,552)
Reduction/(increase) in loans to subsidiary undertakings	**—**	—	**310,084**	(109,384)
Recovery of loan made in previous years	**—**	31,000	**—**	31,000
Finance income	**46,104**	253,634	**43,971**	198,464
Additions to property, plant and equipment	**(36,648)**	(135,584)	**—**	—
Additions to intangible assets	**(188,494)**	(135,752)	**—**	—
Net cash (used in)/generated from investing activities	**(179,038)**	13,298	**(3,055,931)**	(6,188,472)
Cash flow from financing activities				
Proceeds from issue of share capital	**2,666,550**	3,808	**2,666,550**	3,808
Decrease in cash and cash equivalents	**(2,160,383)**	(6,964,706)	**(1,555,932)**	(7,653,036)
Cash and cash equivalents at start of year	**3,350,187**	10,174,389	**1,914,188**	9,567,224
Net decrease in the year	**(2,160,383)**	(6,964,706)	**(1,555,932)**	(7,653,036)
Effect of exchange rate fluctuations on cash held	**(58,658)**	140,504	**—**	—
Cash and cash equivalents at end of year	**1,131,146**	3,350,187	**358,256**	1,914,188
Cash and cash equivalents includes:				
Instant access bank accounts	**1,131,146**	3,350,187	**358,256**	1,914,188

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

Notes to the financial statements
year ended 31 December 2009

1. General information

1.1 Group
Silence Therapeutics plc ("Silence Therapeutics" or "the Company") and its subsidiaries (together "the Group") are primarily involved in the research and development of novel pharmaceutical products. Silence Therapeutics plc, a public limited company incorporated and domiciled in England, is the Group's ultimate parent company. The address of Silence Therapeutics' registered office is 22 Melton Street, London NW1 2EP and the principal place of business is The Royal Institution of Great Britain, 21 Albemarle Street, London W1S 4BS.

1.2 Company income statement
The Company has taken advantage of Section 408 of the Companies Act 2006 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 £2,313,382 (2008: loss £2,041,821).

2. Principal accounting policies

2.1 Basis of preparation
The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and on the historical cost basis.

The Group has not adopted the following new IFRS and International Accounting Standards (IAS) that have been issued but are not yet effective:

		Effective from:
IFRS 9	Financial Instruments	1 January 2013
IAS 24 (revised 2009)	Related Party Disclosures	1 January 2011
IAS 32 (amendment to)	Classification of Rights Issues	1 February 2010
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	1 July 2010
IFRIC 14 (amendment to)	Prepayments of a Minimum Funding Requirement	1 January 2011

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

The following standards, amendments and interpretations have been applied for the first time in the year under review:

- IAS 1 Presentation of Financial Statements (Revised 2007) requires presentation of a comparative balance sheet at the beginning of the first comparative period in some circumstances. Management considers that this is not necessary because the 2007 balance sheet is the same as that previously published.
- IFRS 8 Operating Segments replaces IAS 14 Segment Reporting and requires implementation of the Management Approach to reporting as operating segments.

The principal accounting policies adopted are set out below.

2.2 Basis of consolidation
The Group financial statements consolidate those of the Company and its controlled subsidiary undertakings drawn up to 31 December 2009. 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.

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

The Group had a net cash outflow for 2009 of £2,160,383 and at 31 December 2009 had cash balances of £1.13m. In early January 2010, the Group acquired Intradigm Corporation and raised £15m (before costs).

The Directors have reviewed the working capital requirements of the Group, which now comprises two research and development pharmaceutical companies, for the next twelve months and are confident that these can be met. The Directors have a reasonable expectation that further finances will become available during the course of the year through grants, milestone and licence fee payments, relating to either new or existing agreements. The Directors note that there is a material uncertainty as to the exact timing and source of these funds and that the failure to receive sufficient funding from these sources would cast significant doubt on the Group's ability to continue as a going concern. The Directors have also taken a number of steps to reduce administration costs and to restrict the research and development expenditure to core areas pending the availability of additional funds.

The Directors consider that the continued adoption of the going concern basis is appropriate and the accounts do not reflect any adjustments that would be required if they were to be prepared on any other basis.

2. Principal accounting policies continued

2.4 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 bid 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.

2.5 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.

2.6 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 2.7 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.

2.7 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. Grants amounting to £527,129 were recognised as revenue in the year ended 31 December 2009 (2008: £863,578).

Government grants towards the cost of plant and equipment are treated as a reduction in the cost of the asset to which they relate. There were no such grants for the year ended 31 December 2009 (2008: £53,477).

There were no unfulfilled conditions or contingencies attaching to these grants.

2.8 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. Principal accounting policies continued

2.9 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.

2.10 Property, plant and equipment

The Group holds no property assets.

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

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

2.11 Other intangible assets and research and development activities

Intellectual property rights

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

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

Internally generated intellectual property rights 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 development costs.

Capitalisation of research and development costs

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

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

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

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

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

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

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

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 asset's or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use, based on an internal discounted cash flow evaluation. Impairment losses recognised for cash-generating units to which goodwill has been allocated are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash-generating unit.

2. Principal accounting policies continued

2.13 Investments in subsidiaries

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

2.14 Financial instruments

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

Financial assets can be divided into the following categories: loans and receivables, financial assets at fair value through profit or loss, available-for-sale financial assets 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.

2.15 Operating leases

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

2.16 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.

2.17 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-transferability, exercise restrictions and behavioural considerations.

2. Principal accounting policies continued

2.18 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.

2.19 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.

2.20 Critical accounting judgements and key sources of estimation uncertainty

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

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

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

The Group expends considerable sums on its development projects, with its total research and development costs for 2009 amounting to £5,073,333 (2008: £6,712,032). 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.

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

2. Principal accounting policies continued

2.20 Critical accounting judgements and key sources of estimation uncertainty continued

The Group's main activities are carried out by subsidiary companies which are financed by ongoing investment by the parent company. These investments are carried in the books of the parent company at cost less provisions for impairment. The carrying value at 31 December 2009 is £23,494,482 (2008: £19,917,264). The key assumptions concerning the carrying value of the investments in, and loans to, subsidiaries relate to the continuing progress of the research and development programmes. As noted below, there are a number of risks and uncertainties around those assumptions and the crystallisation of any of those risks could have a significant impact on the assessment of the carrying value of the investment shown in the accounts of the parent company.

Goodwill is carried in the accounts at a value of £8,130,972 at 31 December 2009 (2008: £8,611,087). The movement in the year represents an adjustment in respect of fluctuations in foreign exchange rates.

Other intangible assets have a carrying value at 31 December 2009 of £736,117 (2008: £812,696) 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 12.

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:

	2009 £	2008 £
Europe	**1,601,796**	1,113,749
North America	**—**	1,094,950
Asia/Pacific	**121,493**	—
	1,723,289	2,208,699

4. Segment reporting

For 2008 and 2009, the Group operated in two specific technology fields, that of RNAi therapeutics and in immunotherapy. These activities were carried out in separate operating subsidiaries with certain centralised functions carried out at Group level. These are the three reporting areas used by the Board in its management of the entity.

Due to the nature of its licencing activities, the Group's revenues in any one year often derive from a small number of customers that change year by year. During 2009, £763,900 (or 44.3% of Group revenues) arose from a single customer with £275,000 (16.0%) coming from a second customer. During 2008, the comparative figures for those two customers were £220,881 (10.0%) and nil, respectively, whilst a different customer provided revenues of £1,094,968 (representing 49.6% of 2008 Group revenues).

Business segments

2009	RNAi Therapeutics £	Immunotherapy £	Group administration £	Consolidated data £
Revenue from external customers	**1,422,289**	**301,000**	**—**	**1,723,289**
Revenue from other operating segments	**—**	**—**	**246,373**	**—**
Operating (loss)/profit	**(5,278,476)**	**205,598**	**(2,481,537)**	**(7,554,415)**
Interest revenue	**1,360**	**773**	**43,971**	**46,104**
Net (loss)/profit for the year before taxation	**(5,277,116)**	**206,371**	**(2,437,566)**	**(7,508,311)**
Segment assets	**10,397,568**	**161,103**	**435,631**	**10,994,302**
Segment liabilities	**1,525,419**	**40,670**	**537,055**	**2,103,144**
Costs to acquire property, plant and equipment	**36,648**	**—**	**—**	**36,648**
Costs to acquire intangible assets	**188,494**	**—**	**—**	**188,494**
Depreciation and amortisation	**367,977**	**2,974**	**—**	**370,951**
Income tax income	**—**	**37,714**	**—**	**37,714**
Charge for non-cash expenses: share-based payments charge	**343,677**	**—**	**318,027**	**661,704**

4. Segment reporting continued

Business segments continued

2008	RNAi Therapeutics £	Immunotherapy £	Group unallocated £	Consolidated data £
Revenue from external customers	2,182,699	26,000	—	2,208,699
Revenue from other operating segments	—	—	465,318	—
Operating loss	(5,787,779)	(271,759)	(1,732,099)	(7,791,637)
Net finance income	81,817	47,595	227,584	356,996
Net loss for the year before taxation	(5,705,962)	(224,164)	(1,504,515)	(7,434,641)
Segment assets	11,960,517	463,752	1,954,312	14,378,581
Segment liabilities	767,254	46,200	121,147	934,601
Costs to acquire property, plant and equipment	135,584	—	—	135,584
Costs to acquire intangible assets	135,752	—	—	135,752
Depreciation and amortisation	420,412	2,993	—	423,405
Income tax income	—	—	—	—
Charge for non-cash expenses: share-based payments charge	418,805	—	125,353	544,158

The operations, segment assets and liabilities of the RNAi Therapeutics segment are located in Germany. The operations segment assets and liabilities of the remaining two segments are located in the United Kingdom.

5. Operating loss

This is stated after charging:

	2009 £	2008 £
Depreciation of property, plant and equipment	**150,293**	116,489
Amortisation of intangibles	**220,658**	306,916
Impairment of goodwill	**—**	—
Share-based payments charge	**661,704**	544,158
Auditors' remuneration:		
– audit of parent company	**50,340**	45,318
– audit of subsidiary	**12,000**	10,000
Operating lease payments on offices	**295,756**	396,628

Fees payable to auditors other than the auditors of the Company amounted to £22,017 (2008: £19,761).

6. Directors and staff costs

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

	2009 £	2008 £
Wages and salaries	**2,561,158**	2,867,764
Compensation for loss of office	**—**	282,296
Social security costs	**317,458**	364,977
Pension costs	**17,500**	25,083
	2,896,116	3,540,120

The average number of employees, including both Executive and Non-executive Directors, during the year was 43 (2008: 51).

Apart from the Directors, the average number of employees of the parent company was two (2008: two).

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

	2009 £	2008 £
Remuneration	**557,200**	662,200
Benefits in kind	**4,057**	4,379
Compensation for loss of office	**—**	253,667
	561,257	920,246
Charge/(credit) in respect of share-based payments	**204,377**	(37,700)
Pension contributions to defined contribution schemes for one Director (2008: one Director)	**17,500**	17,500
	783,134	900,046

Included in the amounts shown above are payments to third parties amounting to £120,000 for the services of certain Directors (2008: £85,000).

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

	2009 £	2008 £
Remuneration	**242,000**	143,000
Benefits in kind	**—**	1,173
Compensation for loss of office	**—**	253,667
Charge in respect of share-based payments	**71,466**	—
	313,466	397,840

The Directors of the Group are the same as the key management personnel, as defined by IAS 24 Related Party Transactions.

7. Finance income

The finance income comprises:

	2009 £	2008 £
Bank interest receivable	**46,104**	253,634
Release of provision against loan	**—**	31,000
Exchange differences	**—**	72,362
	46,104	356,996

8. Taxation

The credit for the year is made up as follows:

	2009 £	2008 £
Corporate taxation on the results for the year:		
– UK	—	—
– non-UK	—	—
Research and development tax credit (UK)	—	48,000
Adjustment in respect of prior years (UK)	**37,714**	(48,000)
Taxation credit for the year	**37,714**	—

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:

	2009 £	2008 £
Loss per accounts	**(7,508,311)**	(7,434,641)
Tax credit at the standard rate of Corporation Tax averaged between the two countries of operation of 29.6% (2008: 29.8%)	**2,219,310**	2,215,728
Impact of costs disallowable for tax purposes	**(495,490)**	(163,580)
Impact of income not taxable	**41,578**	9,239
Deferred tax in respect of temporary differences	**181**	749
Impact of unrelieved tax losses not provided for	**(1,765,579)**	(2,062,136)
Sub-total	—	—
Relief and refund available in respect of R&D expenditure	—	48,000
Adjustment to that relief in respect of prior periods	**37,714**	(48,000)
Taxation credit for the year	**37,714**	—

Estimated tax losses of £46,000,000 (2008: £36,000,000) 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 temporary differences, is approximately £12,800,000 (2008: £10,200,000).

9. Loss per share

The calculation of the loss per share is based on the loss for the financial year after taxation of £7,470,597 (2008: loss £7,434,641) and on the weighted average of 134,640,515 (2008: 119,885,617) ordinary shares in issue during the year.

The options outstanding at 31 December 2009 and 31 December 2008 are considered to be non-dilutive in that their conversion into ordinary shares would not increase the net loss per share. Consequently, there is no diluted loss per share to report for either year.

10. Property, plant and equipment

Group	Equipment and furniture Total £
Cost	
At 1 January 2008	3,297,068
Additions	135,584
Disposals	(278,836)
Translation adjustment	932,070
At 31 December 2008	4,085,886
Additions	36,648
Disposals	(181,616)
Translation adjustment	(222,242)
At 31 December 2009	**3,718,676**
Depreciation	
At 1 January 2008	2,898,304
Charge for the year	116,489
Eliminated on disposal	(278,529)
Translation adjustment	813,713
At 31 December 2008	3,549,977
Charge for the year	150,293
Eliminated on disposal	(162,039)
Translation adjustment	(196,231)
At 31 December 2009	**3,342,000**
Net book value	
As at 31 December 2008	535,909
As at 31 December 2009	**376,676**

11. Goodwill

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

	2009 £	2008 £
Balance at start of year	**8,611,087**	6,653,990
Translation adjustment	**(480,115)**	1,957,097
Balance at end of year	**8,130,972**	8,611,087

In accordance with IAS 36 Impairment of Assets, the carrying value of goodwill has been assessed comparing its carrying value to its recoverable amount. The recoverable amount has been calculated by the Directors as being the fair value less costs of sale.

To arrive at fair value less costs of sale, the Directors have reviewed observable market information, that being the price to sales ratios of recent transactions in the sector as well as enterprise value/turnover ratios based on recent deals and similar quoted companies.

The value of Silence Therapeutics AG is largely influenced by the expected success of its RNAi technology which has been successful in preliminary trials to date. The Directors are of the opinion that this supports the fair value less costs to sale approach to assessing the carrying value of Silence Therapeutics AG and consider this to be a more relevant and reliable methodology, in this instance, than value in use.

On the basis of these assessments, the Board considers there is no need to impair the carrying value of goodwill.

12. Other intangible assets

	Licences £	Internally generated patents and patent applications £	Total £
Cost			
At 1 January 2008	2,026,796	567,883	2,594,679
Additions	10,429	125,323	135,752
Translation adjustment	597,663	185,459	783,122
At 31 December 2008	2,634,888	878,665	3,513,553
Additions	416	188,078	188,494
Translation adjustment	(146,921)	(54,233)	(201,154)
At 31 December 2009	**2,488,383**	**1,012,510**	**3,500,893**
Amortisation			
At 1 January 2008	1,693,050	121,926	1,814,976
Charge for the year	230,070	76,846	306,916
Translation adjustment	531,802	47,163	578,965
At 31 December 2008	2,454,922	245,935	2,700,857
Charge for the year	100,433	120,225	220,658
Translation adjustment	(139,675)	(17,064)	(156,739)
At 31 December 2009	**2,415,680**	**349,096**	**2,764,776**
Net book value			
As at 31 December 2008	179,966	632,730	812,696
As at 31 December 2009	**72,703**	**663,414**	**736,117**

The licences included above have finite useful lives estimated to be of ten 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 ten 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, a reduction in operating cash flow or a change in technology, the Company compares the discounted cash flows related to the asset to the carrying value of the asset. If the carrying value is greater than the discounted cash flow amount, an impairment charge is recorded for the amount necessary to reduce the carrying value of the asset to fair value. Fair value for the purpose of the impairment tests is determined based on current market value or discounted future cash flows. In determining the fair value, certain assumptions are made concerning, for example, estimated cash flow and growth of the Group's operations.

13. Investments

Company	**2009 £**	2008 £
Investment in subsidiary undertakings	**23,494,482**	19,917,264

13. Investments continued

The investment in subsidiary undertakings is made up as follows:

	Investment at cost £	Impairment provision £	Net total £
Shares in subsidiary undertakings			
At 1 January 2008	12,719,169	(209,991)	12,509,178
Additions	6,724,938	—	6,724,938
At 31 December 2008	19,444,107	(209,991)	19,234,116
Additions	3,746,635	4,514	3,751,149
At 31 December 2009	**23,190,742**	**(205,477)**	**22,985,265**
Loans to subsidiary undertakings			
At 1 January 2008	23,265,772	(22,095,476)	1,170,296
Additions	109,384	(596,532)	(487,148)
At 31 December 2008	23,375,156	(22,692,008)	683,148
Reductions	(310,084)	(136,153)	(173,931)
At 31 December 2009	**23,065,072**	**(22,555,855)**	**509,217**
Total investment			
As at 31 December 2008	42,819,263	(22,901,999)	19,917,264
As at 31 December 2009	**46,255,814**	**(22,761,332)**	**23,494,482**

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 during the year in its operating subsidiary 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.

14. Trade and other receivables

	Group 2009 £	**Company 2009 £**	Group 2008 £	Company 2008 £
Trade receivables	**164,871**	**—**	692,009	—
Other receivables	**197,212**	**78,818**	96,362	65,747
Prepayments	**198,107**	**12,418**	210,331	—
	560,190	**91,236**	998,702	65,747

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 24.

No interest is charged on outstanding trade receivables.

15. Cash and cash equivalents

	Group 2009 £	Company 2009 £	Group 2008 £	Company 2008 £
Cash at bank	**1,131,146**	**358,256**	3,350,187	1,914,188

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 0.79% and 3.98% per annum.

16. Trade and other payables

	Group 2009 £	Company 2009 £	Group 2008 £	Company 2008 £
Trade payables	**626,315**	**522,500**	432,887	55,512
Social security and other taxes	**24,149**	**24,149**	23,225	—
Deferred revenues	**511,766**	**—**	95,635	—
Accruals and other payables	**940,914**	**625,192**	382,854	65,635
Amounts due to Group companies	**—**	**13,864**	—	25,627
	2,103,144	**1,185,705**	934,601	146,774

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 24.

17. Deferred taxation

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

	2009 £	2008 £
Deferred tax liability:		
– in respect of intangible assets	**214,000**	228,000
Liability	**214,000**	228,000
Less: offset of deferred tax asset below	**(214,000)**	(228,000)
	—	—

	2009 £	2008 £
Deferred tax asset:		
– in respect of available tax losses	**11,900,000**	10,200,000
– in respect of share-based payments	**890,000**	812,000
Deferred tax asset	**12,790,000**	11,012,000
Less: offset against deferred tax liability	**(214,000)**	(228,000)
provision against asset	**(12,576,000)**	(10,784,000)
Asset	**—**	—

18. Share capital

	2009 £	2008 £
Allotted called up and fully paid		
135,033,392 (2008: 119,913,392) ordinary shares	**1,350,334**	1,199,134

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:

	2009 £	2008 £
Number of shares in issue at 1 January 2008		119,883,536
Shares issued during 2008:		
– upon the exercise of staff share options at 12.75p per share		29,856
Number of shares in issue at 31 December 2008		119,913,392
Shares issued during 2009:		
– issue of shares for cash at 18p per share	**15,000,000**	
– upon the exercise of staff share options at 12.75p per share	**100,000**	
– upon the exercise of staff share options at 19p per share	**20,000**	
Total issued in year		15,120,000
Number of shares in issue at 31 December 2009		**135,033,392**

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 2009 there were options outstanding over 20,585,547 (2008: 22,058,911) 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 P
At any time up to 27 May 2014	900,000	27.0p
At any time up to 24 July 2015	8,600,000	23.0p
At any time up to 25 July 2016	755,548	12.75p
At any time up to 23 November 2016	1,200,000	43.0p
At any time up to 29 May 2017	70,000	109p
Between 31 March 2010 and 29 May 2017	10,000	109p
At any time up to 26 July 2017	668,000	127p
Between 26 July 2010 and 26 July 2017	332,000	127p
At any time up to 14 December 2017	386,669	67.75p
Between 14 December 2010 and 14 December 2017	193,331	67.75p
At any time up to 16 May 2018	26,667	41.5p
Between 7 May 2010 and 6 May 2018	26,667	41.5p
Between 7 May 2011 and 6 May 2018	51,666	41.5p
At any time up to 25 September 2018	405,000	29.5p
Between 26 September 2010 and 25 September 2018	5,000	29.5p
Between 26 September 2011 and 25 September 2018	5,000	29.5p
At any time up to 4 December 2018	1,916,669	20p
Between 5 December 2010 and 4 December 2018	2,716,682	20p
Between 5 December 2011 and 4 December 2018	2,316,648	20p
Total	20,585,547	

18. Share capital continued

The options held by the Directors at the beginning and end of the year are as detailed below. No Director was granted or exercised options during 2009.

Director	At 1 January 2009	Lapsed in the year	**At 31 December 2009**	Exercise price P	Earliest date of exercise	Latest date of exercise
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
– Unapproved Scheme	1,100,000	—	**1,100,000**	20p	05/12/09	04/12/18
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
– Unapproved Scheme	750,000	—	**750,000**	20p	05/12/09	04/12/18
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	25/07/08	24/07/15
– Unapproved Scheme	200,000	(200,000)	**—**	75p	30/09/07	30/09/09
– Unapproved Scheme	350,000	—	**350,000**	20p	05/12/09	04/12/18
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
– Unapproved Scheme	350,000	—	**350,000**	20p	05/12/09	04/12/18
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
– Unapproved Scheme	350,000	—	**350,000**	20p	05/12/09	04/12/18

18. Share capital continued

Director	At 1 January 2009	Lapsed in the year	**At 31 December 2009**	Exercise price P	Earliest date of exercise	Latest date of exercise
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
– Unapproved Scheme	350,000	—	**350,000**	20p	05/12/09	04/12/18
A Clancy						
– Unapproved Scheme	200,000	—	**200,000**	29.5p	26/09/08	25/09/18
J A P Randall						
– Unapproved Scheme	200,000	—	**200,000**	29.5p	26/09/08	25/09/18
Sub-total	12,250,000	(800,000)	**11,450,000**			

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 18.5p per share (31 December 2008: 18p).

During the year, the minimum and maximum prices were 18p and 33p per share respectively.

At both 31 December 2009 and 31 December 2008, the Group had outstanding warrants over 925,926 shares that are convertible at 27p per share. All warrants may be exercised at any time up to 24 July 2010.

19. Capital reserves

Group	Share premium account £	Merger reserve £	Share-based payment reserve £	Total £
At 1 January 2008	37,964,447	6,140,874	2,359,844	46,465,165
On options exercised during the year	3,509	—	(1,687)	1,822
On vested options lapsed during the year	—	—	(731)	(731)
On options issued during the year	—	—	544,158	544,158
Movement in the year	3,509	—	541,740	545,249
At 31 December 2008	37,967,956	6,140,874	2,901,584	47,010,414
On shares issued in the year	2,550,000	—	—	2,550,000
– less costs of share issue	(50,000)	—	—	(50,000)
On options in issue during the year	—	—	661,704	661,704
On options exercised during the year	15,350	—	(4,514)	10,836
On vested options lapsed during the year	—	—	(372,883)	(372,883)
Movement in the year	2,515,350	—	284,307	2,799,657
At 31 December 2009	**40,483,306**	**6,140,874**	**3,185,891**	**49,810,071**

19. Capital reserves continued

Company	Share premium account £	Merger reserve £	Share-based payment reserve £	Total £
At 1 January 2008	37,964,447	5,956,958	2,359,844	46,281,249
On options exercised during the year	3,509	—	(1,687)	1,822
On vested options lapsed during the year	—	—	(731)	(731)
On options issued during the year	—	—	544,158	544,158
Movement in the year	3,509	—	541,740	545,249
At 31 December 2008	37,967,956	5,956,958	2,901,584	46,826,498
On shares issued in the year	2,550,000	—	—	2,550,000
– less costs of share issue	(50,000)	—	—	(50,000)
On options in issue during the year	—	—	661,704	661,704
On options exercised during the year	15,350	—	(4,514)	10,836
On vested options lapsed in the year	—	—	(372,883)	(372,883)
Movement in the year	2,515,350	—	284,307	2,799,657
At 31 December 2009	**40,483,306**	**5,956,958**	**3,185,891**	**49,626,155**

Due to the size of the retained loss, the Company has no distributable reserves.

20. Equity-settled share-based payments

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

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

Under the Unapproved Share Option Scheme, the options vest at dates set by the Board at the time the option is granted. The options lapse after three 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 five years from the date of issue. Most of those warrants have been converted into shares, see note 19 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:

	2009		2008	
	Number	**Weighted average exercise price P**	Number	Weighted average exercise price P
Options				
Outstanding at the beginning of the year	**22,058,911**	**31.69p**	17,601,728	47.18p
Granted during the year	**—**	**—**	7,559,999	20.98p
Lapsed during the year	**1,353,364**	**61.67p**	3,072,960	94.23p
Exercised during the year	**120,000**	**13.79p**	29,856	12.75p
Outstanding at the year end	**20,585,547**	**29.82p**	22,058,911	31.69p
Exercisable at the year end	**14,928,553**	**30.37p**	4,231,229	31.36p
Warrants				
Outstanding at the beginning of the year	**925,926**	**27.00p**	925,926	27.00p
Granted during the year	**—**	**—**	—	—
Lapsed during the year	**—**	**—**	—	—
Exercised during the year	**—**	**—**	—	—
Outstanding at the year end	**925,926**	**27.00p**	925,926	27.00p
Exercisable at the year end	**925,926**	**27.00p**	925,926	27.00p

20. Equity-settled share-based payments continued

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
14 July 2009	24p

The options outstanding at the year end have a weighted average remaining contractual life of 7.0 years (2008: 7.7 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 18 above.

The Group granted no options during the year. In previous years the fair values of options granted were calculated using a Binomial model, and the inputs into the model were as follows:

	2008	2007
Weighted average share price	30.509p	88.596p
Weighted average exercise price	20.981p	94.989p
Expected volatility	85–115%	72–78%
Risk free rate	3.05–4.48%	4.56–5.52%
Expected dividend yield	—	—

Expected volatility was determined using as a base the share price movements recorded over the previous four 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 £661,704 (2008: £544,158) related to equity-settled share-based payment transactions during the year.

21. Capital commitments

There were no capital commitments at 31 December 2009 or 31 December 2008.

22. Contingent liabilities

There were no contingent liabilities at 31 December 2009 or at 31 December 2008.

23. Commitments under operating leases

There were no commitments under operating leases at 31 December 2009 or at 31 December 2008.

24. 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 – IAS 39) included in the balance sheet and the heading in which they are included are as follows:

	Group 2009 £	**Company 2009 £**	Group 2008 £	Company 2008 £
Current assets				
Trade and other receivables	**362,083**	**78,814**	788,371	65,747
Cash and cash equivalents	**1,131,146**	**358,256**	3,350,187	1,914,188
Categorised as loans and receivables	**1,493,229**	**437,070**	4,138,558	1,979,935

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

24. Financial instruments and risk management continued

Financial liabilities by category

The categories of financial liabilities (as defined by IAS 39) included in the balance sheet and the heading in which they are included are as follows:

	Group 2009 £	Company 2009 £	Group 2008 £	Company 2008 £
Current liabilities				
Trade and other payables	**1,567,229**	**1,161,556**	815,741	146,774
Categorised as financial liabilities measured at amortised cost	**1,567,229**	**1,161,556**	815,741	146,774

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

Credit risk

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

	Group 2009 £	Company 2009 £	Group 2008 £	Company 2008 £
Loans and receivables	**1,750,534**	**449,492**	4,418,889	1,979,935

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 zero and three months) and the Group maintains adequate bank balances in either instant access or short term deposits to meet those liabilities as they fall due.

Currency risk

The Group operates in a global market with income possibly arising in a number of different currencies, principally in Sterling, 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:

	Group 2009 £	Company 2009 £	Group 2008 £	Company 2008 £
Financial assets	**1,141,216**	**—**	1,979,450	—
Financial liabilities	**(890,633)**	**—**	(767,255)	—
Net financial assets	**250,583**	**—**	1,212,195	—

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 until 2007 the Sterling:Euro exchange rate operated within a relatively close trading range. However, there was a sharp fall in Sterling towards the end of 2007, which continued through 2008 before stabilising to a degree during 2009. Nonetheless, that movement has resulted in the exchange rate being approximately 30% different from the 2007 rate. The table shows the impact of a further fall or strengthening of Sterling against the Euro by 20%.

	2009 As reported £	If Sterling rose 20% £	If Sterling fell 20% £
Group result for the year	**(7,470,597)**	(6,590,822)	(8,790,170)
Euro denominated net financial assets	**250,583**	208,819	313,228
Total equity at 31 December 2009	**8,891,155**	7,393,458	12,278,715

24. Financial instruments and risk management continued

Currency risk continued

	2008 As reported £	If Sterling rose 20% £	If Sterling fell 20% £
Group result for the year	(7,434,641)	(6,977,089)	(7,979,591)
Euro denominated net financial assets	1,212,195	1,010,163	1,515,244
Total equity at 31 December 2008	13,443,979	11,644,059	16,143,859

25. Related party transactions

During the year the Company charged a management fee to its subsidiary companies Stanford Rook Limited amounting to £15,251 (2008: £62,830) and Silence Therapeutics AG amounting to £231,123 (2008: £402,488). Both amounts were added to the cost of the Company's investment in these two subsidiaries. In addition, Stanford Rook Limited settled expenses on behalf of the Company amounting to £541,205 (2008: £491,673), which has been deducted from the Company's cost of investment in this subsidiary.

26. Post balance sheet event

26.1 Acquisition of Intradigm

On 5 January 2010, the Company acquired the entire issued share capital of Intradigm Corporation, a company also engaged in the development of RNAi-based therapeutics, by issuance of 79,640,668 ordinary shares representing consideration of £18,317,354. The fair value of each share was 23p, based on the price at which the Company issued shares in a fundraising completed at the same time. Additional consideration for the acquisition included 2.7m shares and 1.14m immediately vesting options, which were issued to executives of Intradigm on completion of the deal.

The total cost of acquisition includes the components stated below:

	£'000
Purchase price settled in shares	18,317
Value of shares issued to Intradigm executives	621
Value of options issued to Intradigm executives	108
Total cost of acquisition	19,046

The carrying amount and fair value of the assets and liabilities acquired are as follows:

	Carrying amount £'000	Fair value £'000
Property, plant and equipment	266	266
Trade and other receivable	114	114
Cash and short term deposits	801	801
Trade and other payables	(1,698)	(1,698)
Short-term borrowings	(1,876)	(1,876)
Deferred revenue	(423)	(423)
Fair value of net liabilities acquired	(2,816)	(2,816)
Goodwill arising on acquisition	21,862	21,862
	19,046	19,046

The carrying value of goodwill arising on acquisition reflects the position Intradigm occupies in the high profile field of RNAi therapeutics and the synergies expected to arise from combination with the Company, already a leader in the field. Due to the early stage nature of the projects, the timing of future cash flows is uncertain and so a value in use calculation is not possible. None of the goodwill is expected to be deductible for income tax purposes. Management have yet to complete their assessment of any identifiable intangible assets and the disclosed figures are therefore provisional and may be subject to change.

26.2 Issue of shares in conjunction with the Intradigm acquisition

On 5 January 2010, the Company issued 65,217,392 new ordinary shares of 1p each at a price of 23p per share for a total cash consideration of £15m before expenses of the issue. The nominal value of these shares was £652,173.

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Notice of Annual General Meeting

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to what action to take, you should consult your stockbroker, solicitor, accountant or other appropriate independent professional adviser authorised under the Financial Services and Markets Act 2000. If you have sold or otherwise transferred all your shares in Silence Therapeutics plc, please forward this document and the accompanying form of proxy to the person through whom the sale or transfer was effected, for transmission to the purchaser or transferee.

Notice is hereby given that the annual general meeting ("Annual General Meeting") of Silence Therapeutics plc (the "Company") will be held at the Royal Institution, 21 Albemarle Street, London W1S 4BS at 10.00am on Friday 18 June 2010 to consider, and if thought fit, to pass the following resolutions. It is intended to propose resolution 8 as a special resolution. All other resolutions will be proposed as ordinary resolutions.

Ordinary business

1. To receive the accounts for the financial year ended 31 December 2009, together with the reports of the directors and auditors thereon.
2. To reappoint Grant Thornton UK LLP as auditors of the Company for the financial year ending 31 December 2010 and to authorise the directors to fix their remuneration.
3. That Philip Haworth, who has been appointed since the last Annual General Meeting, be re-elected as a director of the Company.
4. That Max Herrmann, who has been appointed since the last Annual General Meeting, be re-elected as a director of the Company.
5. That David Mack, who has been appointed since the last Annual General Meeting, be re-elected as a director of the Company.
6. That Jamie Topper, who has been appointed since the last Annual General Meeting, be re-elected as a director of the Company.
7. That the Directors be and they are hereby generally and unconditionally authorised for the purposes of Section 551 of the Companies Act 2006 (the "Act") to exercise all the powers of the Company to allot shares and grant rights to subscribe for, or convert any security into, shares up to an aggregate nominal amount (within the meaning of Section 551(3) and (6) of the Act) of £279,891 (being 10% of the Company's issued share capital as at 26 May 2010) provided that this authority shall expire on whichever is the earlier of the conclusion of the next Annual General Meeting of the Company or the date falling fifteen months from the date of passing of this resolution (save that the Company may, before such expiry, make any offer or agreement which would, or might, require shares to be allotted or rights to be granted after such expiry and the directors may allot shares, or grant rights to subscribe for or to convert any security into shares, in pursuance of any such offer or agreement as if the authority conferred hereby had not expired). This authority is in substitution for any and all authorities previously conferred on the Directors for the purposes of Section 551 of the Act.

Special business

8. That the directors be and they are hereby empowered pursuant to Section 570(1) of the Act, subject to the passing of resolution 7 above, to allot equity securities (as defined in Section 560(1) of the Act) of the Company for cash pursuant to the authority conferred on them by resolution 7 above as if Section 561 of the Act did not apply to any such allotment provided that such power shall be limited to the allotment of equity securities for cash:

   8.1 in connection with or pursuant to a rights issue or open offer or any other pre-emptive offer in favour of the holders of equity securities where the equity securities respectively attributable to the interests of all such holders are proportionate (as nearly as practicable) to the respective amounts of equity securities held by them subject to such exclusions or other arrangements as the directors may consider necessary or appropriate to deal with the requirements of any regulatory body or stock exchange in any territory, fractional entitlements, treasury shares, record dates or legal or practical problems arising in, or pursuant to, the laws of any territory; and

   8.2 (other than pursuant to sub-paragraph 8.1 above) up to an aggregate nominal amount of £279,891, and the power hereby conferred shall operate in substitution for any and all previous power given to the directors pursuant to Section 570(1) of the Act and shall expire on whichever is the earlier of the conclusion of the next Annual General Meeting of the Company or the date falling fifteen months from the date of passing of this resolution (save that the Company may, before such expiry make any offer or agreement which would, or might, require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement as if the power hereby conferred had not expired).

   Your Board believes that the resolutions to be proposed at the Annual General Meeting are in the best interests of the Company and its shareholders as a whole. Accordingly the Directors unanimously recommend that the shareholders vote in favour of the resolutions, as they intend to do in respect of their own beneficial holdings of shares in the Company.

By order of the Board

Max Herrmann
Company Secretary
26 May 2010

Registered office
22 Melton Street
London NW1 2BW

Explanatory notes to the notice of Annual General Meeting

Proxies

1. A Form of Proxy is enclosed for your use.
2. A member of the Company entitled to attend and vote at the meeting may appoint one or more proxies to exercise all or any of his rights to attend, to speak and to vote on his/her behalf. A proxy need not be a member of the Company. A member may appoint more than one proxy in relation to the meeting, provided that each proxy is appointed to exercise the rights attached to a different share or shares held by him, (you may photocopy this form). The instrument appointing a proxy and the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power or other authority (if any), must be deposited with the Company's registrars, Capita Registrars, PXS, The Registry, 34 Beckenham Road, Kent BR3 4TU not less than 48 hours before the time of the meeting, or any adjournment thereof. If you are a CREST member, see note 5 below.
3. Completion of a Form of Proxy or any CREST Proxy Instruction will not preclude a member from attending and voting in person at the meeting should he/she wish to do so.
4. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that only those shareholders registered in the register of members of the Company as at 6.00pm on Wednesday 16 June 2010 or, in the event that this meeting is adjourned, in the register of members of the Company at 6.00pm on the day two days prior to the adjourned meeting, shall be entitled to attend and vote at the Annual General Meeting in respect of the number of shares registered in their name at the time. Subsequent changes to entries on the relevant register of securities will be disregarded in determining the rights of any person to attend or vote at the meeting.
5. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the Annual General Meeting to be held on 18 June 2010 at 10.00am and any adjournment(s) thereof by using the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider should refer to their CREST sponsors or voting service provider(s), who will be able to take the appropriate action on their behalf.

   In order for a proxy appointment or instruction made by means of CREST to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications and must contain the information required for such instructions, as described in the CREST Manual available via (www.euroclear.com/CREST). The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy, must be transmitted so as to be received by the Company's agent, Capita Registrars Limited (CREST Participant ID: RA10), no later than 48 hours before the time appointed for the meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Application Host) from which the Company's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

   CREST members and, where applicable, their CREST sponsor or voting service provider should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider, to procure that his CREST sponsor or voting service provider takes) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsor or voting service provider are referred in particular to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

   The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.
6. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.

Documents on display

7. Copies of the Directors' service contracts and letters of engagement will be available for inspection at the registered office of the Company during the usual business hours on any weekday (Saturday, Sunday and public holidays excepted) from the date of this notice up to and including the date of the meeting and at the place of the meeting for 15 minutes prior to and during the meeting.

Total number of shares and voting rights

8. As at 26 May 2010 (being the last practicable day prior to the publication of this notice) the Company's issued share capital consists of 279,891,452 ordinary shares, carrying one vote each. Therefore, the total voting rights in the Company as at that date are 279,891,452.

Communication

9. You may not use any electronic address (within the meaning of Section 333(4) of the Companies Act 2006) provided in this Notice of Meeting (or in any related documents including the proxy form) to communicate with the Company for any purposes other than those expressly stated.

Explanatory notes to the notice of Annual General Meeting continued

Explanatory notes to certain of the Resolutions

10 For the benefit of shareholders we provide the following notes concerning some of the resolutions to be placed before them at the Annual General Meeting.

(a) Resolutions 3, 4, 5 and 6.

Dr Phil Haworth

Chief Executive Officer

Dr Haworth was appointed Chief Executive Officer of Silence Therapeutics in January 2010 following the Company's merger with Intradigm Corporation. Prior to this role, Dr Haworth served as chief executive officer of Intradigm, following his tenure as the company's vice president of business development. He joined Intradigm in 2007, having spent the previous 15 years in senior business development roles at several leading biotechnology companies including Genencor International, COR Therapeutics and Affymax/Affymetrix, among others. In these positions, he led the identification and negotiation of numerous collaborative and licensing agreements with a range of global and regional pharmaceutical companies. He most recently served as vice president, business development at Codexis, Inc. He possesses deep deal-making expertise that spans establishing discovery and development partnerships, technology and product in- and out-licensing, mergers and acquisitions, and financing support. Dr Haworth earned his JD from Stanford University Law School and his PhD in biochemistry from the University of Manchester in the UK.

Max Herrmann

Chief Financial Officer and Company Secretary

Mr Herrmann was appointed Chief Financial Officer of Silence Therapeutics in May 2010. He is a qualified Chartered Accountant and possesses more than 20 years of biotechnology and pharmaceutical industry experience having held key management positions with leading development stage companies, as well as several investment banks. Prior to joining Silence, Mr Herrmann served as chief financial officer of Intercytex Group plc, a publicly traded company focused on the emerging area of regenerative medicine. Before joining Intercytex, he spent over ten years as a sell-side equity analyst, most recently as managing director and head of European pharmaceutical and biotechnology research at ING. He has also held the position of financial controller for US-based Onyx Pharmaceuticals Inc and currently serves on the boards of Regenerative Medicine Assets Limited, as well as that company's subsidiaries Intercytex Ltd. and Axordia Ltd.

Dr David Mack

Non-executive Director

Dr Mack was appointed as a Non-executive Director of Silence Therapeutics in January 2010. Prior to his appointment he was a non-executive director of Intradigm Inc. where he was a director since May 2006. He is a director at Alta Partners where he led the investment in Angiosyn as a director and acting chief executive officer (acquired by Pfizer in 2005). He is currently on the board of directors of Aerie Pharmaceuticals, Ceregene and Proacta. Prior to Alta, Dr Mack co-founded and served as vice president of Genomics Research at Eos Biotechnology (acquired by Protein Design Labs in 2003). From 1995 to 1997, he served at Affymetrix as Head of cancer biology where he oversaw the development and application of DNA array technology in the areas of oncology and inflammation. He was also a pivotal member of the Polymerase Chain Reaction (PCR) invention group at Cetus (now Chiron) in the mid 1980s. Dr Mack received his PhD in 1992 from the University of Chicago.

Dr James Topper

Non-executive Director

Dr Topper Mack was appointed as a non-executive director of Silence Therapeutics in January 2010. He is a general partner at Frazier Healthcare Ventures' Palo Alto office and was the chairman of the board of Intradigm from May 2006 to the date of the merger with Silence Therapeutics. Since joining Frazier Healthcare in 2003, Dr Topper has led several biopharma investments including Arête Therapeutics, Cotherix, and MacuSight. Dr Topper is also an advisory board member to the Harvard-Partners Center for Genetics and Genomics. Prior to joining Frazier Healthcare, he served as head of the cardiovascular research and development franchise at Millennium Pharmaceuticals and ran Millennium San Francisco (formerly COR Therapeutics). Prior to the merger of COR and Millennium, he served as the Vice President of Biology at COR and was responsible for managing all of its research activities. Dr Topper received his MD and PhD in Biophysics from Stanford University School of Medicine in 1991. He continues to hold an appointment as a Clinical Assistant Professor of Medicine at Stanford University.

(b) Resolutions 7 and 8. Your directors may only allot shares or grant rights over shares if authorised to do so by the shareholders. Your Directors also require additional authority from shareholders to allot shares or grant rights over shares where they propose to do so for cash or otherwise than to existing shareholders pro rata to their holdings. The authorities granted at the last Annual General Meeting on 14 December 2009 are due to expire at the Company's Annual General Meeting in 2010, or on 14 March 2011, whichever is the earlier, and therefore require renewal. These resolutions, if passed, will continue to give the directors flexibility to act in the best interest of the shareholders, when the opportunity arises, by issuing new shares. Resolution 7 will therefore be proposed as an ordinary resolution to grant a new authority to allot unissued share capital up to an aggregate nominal value of £279,891, representing 10% of the total issued ordinary share capital as at 24 May 2010. Resolution 8 will be proposed as a special resolution to allot shares or grant rights over shares for cash and otherwise than to existing shareholders pro rata to their holdings. The authority will be limited to shares to a maximum aggregate nominal value of £279,891, being 10% of the issued ordinary share capital. These two authorities, if given, will expire at the conclusion of the next Annual General Meeting in 2011.

Form of proxy
Silence Therapeutics plc

If you will not be attending the Annual General Meeting, or may not do so, you can appoint another person (a "proxy"), who need not be a member of the Company, to exercise all or any of your rights to attend, speak and vote at the meeting on your behalf. Completing this form of proxy does not prevent you from attending and voting in person.

To be used at the Annual General Meeting to be held on 18 June 2010.

I/We ..... (BLOCK LETTERS PLEASE)

of .....

being (a) member(s) of the above Company hereby appoint the Chairman of the Meeting, failing whom

..... (see note 2)

as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held on 18 June 2010 at 10.00am and at every adjournment thereof.

I/We wish this proxy to be used in connection with those of the resolutions to be proposed at the Annual General Meeting which are listed below, in the manner set out below, and in connection with any other business transacted at the meeting.

Dated..... 2010 ..... Signature

Please indicate with an X in the spaces below how you wish the proxy to vote. Unless otherwise instructed, the proxy will, at his/her discretion, vote as he/she thinks fit or abstain from voting in relation to all business of the Meeting.

Please tick here if this proxy appointment is one of multiple appointments being made ☐

Resolutions	For	Against	Abstain
1. To receive and approve the accounts for the year ended 31 December 2009.	☐	☐	☐
2. To reappoint Grant Thornton UK LLP as auditors to the Company.	☐	☐	☐
3. To re-elect P. Haworth, who has been appointed since the last Annual General Meeting, as a Director of the Company.	☐	☐	☐
4. To re-elect M. Herrmann, who has been appointed since the last Annual General Meeting, as a Director of the Company.	☐	☐	☐
5. To re-elect D. Mack, who has been appointed since the last Annual General Meeting, as a Director of the Company.	☐	☐	☐
6. To re-elect J. Topper, who has been appointed since the last Annual General Meeting, as a Director of the Company.	☐	☐	☐
7. To approve the directors' powers to allot shares for the purposes of Section 551 of the Companies Act 2006.	☐	☐	☐
8. To approve the directors' powers to allot shares for cash pursuant to Section 570(1) of the Companies Act 2006.	☐	☐	☐

Notes

1. This form is for use of shareholders only and will be used only in the event of a poll being directed or demanded.
2. You may if you wish, delete the words 'the Chairman of the Meeting' and substitute the name(s) of your choice. Please initial such alteration.
3. To be valid, this Proxy Form, together with any Power of Attorney under which it is signed or a duly certified copy thereof, should reach the offices of the Company's Registrar, Capita Registrars, not later than 10.00am on 16 June 2010. In the UK, postage on the Proxy Form is prepaid. UK members may, if they prefer, return the Proxy Form in an envelope, free of charge, to Capita Registrars PXS, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU. Outside the UK, the appropriate postage must be paid.
4. In the case of a corporation, the form must be executed under its common seal or under the hand of an officer or attorney duly authorised in writing.
5. In the case of joint holders the signature of any of them will suffice, but the names of all joint holders should be shown. The vote of the senior joint holder who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members in respect of the joint holding.
6. A shareholder may appoint more than one proxy in relation to the Annual General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by him. To appoint more than one proxy you may photocopy this form. Please indicate the proxy holder's name and the number of shares in relation to which they are authorised to act as your proxy (which, in aggregate, should not exceed the number of shares held by you). Please also indicate if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope. A failure to specify the number of shares each proxy appointment relates to or specifying a number in excess of those held by you may result in the appointment being invalid.

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Business Reply
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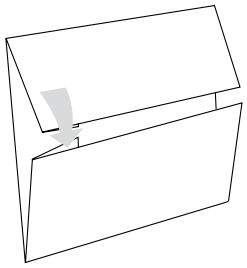
RSBH-UXKS-LRBC



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Beckenham
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second fold

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