SILENCE THERAPEUTICS

Delivering pipeline progress

Silence Therapeutics plc
Annual report and accounts 2010

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

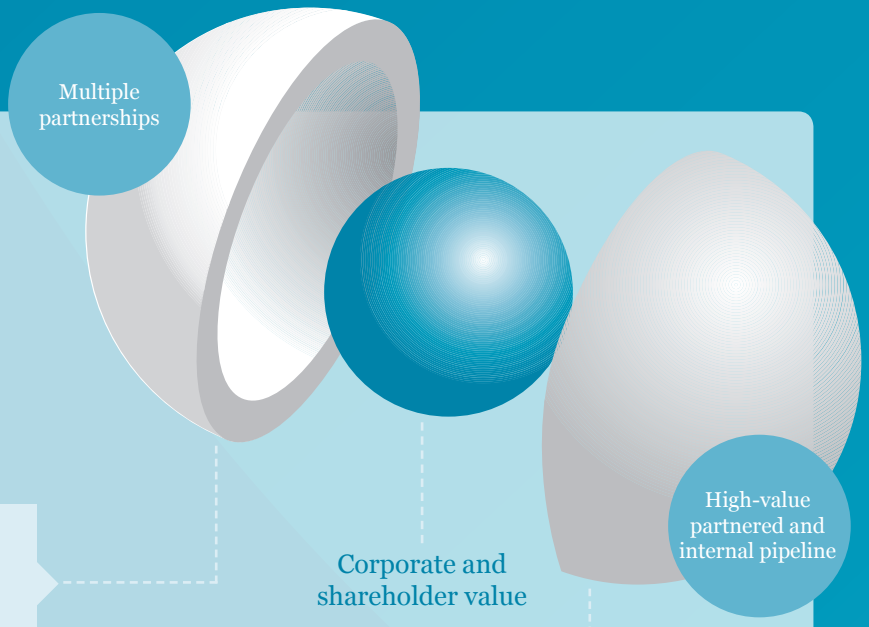
RNA interference, a Nobel Prize winning technology, is one of the most exciting areas of drug discovery today as it can selectively "silence" genes linked to the onset of disease, thus leading to the creation of a new class of therapeutic products: RNAi therapeutics.

A strategic approach...

Our approach is designed to best leverage our drug development expertise and broad RNAi therapeutic platform toward the creation of corporate and shareholder value.

This strategy is based on:

1. Leveraging broad, proprietary RNAi technology base to establish multiple additional partnerships across a diverse range of therapeutic opportunities.
2. Continuing development of partnered and internal RNAi therapeutic pipeline.



Highlights of 2010

Operational

- **Successful merger and integration of Silence and Intradigm** to create a leading company in the field of RNA interference (RNAi).
- **Excellent progress made with ongoing Phase I clinical trial of Atu027,** Silence's lead compound, for the treatment of solid tumours. As of March 2011, 23 patients have been treated with Atu027 and, to date, the compound has been shown to be safe and well tolerated.
- **Atu027 shown to prevent the formation of lung metastases** in a variety of preclinical breast cancer models. Data were published in a peer-reviewed paper in Clinical Cancer Research.
- **Silence's partner, Quark Pharmaceuticals, Inc.,** successfully completed two Phase I trials of QPI-1002, which incorporates Silence's AtuRNAi technology. Quark subsequently initiated a Phase II trial of QPI-1002 in the prevention of delayed graft function in kidney transplant patients.
- **Silence to receive up to US$1.5m milestone** following Quark's receipt of a US$10m payment from Novartis for an option to develop and commercialise QPI-1002 signed in August 2010. Future milestone payments to Silence related to Quark's licence agreement with Novartis could reach US$80m.
- **Silence and AstraZeneca extended two existing collaborations:** one aimed at the discovery and development of siRNA therapeutics and the other at the delivery of siRNA sequences.
- **Silence expanded its siRNA delivery collaboration with Dainippon Sumitomo** to include additional disease targets that were not originally specified under the initial collaboration.
- **Zamore Design Rules patents issued.** Silence, through its licence agreement with the University of Massachusetts, was issued several US and European patents which broadly cover methods of enhancing silencing activity of RNAi therapeutics. The Company believes that the Zamore technology is invaluable for the development of efficacious RNAi therapeutics.

Financial

Revenue:
£2.37m
(2009: £1.72m)

Research & development costs:
£5.82m
(2009: £5.07m)

Administrative expenses:
£5.20m
(2009: £4.20m)

Cash position:
£3.57m
(2009: £1.13m)

Post year-end events

- In January 2011, Silence announced it was no longer in discussions that may have led to an offer for the Company. Given the recent progress of Atu027 and other technological achievements made during the last year, Silence believes it is well placed to capitalise on its leadership position in RNAi therapeutics.
- In April 2011, Silence announced plans to raise up to £6.5m by a placing and open offer.

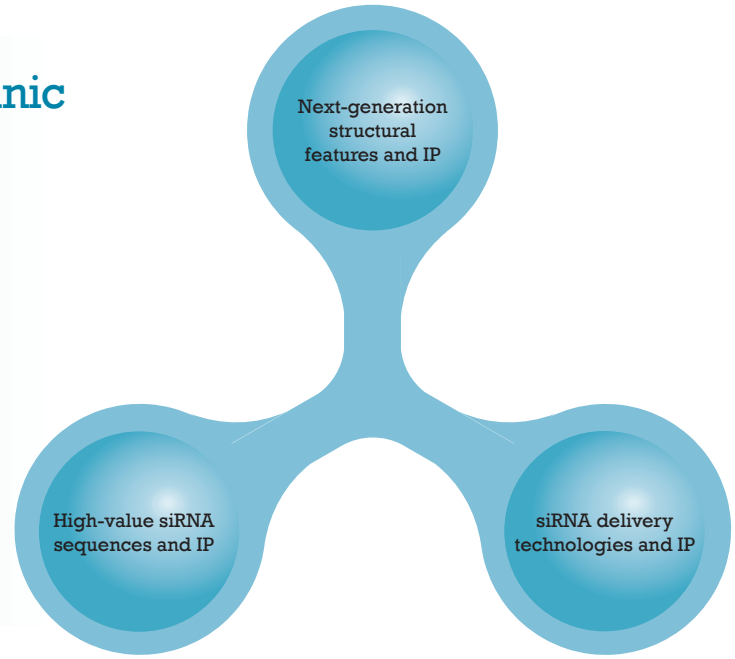
Silence is a leader in the discovery, development and delivery of novel RNA interference (RNAi) therapeutics for the treatment of serious diseases.

Delivery from sequence to clinic

Silence's expertise encompasses RNAi structural chemistry and drug delivery, as well as preclinical and clinical development.

Silence holds a powerful and strategic position in each of the three areas believed to be critical to building, protecting and commercialising RNAi therapeutics:

- proprietary delivery technologies;
- potent siRNA sequences; and
- innovative siRNA structural features.



Our partnerships to date...

Our RNAi therapeutic platform has received key validation through multiple major partnerships with pharmaceutical companies to date.

We are actively pursuing the establishment of additional partnerships with pharmaceutical companies.

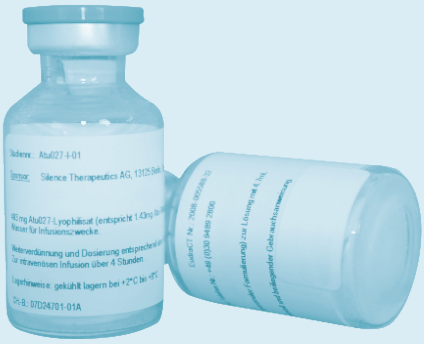
2006

Pfizer/Quark (2006)
Quark licenses PF'655 to Pfizer for treatment of diabetic macular oedema and age-related macular degeneration; $95m in milestones plus royalties.

2007

AstraZeneca (2007)
$15m upfront payment with up to $400m in milestones plus sales royalties for developing proprietary siRNA molecules to five targets.

Quark (2007)
Expansion of option and licence agreement to include QPI-1002 for acute renal failure and kidney transplantation.



Atu027

Atu027 is Silence's most advanced internal drug candidate. It combines the Company's proprietary AtuPlex delivery technology with AtuRNAi, its novel RNAi chemistry. The drug is currently the subject of a Phase I cancer trial in patients with solid tumours. The trial has progressed well and we remain on target to complete the study in the second half of 2011.

Our product pipeline...

		Partners	Research	Preclinical	Phase I	Phase II
PF-4523655 (AtuRNAi)	Diabetic macular oedema	Pfizer/Quark	Naked siRNA			
	Age-related macular degeneration	Pfizer/Quark	Naked siRNA			
QPI-1002 (AtuRNAi)	Acute kidney injury	Quark/Novartis	Naked siRNA			
	Prevention of delayed graft function	Quark/Novartis	Naked siRNA			
Atu027 (AtuRNAi)	GI, lung and other cancers	Internal	AtuPlex			
Atu134 (AtuRNAi)	Solid tumours	Internal	AtuPlex			
Atu111 (AtuRNAi)	Acute lung injury	Internal	DACC8			
Atu195 (AtuRNAi)	Solid tumours	Internal	AtuPlex			

2009 2010

2008

AstraZeneca (2008)
Collaboration to focus on the development of novel approaches to delivery of siRNA molecules.

2009

Dainippon Sumitomo (2009)
siRNA delivery collaboration. Delivery of proprietary siRNA molecules to specific targets.

2010

Dainippon Sumitomo (2010)
Expansion of delivery collaboration to include additional targets.

Quark/Novaris (2010)
Quark signs option agreement with Novartis for QPI-1002. Phase II trial started in September 2010 in delayed graft function.

Chairman's statement

RNAi therapeutics are succeeding.

Jerry Randall ACA Chairman

In summary

- Achieved rapid integration of Intradigm Corporation following its acquisition in January 2010
- Secured funding for the business through to 2012
- Advanced Silence Therapeutics as one of the leaders in RNAi therapeutics
- Made strong progress on multiple fronts including clinical development, intellectual property and ongoing pharmaceutical partnerships

I am pleased to report that rapid integration of Silence Therapeutics plc (Silence) and Intradigm Corporation (Intradigm) in early 2010 has resulted in a new Group with a superior scientific platform, robust intellectual property protection and a strengthened management team. During the year, Silence, along with its peers and collaborators, made significant progress in driving advancements in the RNAi sector. We observed important achievements with RNAi-based compounds continuing to move from preclinical studies into development and through clinical trials. One of these compounds is Silence's Atu027, which has produced very promising preclinical data in the area of cancer – findings that have since been validated with encouraging initial results from our ongoing Phase I clinical trial. Silence also published and presented an extensive amount of RNAi data, including data on Atu027 that has positioned this compound as one of the most interesting and potentially promising RNAi therapeutics in clinical development. Specifically at Silence, our technology was further validated by the development, expansion and extension of our agreements with major pharmaceutical companies including AstraZeneca plc (AstraZeneca), Dainippon Sumitomo Co. Ltd (Dainippon Sumitomo) and Quark Pharmaceuticals Inc. (Quark)/Novartis AG (Novartis). Given our progress in the clinic and with our partners, we believe Silence's science and technology has the potential to play a leading role in the ultimate commercialisation of RNAi into next-generation therapeutics for patients worldwide.

The strides made in RNAi are in line with, or even superior to, progress made with other new technologies and therapeutics in the past, including the path travelled by monoclonal antibodies from concept to clinic to market. Silence has made significant advances in addressing the issue of siRNA delivery that not long ago appeared to be an insurmountable challenge for our sector. We have laid the groundwork for developing RNAi therapeutics by completing extensive preclinical research with a broad range of technologies and approaches. We, with our partners, have administered RNAi therapeutics to hundreds of patients, over 300 of which have been dosed with molecules containing Silence's proprietary AtuRNAi technology. As of today, there are around 12 clinical trials of RNAi therapeutics underway worldwide, almost half which are based on Silence's fundamental RNAi technology. The data that is now emerging is a testament to how quickly the RNAi field has advanced relative to timelines that are typical in the life science industry.

The key advances made more broadly in the RNAi sector in 2010 were in evidence at Silence. During the year we continued to develop and advance what we believe to be one of the industry's most comprehensive RNAi therapeutic platforms, comprised of:

- proprietary delivery technologies;
- potent siRNA sequences; and
- innovative siRNA structural features.

> During 2010, Silence made significant progress on multiple fronts driving advancements in the RNAi sector.

As we have previously stated, these are the three areas we believe to be critical for building, protecting and commercialising the safest and most effective RNAi therapeutics. To this end, we further advanced our lead product candidate, Atu027, through its Phase I clinical trial and, thus far, have seen what we believe to be extremely encouraging results, including preliminary evidence of remarkable shrinkage of target and non-target lesions. We also widely and actively expanded our intellectual portfolio estate with the issuance of several key patents covering all three key areas for the development of RNAi therapeutics. This global, diverse and competitive intellectual property estate further positions us as the partner of choice for other companies looking to develop RNAi therapeutics and enables us to further drive therapeutic advancements both internally and with collaborators in 2011 and beyond.

Shortly after the merger of Silence and Intradigm, Dr Phil Haworth assumed the role of Chief Executive Officer, I was appointed Chairman and Max Herrmann was appointed Chief Financial Officer and Company Secretary of the enlarged Group. On behalf of the Board, I would like to thank Iain Ross and Melvyn Davies, who stood down during the period, for their contributions to the Company.

None of the advancements I have outlined would have been possible without the support of our shareholders and we are committed to continuing to build value through delivering meaningful progress in the future.

Thank you for your continued support of Silence Therapeutics.

Jerry Randall ACA
Chairman
26 April 2011

2011 goals...

1. Complete Phase I clinical trial of Atu027
2. Present interim Phase I data on Atu027
3. Advance preclinical programmes for Atu134 and Atu111
4. Complete new corporate alliance

Chief Executive's review

In 2010 we saw major advancements in the RNAi sector both at Silence and from our peers.

Philip Haworth PhD Chief Executive Officer

In summary

- Excellent progress made with Atu027 in the ongoing Phase I trial in patients with advanced solid tumours
- Expanded our collaboration with Dainippon Sumitomo and extended our collaboration with AstraZeneca
- Strengthened our intellectual property position including issuance of the Zamore Design Rules patents in both the US and Europe
- Secured funding well into 2012

Overview

In 2010, we saw major advancements in the RNAi sector and it was a very exciting year for Silence, not least because the year saw the Group successfully complete the acquisition of Intradigm. Importantly, Silence made some key advancements in overcoming the challenge of delivering siRNA molecules safely and effectively to a variety of targets and tissue types in the body which can then be developed in a timely and cost-effective manner. Silence can package siRNA molecules in multiple, distinct delivery systems that can deliver to more target cells and tissues than any of its competitors and can also generate multiple siRNA products rapidly and efficiently. We believe that these advancements support Silence's position as a leader in the discovery, delivery and development of RNAi therapeutics and provide benefits not only to Silence, but to the sector as a whole.

The next crucial step in translating the science of RNAi into meaningful medicines is delivering positive clinical data to support the safety and efficacy of specific RNAi therapeutics and we are poised to begin to deliver this data in the coming months.

Before looking further ahead, I would like to highlight our progress in 2010 by outlining the key events that created value for our shareholders and contributed to our leadership position in the sector. During the year, the company made progress in several areas.

These included:

- advancements in the clinic and with our technologies;
- the establishment and expansion of valuable pharmaceutical partnerships; and
- the continued strengthening of our intellectual property portfolio.

Operational

Progress with internal development programmes

We ended 2010 very pleased with the progress we had made with our ongoing Phase I clinical study of Atu027, our lead drug candidate for the treatment of advanced solid tumours. The trial remains on track for completion in the second half of 2011 and preliminary findings have already begun to show what we believe to be encouraging human data that is consistent with the positive preclinical data for Atu027.

In November 2010, we published a peer-reviewed paper in Clinical Cancer Research stating that Atu027 prevented the spread of breast cancer to the lungs in animal models of cancer metastases. As a proven inhibitor of the expression of PKN3, a gene that is believed to play an important role in the progression of cancer and metastasis formation in particular, Atu027 has significant promise as a potential cancer treatment.

In the published paper, researchers highlighted Atu027's inhibition of multiple key biological processes that trigger the formation and spread of pulmonary metastases in mice. With metastasis directly linked to high rates of mortality in cancer patients, the prevention of metastasis dissemination and formation is a critical goal of cancer treatment. Importantly, the researchers were able to show that Atu027

inhibited the formation of metastases in the lung. This is crucial as breast cancer cells prefer to metastasise through the bloodstream to the lung.

These published findings not only indicate the potential clinical impact of Atu027, but also help us further understand the manner in which this compound works against the formation of metastases.

We are optimistic that these preclinical findings will be confirmed in our ongoing Phase I clinical trial with Atu027. As of March 2011, researchers conducting the Phase I study had administered over 170 doses of Atu027 to 23 patients across eight dose ranges with dose escalation continuing. To date, Atu027 has appeared to be safe and generally well tolerated with no dose-limiting toxicities observed. Additionally, initial human pharmacokinetic (PK) data appears to be similar to preclinical PK data. To date six patients have shown stable disease after three months on study. We expect to present interim data from this study at the American Society of Clinical Oncology Annual Meeting in June 2011 and complete the trial in the second half of 2011. Complete data is expected to be available in early 2012.

As we continue the Phase I trial of Atu027, we are concurrently working on preclinical development of other promising therapeutic candidates including Atu111, Atu134 and Atu195:

- Atu111 is the most novel of our preclinical programmes. Based on our proprietary DACC delivery system, we are developing Atu111 for the treatment of acute lung injury. Acute lung injury is often fatal and usually caused by pneumonia. Currently there is no other effective treatment in this US$8bn annual market. In 2011, we plan to explore opportunistic licensing options for the clinical development of Atu111;
- Atu134, like Atu027, is based on our proprietary AtuPlex delivery system. Atu134 targets CD-31, which is known to be expressed in certain solid tumours, but has proved difficult to target with traditional delivery approaches. We view Atu134 as an expansion of our AtuPlex franchise and we are evaluating the compound in preclinical testing as a potential treatment for solid tumours; and
- Atu195 represents the third programme in our AtuPlex franchise which we are also evaluating as a potential treatment for solid tumours.

Progress with partners

Silence's technologies were further validated in 2010 with the extension and expansion of our discovery and delivery partnerships as well as the advancement of several of our partnered development programmes through the clinic.

In March 2010, we expanded our siRNA delivery collaboration with Dainippon Sumitomo. Under this collaboration, entered into in August 2009, we are jointly leveraging Silence's proprietary siRNA molecules as well as delivery and targeting technologies to demonstrate functional delivery of RNAi therapeutics to specific disease targets in the body. Under the terms of the collaboration expansion signed in 2010, we will examine the efficacy of additional disease targets selected by Dainippon Sumitomo that were not originally specified under the initial collaboration signed in 2009. We see the expansion of this agreement as further validation of the potential value of our technologies.

In addition to our collaboration with Dainippon Sumitomo, we have two ongoing collaborations with AstraZeneca, which were initiated in June 2007 and March 2008. Both collaborations were extended this year.

In April 2010, Silence and AstraZeneca announced a one-year extension of our ongoing siRNA delivery collaboration. The purpose of this collaboration, which was originally established in March 2008, is to develop a range of novel approaches for the delivery of siRNA molecules.

In July 2010, we announced the continuation of our ongoing RNAi research and development collaboration with AstraZeneca. The collaboration was originally established in July 2007 for the purpose of developing and optimising five novel siRNA therapeutics addressing respiratory and oncology indications.

Chief Executive's review continued

> We made excellent progress in our Phase I clinical trial of Atu027 as a treatment for advanced solid tumours.

Operational continued

Progress with partners continued

The extension of both of our AstraZeneca collaborations this year provides further testimony to the value that the pharmaceutical industry assigns to Silence and its science.

In August 2010, our partner, Quark, announced the grant of an option to Novartis to obtain an exclusive worldwide licence to develop and commercialise QPI-1002, which incorporates Silence's AtuRNAi technology. In December 2010, we reached an agreement with Quark whereby Silence is due to receive milestone payments of up to US$1.5m in relation to the option agreement signed between Quark and Novartis for QPI-1002. Silence received US$0.63m of this milestone in early 2011. Future milestone payments to Silence relating to Quark's license agreement with Novartis could reach US$80m.

Quark is developing QPI-1002 for the prevention of acute kidney injury (AKI) in patients undergoing major cardiovascular surgery and for the prophylaxis of delayed graft function (DGF) in patients receiving deceased donor kidney transplants. Phase I studies in these patient populations have been successfully completed. In September 2010, Quark initiated a Phase II trial of QPI-1002 for the prophylaxis of DGF in patients receiving deceased donor kidney transplants. Quark plans to initiate dosing in a Phase II trial in AKI in 2011.

Additionally, in March 2011, Quark announced Phase II results of PF-4523655 from the 184 patient DEGAS study in diabetic macular oedema (DME). The trial demonstrated not only that the drug was safe and well tolerated but also showed efficacy benefits over laser treatment against which PF-4523655 was compared. However, advances in the treatment of diabetic macular oedema means Quark now plans to conduct a further Phase IIb trial comparing PF-4523655 against Lucentis, which was recently approved for the treatment of DME. This trial is due to start in 2011. Data from the DEGAS trial have not only confirmed the potential utility of RNAi therapeutics but, far more importantly for Silence, have reinforced claims about the safety of Silence's AtuRNAi technology. Results from a further Phase II study of PF-4523655 in age-related macular degeneration are expected during the course of 2011.

We are extremely pleased with the progress we have made with our existing collaborations in 2010 from both business and clinical development perspectives.

These collaborations, some of which focus on mid to late-stage clinical development programmes, demonstrate the advancements of the RNAi sector as a whole and ultimately bring value to the industry as well as our shareholders. We are pleased to be playing a leadership role in the sector's progress and expect this momentum to continue into 2011 and beyond.

Restructuring

Following the Intradigm acquisition, Silence announced in April 2010 a major restructuring to streamline the business. This resulted in a smaller, more focused operation headquartered in London with research & development activities in Berlin and business development activities in Redwood City, California. Over the last twelve months, it has become apparent that, for an organisation of approximately 40 employees, the geographical diversity of the Group creates considerable operational difficulties as well as increased operating costs. Therefore, the Board plans to close the Redwood City office as soon as practicable. In order to enable a smooth and orderly transition, I have agreed to remain in the role of Chief Executive Officer until an appropriate replacement has been recruited.

Strength through intellectual property

We continue to view intellectual property (IP) as one of the cornerstones of our business and our sector. In 2010, we executed a proactive strategy to continue to build and strengthen a diverse and competitive IP portfolio that provides us with a strong proprietary position in the RNAi therapeutics space and a meaningful competitive advantage with respect to peer companies.

Valuable disease targets and sequences

In 2010 and early 2011, we made progress in expanding IP around valuable disease targets and sequences that we believe will help drive the expansion of our RNAi therapeutics platform.

During 2010 and early 2011, the United States Patent and Trademark Office (USPTO) issued Silence a number of individual patents directed to double-stranded siRNA sequences against validated cancer targets including:

- PKN-3, a high-value therapeutic target in the area of oncology. Importantly, the patent claims related to PKN-3 cover siRNA molecules for treating cancer;
- vascular endothelial growth factor receptor 2 (VEGFR2). VEGFR2 has been demonstrated to play an important role in the vasculogenic and angiogenic activities that contribute to the development and progression of tumours associated with a broad range of cancers. The VEGFR2 patent also covered methods for reducing tumour growth;
- vascular endothelial growth factor receptor 1 (VEGFR1), which has been demonstrated to play a key role in the underlying causes of various cancers including abnormal angiogenesis and uncontrolled cell division. Similar to VEGFR2, VEGFR1 also is implicated in the development and progression of age-related macular degeneration (AMD) and other serious ocular diseases;
- epidermal growth factor receptor related protein (EGFR-RP), which has also been demonstrated to play a key role in the underlying causes of various cancers including abnormal angiogenesis and uncontrolled cell division; and
- vascular endothelial growth factor (VEGF), which, like the other targets above, has also been demonstrated to play an important role in the underlying causes of various cancers including abnormal angiogenesis and uncontrolled cell division.

By successfully securing IP around multiple high-value, validated cancer targets, Silence has taken a critical step in building a successful franchise in cancer-focused RNAi therapeutics.

Zamore Design Rules

Silence owns exclusive licences to three Zamore patent families from the University of Massachusetts Medical School (UMass), where Phillip D. Zamore, PhD, Howard Hughes Medical Institute Investigator, the Gretchen Stone Cook Chair of Biomedical Sciences, and Professor of Biochemistry & Molecular Pharmacology at University of Massachusetts Medical School, is the co-director of the RNA Therapeutics Institute.

These patent families disclose various efficacy-enhancing methods and structural elements for RNAi therapeutics, informally known as the Zamore Design Rules and based on Dr Zamore's work at UMass. There is a growing consensus within the industry regarding the important role of optimised siRNA structures for developing more potent next-generation RNAi therapeutics.

With exclusive access to the industry leading technology in this area, Silence continues to position itself as the partner of choice for pharmaceutical companies with interest in the RNAi space. In 2010, the USPTO issued the following critical patents related to the valuable Zamore Design Rules:

- a patent that generally claims methods of enhancing the RNA silencing activity of RNAi agents through certain structural modifications. The issued claims not only cover enhancing the efficacy of silencing gene expression using siRNA but also include specific claims directed to micro RNA (miRNA), pre-miRNA, and short hairpin RNA (shRNA);
- a patent that generally claims methods of producing double stranded RNAi agents having decreased off-target silencing activity through certain structural modifications. The ability to minimise the off-target effects of RNAi therapeutics is critical for controlling unwanted cellular activity and/or potential safety concerns. The issued claims not only cover minimising off-target gene expression silencing using siRNA but also include specific claims directed to miRNA; and
- a patent that generally claims methods of enhancing RNA silencing with a double stranded RNAi agent. The patent's RNA silencing method claims include coverage for the administering of a pharmaceutical composition containing siRNA, miRNA, pre-miRNA or shRNA molecules. Silence believes the proprietary structural modification techniques covered in this patent will play a key role in increasing the potential therapeutic efficacy of RNAi therapeutics.

During 2010, the USPTO received four anonymous requests for re-examination of the US issued Zamore Design Rules patents. The Company is working with UMass and its counsel in responding to these validity challenges. The patents remain valid during the re-examination process.

Chief Executive's review continued

> 2011 promises to be a year rich in data from RNAi clinical trials including our own Atu027 Phase I trial.

Operational continued

Zamore Design Rules continued

We strongly believe that the Zamore technology is invaluable for the development and commercialisation of RNAi therapeutics with enhanced efficacy. As we move toward the translation of RNAi candidates into medicines, we expect that our exclusive access to these Design Rules will trigger an increased interest in new partnerships from a number of companies working in this area.

AtuRNAi

Subsequent to the year end, we also announced the issuance of another US patent covering chemically modified RNAi molecules with defined positional modifications including siRNA molecules that are blunt ended, as well as molecules with one or more overhangs. This is a particularly important piece of IP as it broadens our protection of these RNAi molecules to those with a chemically modified core length between 17 and 29 nucleotides including the company's portfolio of 25mer siRNA sequences. This patented siRNA technology forms the foundation for our proprietary AtuRNAi technology, which is the basis of five ongoing clinical trials being conducted by Silence and our partners.

We believe that Silence will continue to make significant progress in these efforts and we expect additional RNAi patents to be issued in Japan, the US and Europe during 2011. Our comprehensive IP portfolio enables us to make groundbreaking advancements with our development programmes and technologies, moving us closer to producing treatment options for patients in need. At the same time, this growing patent estate has significant value to others in the RNAi therapeutics space and provides Silence with a key asset for pursuing collaborations and licensing deals.

Summary and outlook

2010 was a year of great progress for Silence and we look forward to continuing to build upon the momentum in 2011.

As we have previously announced, the value of our programmes and technologies caught the attention of key players in our industry in 2010 and we received a number of approaches to discuss potential strategic combinations. The management team and Board members carefully evaluated each opportunity. After completing a period of comprehensive review, we deemed that these approaches, while well intentioned, were not in the best interest of shareholders at this time. We continue to work toward building maximum value for our shareholders and will review all future opportunities on that basis.

As we look to the balance of 2011, we anticipate the achievement of multiple milestones, most notably, the reporting of interim data from our Phase I clinical trial of Atu027 throughout the year and completion of the trial in the second half of the year. In addition to Atu027, we will also continue to advance our portfolio of preclinical internal programmes with the goal of moving these into clinical trials. At the same time, we look forward to the continued advancement of our partnered programmes, including the potential for some to advance into pivotal Phase III studies. Finally, we expect to continue our successful IP strategy with the issuance of new patents in the US, Europe and Japan that cover a range of key RNAi technologies.

2011 promises to be a year rich in data from RNAi clinical trials. At Silence, we believe that this data will serve as the primary vehicle for continuing to build investor and industry confidence in RNAi's potential to change the future of medicine and bring much needed therapeutics to patients that currently have no treatment options. We believe that Silence will be at the forefront of this progress, leading the way for a new generation of medicine.

I would like to express my thanks to the employees of Silence Therapeutics and you, our shareholders, for your continued support and confidence in our company.

Philip Haworth PhD
Chief Executive Officer
26 April 2011

Finance review

In 2010, we successfully strengthened our financial position through a £15m fundraising.

Max Herrmann Chief Financial Officer

Group cash position:
£3.57m
(2009: £1.13m)

Revenues:
£2.37m
(2009: £1.72m)

Operating loss:
£8.66m
(2009: £7.55m)

Silence successfully strengthened its financial position in early 2010 through a fundraising that completed concurrently with the acquisition of Intradigm and that generated proceeds of £15.00m (gross). This funding provided cash resources that will support the Company's operations into the third quarter of 2011. This is without taking into account any milestone or other receipts that the Company believes it could receive in 2011.

Revenue
Revenue generated in the year increased to £2.37m in 2010 from £1.72m in 2009. Revenue recognised in the year related to income from Silence's collaborations with AstraZeneca, Dainippon Sumitomo, Quark and certain government grants.

The increase in revenue in 2010 primarily reflects the milestone due from Quark triggered by the option it gave to Novartis for QPI-1002.

Research and development expenses
Research and development expenses during the year increased to £5.82m in 2010 from £5.07m in 2009. The increase in research and development expense is attributed to the enlarged Group structure. On completion of the acquisition of Intradigm, Silence operated two R&D facilities: one in Berlin and one in Palo Alto, California. However, in April 2010 the Group took the decision, as part of the integration of Intradigm, to close the Palo Alto facility.

Administrative expenses
Administrative expenses during the year increased to £5.20m in 2010 from £4.20m in 2009. The increase in administrative expenses is again attributed to the enlarged Group structure in the first half of 2010 prior to the integration of Intradigm. As part of the closure of the Palo Alto facility described above, a small administrative operation was retained with operations moving to Redwood City, California in July 2010.

Financial income
Financial income was £0.10m in 2010 compared to £0.05m in 2009. This was despite higher cash balances during 2010 and reflects the continued low interest rate environment.

Taxation
Corporation tax payable in 2010 was £nil. In 2009, the corporation tax receivable of £0.04m reflected an adjustment in respect of prior years.

Liquidity, cash, cash equivalents and money market investments
The Group's cash position at year end was £3.57m. At the end of 2009, Silence had cash of £1.13m. A further £14.36m net of expenses was raised in January 2010 through an institutional placing of 22,724,295 shares at 23p.

The net cash outflow from operating activities in 2010 was £10.55m against an operating loss of £8.66m (2009: £7.55m) primarily reflecting the impact of changes in other working capital of £2.89m (2009: £1.61m) which were partially offset by non-cash items such as depreciation, amortisation and share option charges of £0.98m (2009: £1.03m).

Trade and other receivables at year end were £0.78m (2009: £0.56m). The increase reflects recognition of a milestone payment due from Quark, which was received in early January 2011. Trade and other payables were £1.69m at year end (2009: £2.10m). Trade and other payables were high at 31 December 2009 reflecting Intradigm deal costs incurred at the end of 2009 but not paid until early 2010.

Goodwill at year end was £28.35m (2009: £8.13m). The increase reflects goodwill on the acquisition of Intradigm in January 2010. As part of this acquisition Silence issued 79,640,668 shares to Intradigm shareholders. Other intangible assets at 31 December 2010 were £0.95m (2009: £0.74m). The increase in other intangible assets primarily reflects the inclusion of the Zamore Design Rules patents.

Max Herrmann
Chief Financial Officer
26 April 2011

Board of directors

Jerry Randall
Non-executive Chairman
Mr Randall is an entrepreneur with interests in a number of business areas. He was appointed Chairman of the Board in February 2010, following the resignation of Iain Ross. Until November 2009, 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 AIM, as well as raising private equity. Mr Randall is a qualified Chartered Accountant.

Dr Phil Haworth
Chief Executive Officer
Dr Haworth was appointed Chief Executive Officer of Silence Therapeutics in January 2010 following the Company's acquisition of Intradigm Corporation. Prior to this role, Dr Haworth served as CEO 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 board of Regenerative Medicine Assets Limited.

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

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

- David U'Prichard (Chairman)
- Annette Clancy
- David Mack

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

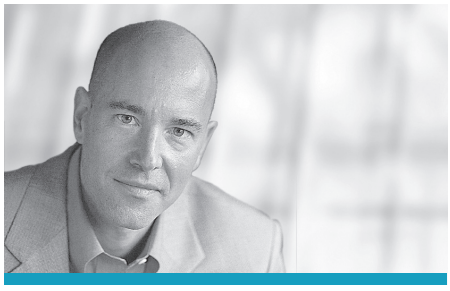
- Annette Clancy (Chairman)
- James Topper
- David U'Prichard
- David Mack
- Jerry Randall

Annette Clancy
Non-executive Director

Ms Clancy has had a distinguished career spanning 30 years with GlaxoSmithKline (GSK). She spent 15 years in business development at GSK and led their global transactions and alliance management teams during her last three years at GSK. During her tenure she and her team were 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 in the UK.

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 1999–2003. 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

The Directors present their report and the Financial Statements for the year ended 31 December 2010.

Principal activities

The Group carries out research and development of pharmaceutical products. In particular the Group is focused on the development of RNAi therapeutics which incorporates its structural chemistry and delivery technologies. The Group's lead product, Atu027, is currently in a Phase I clinical trial.

Review of the business and future developments

The Chairman's Statement on pages 4 and 5 provides details of the Group's progress during the year against all its performance targets. The Chief Executive's Review, on pages 6 to 10, describes the research and development activity during the year as well as outlining future planned developments. The product development pipeline is also shown on page 3 with a briefing on the Group's technology. Details of the financial performance, including comments on the cash position and research and development expenditure, are given in the Financial Review section on page 11. 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.

Health, safety and environment

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

Employees

The Directors are committed to continuing involvement and communication with employees on matters affecting both the employees and the Company. Management conducts regular all employee site meetings.

Subsequent events

A description of subsequent events is set out in Note 27 to the Financial Statements.

Results and dividends

The Group recorded a loss for the year before taxation of £8,795,274 (2009: £7,508,311). Further details are given in the preceding Financial Review. The Group is not yet in a position to pay a dividend (2009: £nil) and the loss for both periods has been added to the retained loss.

Financial and non-financial Key Performance Indicators (KPIs)

The Directors consider cash and research and development spend to be the Group's financial KPIs at the current stage of the Company's development. These are detailed in the Financial Review on page 11. The Directors consider that the most important non-financial KPIs relate to the number of drugs in development by stage of development and the number of pharmaceutical collaborations, both of which are detailed in the Chief Executive's Review on pages 6 to 10.

Directors

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

Chairman

J A P Randall	(appointed 27 February 2010)
I G Ross	(resigned 27 February 2010)

Executive Directors

P Haworth	(appointed 5 January 2010)
M Herrmann	(appointed 14 May 2010)
J M Davies	(resigned 27 February 2010)

Non-executive Directors

J L Curnock Cook	(resigned 5 January 2010)
A Clancy	
D Mack	(appointed 5 January 2010)
H R P Reynolds	(resigned 5 January 2010)
D C U'Prichard	
J Topper	(appointed 5 January 2010)
B O Wetzel	(resigned 5 January 2010)

The interests of the Directors in the share options of the Company are set out in Note 19 to the Financial Statements.

Substantial interests

At 31 December 2010 the Company had been informed of the following substantial interests of over 3% in the issued share capital of the Company:

	Number issued	Percentage of share capital
Frazier Healthcare Ventures	27,265,465	9.74
ACP Capital	25,356,422	9.06
Fidelity Investments	17,451,109	6.23
Lilly Ventures	16,747,951	5.98
Gartmore Investment Ltd	10,014,443	3.58
Neue Bank, Vaduz	9,873,270	3.53

Corporate governance

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

Committee structure

Remuneration Committee	A Clancy (Chair), J A P Randall, D C U'Prichard, D Mack and J Topper
Audit Committee	J A P Randall (Chair) and D C U'Prichard
Nominations and Governance Committee	D C U'Prichard (Chair), A Clancy and D Mack

Remuneration Committee

The Group has established a Remuneration Committee comprising of 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 auditor, KPMG Audit Plc, including the nature and extent of any non-audit services supplied by them to the Group.

Nominations and Governance Committee

The Nominations and Corporate Governance Committee is chaired by Dr D C U'Prichard. A Clancy and D Mack are also members of the committee. The Committee recommends to the Board appointment of new Directors, having applied objective criteria in making any nomination, to ensure the Board has a balance of relevant skills and experience. It also evaluates the structure, size and composition of the Board and recommends any changes to the membership of the Board it considers appropriate and assesses the independence of Non-executive Directors. The Nominations Committee met once during the year and the meeting was fully attended.

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 was a member of the BioIndustry Association (BIA) during 2010 and 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' report continued

Disclosure of information to auditor

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware and each Director has taken all the steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor

In accordance with Section 489 of the Companies Act 2006, a resolution for the re-appointment of KPMG Audit Plc as auditor of the Company is to be proposed at the forthcoming Annual General Meeting.

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. As required by the AIM Rules of the London Stock Exchange they are required to prepare the Group Financial Statements in accordance with IFRS as adopted by the EU (EU–IFRS) and applicable law and have elected to prepare the parent company Financial Statements on the same basis.

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

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

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

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

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

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.

Risk factors continued

Risks applicable to the biotechnology sector and the Group continued

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 talented employees in the biotechnology sector may lead to increased costs or decreased availability of staff. As a result, the Group may be unable to recruit or retain certain important employees. This could weaken the Group's scientific and management capabilities and could delay or halt the development of products and technologies.

Competition risk

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

Intellectual property risk

- Intellectual property issues from challenges by others or lack of protection for its own products may negatively impact the Group. Other companies may have or develop intellectual property that restricts the Group's freedom of use or imposes high additional costs to obtain licenses.
- The Group may be unable to successfully establish and protect its intellectual property which is significant to the Group's competitive position.
- The Group's intellectual property may become invalid or expire before its products are successfully commercialised.
- The Group may be unable to successfully protect its competitive position through the establishment and enforcement of intellectual property; the lack of sufficient intellectual property protection for the Group's technologies may have a material adverse effect on its commercial success. In particular, there can be no assurance that the Group's patent and other intellectual property applications will be granted, or that its granted intellectual property (including any granted in future further to those applications) are or will be valid or of sufficiently broad scope to provide commercially meaningful protection against third party competition. The Group's competitors may also have, or acquire in future, substantially equivalent technologies to those on which the Group does or will depend, or otherwise design around the Group's intellectual property.
- Other companies may have or acquire intellectual property that restricts the Group's freedom to operate or imposes high additional costs for the Group in obtaining licences, and there can be no assurance that the Group will be able to design around such intellectual property or obtain relevant licences on commercially acceptable terms, if at all.
- The Group may incur substantial costs in enforcing its intellectual property, and in bringing and prosecuting opposition or interference actions to seek to prevent third parties from obtaining patent or other protection. The Group may incur substantial costs in defending against such actions. There can be no guarantee that such actions will be successful for the Group.
- The patent landscape in the field of RNAi is complex, and the Group is aware of the issuance and the pendency of patents and patent applications in Europe, the US and in other jurisdictions that are owned by third parties and that purport to cover structurally defined classes of siRNAs and their uses. This patent landscape is in flux, with ongoing oppositions, litigations, and continuing prosecution before patent offices around the world, and the Directors cannot be certain that siRNA claims issued to third parties to date or in the future will not restrict the Group's freedom to operate.
- In addition, there are many issued and pending patents that claim various aspects of oligonucleotide chemistry that the Directors may need to apply to the Group's siRNA drug candidates. There are also many issued patents that claim genes or portions of genes that may be relevant for siRNA drugs we wish to develop. There are further many issued and pending patents that claim various aspects of nucleic acid delivery systems that the Directors may need to license in order to deliver the Group's siRNA drug candidates topically or systemically to the appropriate target tissues. Thus, it is possible that one or more third parties may hold, or later will hold, patent rights to which the Group will need a license. If those parties refuse to grant the Group a license to such patent rights on reasonable terms, the Group may not be able to perform research with or market products covered by these patents.
- The Group also relies on trade secrets, know-how and technology, which are not protected by patents, to maintain its competitive position. If any trade secret, know-how or other technology not protected by a patent were to be disclosed to or independently developed by a competitor, the Group's business and financial condition could be materially adversely affected.

Risk factors continued

Risks applicable to the biotechnology sector and the Group continued

Retention of key personnel

The Group's success is largely dependent on the personal efforts and abilities of the Group's existing senior management. The loss of key employees or advisers or the inability to attract or retain other qualified employees or advisers could have a material adverse effect on the Group's results, operations and financial condition.

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.
- The Group has operations in the UK, Germany and the US and, therefore, the Group will be exposed to risks associated with foreign currency exchange rates and fluctuation therein.

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

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.

During the year ended 31 December 2010, the Group's net cash outflow was £10.55m and at 31 December 2010 the Group had cash balances of £3.57m. Since the year end, the Group has continued to progress its research and development programmes, resulting in a net cash outflow of £0.91m, and at 31 March 2011 the Group's cash balances stood at £2.66m. The Group's cash flow forecasts, based on current levels of research and development expenditure, administrative costs and contracted cash inflows, show that the Group will require additional funding by Q3 2011. The Group does not have any overdraft or loan facilities.

The Group plans to raise £5.5m before expenses by placing shares with existing and new investors. In addition, it plans to raise up to a further £1.0m before expenses through an open offer. On 26 April 2011, commitments were received from certain investors to participate in the placing for an aggregate amount of £5.5m which has been fully underwritten by Singer Capital Markets Limited. Shareholder approval is needed for the placing and open offer and the Directors are confident this will be received. The Directors believe that existing cash resources together with the expected proceeds arising from the placing and open offer will provide sufficient funds for the Group to continue its research & development programme and to remain in operation for at least twelve months from the date of approval of these accounts.

In the event that the fundraising is not approved by the Company's shareholders, the Group will be reliant on obtaining further funds through grants, and milestone and licence fee payments from either existing or new agreements or from other finance sources. There is no guarantee that sufficient cash would be generated from these sources to enable the Group to continue to progress its research and development programme.

The outcome of the shareholder vote with respect to the placing and open offer is a material uncertainty that may cast significant doubt on the Group's and the Company's ability to continue as a going concern. The Group and Company may therefore be unable to continue realising its assets and discharging its liabilities in the normal course of business. The Financial Statements do not include any adjustments that might result were the basis of preparation inappropriate.

Political and charitable donations

The Group made no political or charitable donations during 2010 (2009: £nil).

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 received. Using the method set out in the Companies Act, the ratio for the Group of trade creditors at the year end to total costs was 22 days (2009: 45 days).

ON BEHALF OF THE BOARD

Jerry Randall
Chairman
26 April 2011

Independent auditor's report

to the members of Silence Therapeutics plc

We have audited the Financial Statements of Silence Therapeutics plc for the year ended 31 December 2010. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the parent company Financial Statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 16, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (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 Financial Statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2010 and of the Group's loss for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company Financial Statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006.

Emphasis of matter – going concern

In forming our opinion on the Financial Statements, which is not modified, we have considered the adequacy of the disclosure made in Note 2.3 to the Financial Statements concerning the Group's and the parent company's ability to continue as a going concern. In particular, the receipt of shareholder approval for the placing and open offer represents a material uncertainty that may cast significant doubt on the Group's and the parent company's ability to continue as a going concern. The Financial Statements do not include the adjustments that would result if the Group and the parent company were unable to continue as a going concern.

Opinion on other matter 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.

Richard Broadbelt
Senior Statutory Auditor
For and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
15 Canada Square
London E14 5GL
26 April 2011

Consolidated income statement

year ended 31 December 2010

	Notes	2010 £	2009 £
Revenue	3	**2,365,877**	1,723,289
Research and development costs		**(5,821,212)**	(5,073,333)
Gross loss		**(3,455,335)**	(3,350,044)
Administrative expenses		**(5,202,938)**	(4,204,371)
Operating loss	5, 6	**(8,658,273)**	(7,554,415)
Finance income	7	**95,343**	46,104
Finance expense		**(63,295)**	—
Loss on sale of assets		**(169,049)**	—
Loss before taxation		**(8,795,274)**	(7,508,311)
Taxation	8	**—**	37,714
Loss for the year attributable to owners of the parent company		**(8,795,274)**	(7,470,597)
Loss per share (basic and diluted)	9	**(3.16)p**	(5.55)p

The accompanying accounting policies and notes form an integral part of these Financial Statements.

Consolidated statement of comprehensive income

year ended 31 December 2010

	2010 £	2009 £
Loss for the year after taxation	**(8,795,274)**	(7,470,597)
Other comprehensive income:		
– exchange differences arising on consolidation of foreign operations	**151,696**	(410,482)
Total comprehensive income for the year attributable to owners of the parent company	**(8,643,578)**	(7,881,079)

The accompanying accounting policies and notes form an integral part of these Financial Statements.

Consolidated balance sheet

at 31 December 2010

	Notes	2010 £	2009 £
Non-current assets			
Property, plant and equipment	11	**287,613**	376,676
Goodwill	12	**28,346,276**	8,130,972
Other intangible assets	13	**945,391**	736,117
		29,579,280	9,243,765
Current assets			
Inventory		**27,438**	—
Trade and other receivables	15	**782,596**	560,190
Current tax assets		**—**	59,198
Cash and cash equivalents	16	**3,566,877**	1,131,146
		4,376,911	1,750,534
Current liabilities			
Trade and other payables	17	**1,686,516**	2,103,144
		1,686,516	2,103,144
Total assets less current liabilities		**32,269,675**	8,891,155
Net assets		**32,269,675**	8,891,155
Equity			
Share capital	19	**2,798,915**	1,350,334
Capital reserves	20	**80,269,278**	49,810,071
Translation reserve		**3,032,703**	2,881,007
Retained loss		**(53,831,221)**	(45,150,257)
Total equity		**32,269,675**	8,891,155

The Financial Statements were approved by the Board of Directors on 26 April 2011.

Max Herrmann
Chief Financial Officer

Company number
02992058

The accompanying accounting policies and notes form an integral part of these Financial Statements.

Consolidated statement of changes in equity

year ended 31 December 2010

	Share capital £	Capital reserves £	Translation reserve £	Retained loss £	Total equity £
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 period	—	—	—	(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 attributable to owners of the parent company	—	—	(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
Recognition of share-based payments	—	760,053	—	—	760,053
Transfer upon:					
– exercise of options in year	—	—	—	—	—
– lapse of vested options in year	—	(2,477)	—	2,477	—
– lapse of vested warrants in year	—	(111,833)	—	111,833	—
Shares issued in the year	1,448,581	29,813,464	—	—	31,262,045
Transactions with owners	1,448,581	30,459,207	—	114,310	32,022,098
Loss for the period	—	—	—	(8,795,274)	(8,795,274)
Other comprehensive income					
Exchange differences arising on consolidation of foreign operations	—	—	151,696	—	151,696
Total comprehensive income for the year attributable to owners of the parent company	**—**	**—**	**151,696**	**(8,795,274)**	**(8,643,578)**
At 31 December 2010	**2,798,915**	**80,269,278**	**3,032,703**	**(53,831,221)**	**32,269,675**

Company balance sheet

year ended 31 December 2010

	Notes	2010 £	2009 £
Non-current assets			
Investment in subsidiary undertakings	14	**50,615,307**	23,494,482
Current assets			
Trade and other receivables	15	**46,024**	91,236
Cash and cash equivalents	16	**2,283,300**	358,256
		2,329,324	449,492
Current liabilities			
Trade and other payables	17	**249,846**	1,185,705
		249,846	1,185,705
Total assets less current liabilities		**52,694,785**	22,758,269
Net assets		**52,694,785**	22,758,269
Equity			
Share capital	19	**2,798,915**	1,350,334
Capital reserves	20	**80,085,362**	49,626,155
Retained loss		**(30,189,492)**	(28,218,220)
Total equity		**52,694,785**	22,758,269

The Financial Statements were approved by the Board of Directors on 26 April 2011.

Max Herrmann
Chief Financial Officer

Company number
02992058

The accompanying accounting policies and notes form an integral part of these Financial Statements.

Company statement of changes in equity

year ended 31 December 2010

	Share capital £	Capital reserves £	Retained loss £	Total equity £
At 1 January 2009	1,199,134	46,826,498	(26,275,207)	21,750,425
Loss for the period	—	—	(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
Loss for the period	—	—	(2,083,105)	(2,083,105)
Recognition of share-based payments	—	760,053	—	760,053
Transfer upon:				
– exercise of options in year	—	—	—	—
– lapse of vested options in year	—	(2,477)	—	(2,477)
– lapse of vested warrants in year	—	(111,833)	111,833	—
Shares issued in the year	1,448,581	29,813,464	—	31,262,045
Movement in the year	1,448,581	30,459,207	(1,971,272)	29,936,516
At 31 December 2010	**2,798,915**	**80,085,362**	**(30,189,492)**	**52,694,785**

Cash flow statements

year ended 31 December 2010

	Group		Company	
	2010 £	2009 £	**2010 £**	2009 £
Cash flow from operating activities				
Loss before taxation	**(8,795,274)**	(7,508,311)	**(2,083,105)**	(2,313,382)
Adjustments for:				
– depreciation charges	**141,689**	150,293	**—**	—
– amortisation charges	**181,604**	220,658	**—**	—
– loss on sale of property, plant and equipment	**169,049**	19,577	**—**	—
– charge for the year in respect of share-based payments	**659,018**	661,704	**267,447**	318,027
– other non-cash flow movements	**—**	198,717	**—**	—
– reduction in impairment provision against loan to subsidiary	**—**	—	**(152,337)**	(140,667)
– finance income	**(95,343)**	(46,104)	**(124,866)**	(43,971)
– finance expense	**63,295**	—	**—**	—
	(7,675,962)	(6,303,466)	**(2,092,861)**	(2,179,993)
(Increase)/decrease in trade and other receivables	**(43,948)**	438,512	**45,213**	(25,489)
Increase in inventory	**(27,438)**	—	**—**	—
(Decrease)/increase in trade and other payables	**(2,819,261)**	1,168,543	**(935,859)**	1,038,931
Cash (absorbed) by operations	**(10,566,609)**	(4,696,411)	**(2,983,507)**	(1,166,551)
Taxation received	**59,198**	48,516	**—**	—
Interest paid	**(44,302)**	—	**—**	—
Net cash outflow from operating activities	**(10,551,713)**	(4,647,895)	**(2,983,507)**	(1,166,551)
Cash flow from investing activities				
Acquisition of business	**746,108**	—	**—**	—
Proceeds from sale of property, plant and equipment	**66,407**	—	**—**	—
Investment in subsidiary undertakings	**—**	—	**(5,554,405)**	(3,409,986)
(Increase)/reduction in loans to subsidiary undertakings	**—**	—	**(4,020,223)**	310,084
Interest received	**37,565**	46,104	**124,866**	43,971
Additions to property, plant and equipment	**(31,539)**	(36,648)	**—**	—
Additions to intangible assets	**(259,980)**	(188,494)	**—**	—
Net cash generated from/(used in) investing activities	**558,561**	(179,038)	**(9,449,762)**	(3,055,931)
Cash flow from financing activities				
Proceeds from issue of share capital	**14,358,313**	2,666,550	**14,358,313**	2,666,550
Repayment of notes payable	**(1,940,492)**	—	**—**	—
Net cash generated from financing activities	**12,417,821**	—	**14,358,313**	—
Increase/(decrease) in cash and cash equivalents	**2,424,669**	(2,160,383)	**1,925,044**	(1,555,932)
Cash and cash equivalents at start of year	**1,131,146**	3,350,187	**358,256**	1,914,188
Net increase/(decrease) in the year	**2,424,669**	(2,160,383)	**1,925,044**	(1,555,932)
Effect of exchange rate fluctuations on cash held	**11,062**	(58,658)	**—**	—
Cash and cash equivalents at end of year	**3,566,877**	1,131,146	**2,283,300**	358,256

Cash flow statements continued

year ended 31 December 2010

	Group		Company	
	2010 £	2009 £	**2010 £**	2009 £
Cash and cash equivalents includes:				
– instant access bank accounts	**3,566,877**	1,131,146	**2,283,300**	358,256
Supplementary disclosure of non-cash items:				
– issuance of share capital for merger acquisition	**—**	—	**16,903,732**	—
– share-based compensation issued as partial consideration for merger acquisition	**—**	—	**101,035**	—
– investment in subsidiary undertakings through issuance of share-based compensation	**—**	—	**391,571**	—
– reduction in investment through lapse of vested options	**—**	—	**2,477**	—

The accompanying accounting policies and notes form an integral part of these Financial Statements.

Notes to the financial statements

year ended 31 December 2010

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, a public limited company incorporated and domiciled in England, is the Group's ultimate parent company. The address of Silence's 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 investments in subsidiary companies, amounted to £2,083,105 (2009: £2,313,382).

2. Principal accounting policies

2.1 Basis of preparation

Both the parent company and the Group Financial Statements have been prepared in accordance with the Companies Act 2006 and International Financial Reporting Standards (IFRSs) as adopted by the EU under the historical cost convention. The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these consolidated Financial Statements. The accounts are prepared in Pounds Sterling and presented to the nearest pound.

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 2010)	Related Party Disclosures	1 January 2011
IFRIC 14 (amendment to)	Prepayments of a Minimum Funding Requirement	1 January 2011

* Not yet endorsed by the European Union.

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:

- IFRS 3 (revised) "Business Combinations and Consequential Amendments to IAS 27", "Consolidated and Separate Financial Statements" have been applied for the acquisition of Intradigm Corporation;
- IFRS 2 (amendment) "Share-based Payment". IFRS 2 (amendment) deals with vesting conditions and cancellations. The amendment does not have a material impact on the Group's Financial Statements;
- IAS 20 (amendment) "Government Grants and Disclosure of Government Assistance". The amendment does not have a material impact on the Group's Financial Statements; and
- IAS 32 (amendment) "Classification of Rights Issues". The amendment does not have a material impact on the Group's Financial Statements.

There are no other new standards likely to have an effect on the Financial Statements for the year ending 31 December 2010. Adoption of the above amendments has not had a significant impact on the Financial Statements. The impact of the adoption of IFRS 3 (revised) has been detailed in Note 2.4.

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 2010. Control is achieved where the Company has the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities. The parent company Financial Statements present information about the Company as a separate entity and not about its Group.

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. Principal accounting policies continued

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.

During the year ended 31 December 2010, the Group's net cash outflow was £10.55m and at 31 December 2010 the Group had cash balances of £3.57m. Since the year end, the Group has continued to progress its research and development programmes, resulting in a net cash outflow of £0.91m, and at 31 March 2011 the Group's cash balances stood at £2.66m. The Group's cash flow forecasts, based on current levels of research and development expenditure, administrative costs and contracted cash inflows, show that the Group will require additional funding by Q3 2011. The Group does not have any overdraft or loan facilities.

The Group plans to raise £5.5m before expenses by placing shares with existing and new investors. In addition, it plans to raise up to a further £1.0m before expenses through an open offer. On 26 April 2011, commitments were received from certain investors to participate in the placing for an aggregate amount of £5.5m which has been fully underwritten by Singer Capital Markets Limited. Shareholder approval is needed for the placing and open offer and the Directors are confident this will be received. The Directors believe that existing cash resources together with the expected proceeds arising from the placing and open offer will provide sufficient funds for the Group to continue its research & development programme and to remain in operation for at least twelve months from the date of approval of these accounts.

In the event that the fundraising is not approved by the Company's shareholders, the Group will be reliant on obtaining further funds through grants, and milestone and licence fee payments from either existing or new agreements or from other finance sources. There is no guarantee that sufficient cash would be generated from these sources to enable the Group to continue to progress its research and development programme.

The outcome of the shareholder vote with respect to the placing and open offer is a material uncertainty that may cast significant doubt on the Group's and the Company's ability to continue as a going concern. The Group and Company may therefore be unable to continue realising its assets and discharging its liabilities in the normal course of business. The Financial Statements do not include any adjustments that might result were the basis of preparation inappropriate.

2.4 Business combinations

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

Acquisitions on or after 1 January 2010

For acquisitions on or after 1 January 2010, the Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

On a transaction-by-transaction basis, the Group elects to measure non-controlling interests either at their fair value or at their proportionate interest in the recognised amount of the identifiable net assets of the acquiree at the acquisition date.

Acquisitions before 1 January 2010

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

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurred in connection with business combinations were capitalised as part of the cost of the acquisition.

Notes to the financial statements continued

year ended 31 December 2010

2. Principal accounting policies continued

2.5 Goodwill and other intangible assets

Goodwill

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

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

Other intangible assets

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

Other intangible assets that are acquired by the Group are stated at fair value less accumulated amortisation and less accumulated impairment losses.

Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life and goodwill are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

- patents and trademarks 10–15 years

2.6 Research and development

Expenditure on research activities is recognised in the income statement as an expense as incurred.

2.7 Revenue recognition

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

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

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

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

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

Government grants are dealt with as per Note 2.8 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.

2.8 Government grants

Government grants towards the cost of staff employed in research and development activities are recognised as revenue over the periods necessary to match them with the related costs. Grants amounting to £334,029 were recognised as revenue in the year ended 31 December 2010 (2009: £527,129).

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 2010 (2009: £nil).

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

2. Principal accounting policies continued

2.9 Foreign currency translation

Silence's consolidated Financial Statements are presented in Sterling (£), which is also the functional currency of the parent company. The individual Financial Statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency).

In preparing the Financial Statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the 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 average exchange rates for the period. Exchange differences arising, if any, are recognised in equity. Cumulative translation differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

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

2.10 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.

2.11 Property, plant and equipment

The Group holds no property assets.

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

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

2.12 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. Costs capitalised relate to patent prosecution expenses paid to third parties.

Amortisation is applied to write off the cost less residual value of the intangible assets on a straight-line basis over their estimated useful life. The principal rates used are 6.7% and 10.0% per annum. Amortisation is included within research and development costs.

Notes to the financial statements continued

year ended 31 December 2010

2. Principal accounting policies continued

2.12 Other intangible assets and research and development activities continued

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.

2.13 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 available 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.

2.14 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 which recognition and subsequent measurement is at amortised cost.

2.15 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.

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

2. Principal accounting policies continued

2.15 Financial instruments continued

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.

2.16 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.

2.17 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.

2.18 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. The value of the change is adjusted to reflect expected and actual levels of award vesting, except where failure to vest is as a result of not meeting a market condition. Cancellations of equity instruments are treated as an acceleration of the vesting period and any outstanding charge is recognised in full immediately. Fair value is measured using a binomial pricing model. The key assumptions used in the model have been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

2.19 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.

Notes to the financial statements continued

year ended 31 December 2010

2. Principal accounting policies continued

2.20 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.

2.21 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 2010 amounting to £5,821,212 (2009: £5,073,333). 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 on page 29, the accounts are drawn up on the going concern basis which assumes that the Group will be able to access sufficient funds to continue to operate for the foreseeable future. If the accounts were to be drawn up on the basis that this assumption was not valid then there could be material changes to the carrying values of both assets and liabilities.

The Group's main activities are carried out by subsidiary companies which are financed by ongoing investment by the parent company. These investments are carried in the books of the parent company at cost less provisions for impairment. The carrying value at 31 December 2010 is £50,615,307 (2009: £23,494,482). 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 £28,346,276 at 31 December 2010 (2009: £8,130,972). The movement in the year primarily relates to the purchase of Intradigm Corporation.

2. Principal accounting policies continued

2.21 Critical accounting judgements and key sources of estimation uncertainty continued

Other intangible assets have a carrying value at 31 December 2010 of £945,391 (2009: £736,117) and details of the movement in the year, the capitalisation and amortisation policy and the basis of the impairment review are set out in Note 13.

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

3. Revenue

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

	2010 £	2009 £
Europe	711,572	1,601,796
North America	655,513	—
Asia/Pacific	998,792	121,493
	2,365,877	1,723,289

Revenue is earned from milestones £407,628 (2009: £nil); license fees £1,624,220 (2009: £1,196,160); and grants £334,029 (2009: £527,129).

4. Segment reporting

For 2009 and 2010, the Group operated in two specific technology fields, that of RNAi therapeutics and 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 and as such of the Group's reportable segments.

Due to the nature of its licensing activities, the Group's revenues in any one year often derive from a small number of customers that change year by year. During 2010, £998,792 (or 42% of Group revenues) arose from a single customer with £533,037 (23%) coming from a second customer. During 2009, the comparative figures for those two customers were £74,338 (4%) and £763,900 (44%), respectively.

In 2010, non-current assets situated in the US and Germany were £20,897,053 (2009: £nil) and £8,682,227 (2009: £9,242,488), respectively. There were no non-current assets situated in the UK in 2010 (2009: £1,277).

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

Business segments

2010	RNAi Therapeutics £	Immunotherapy £	Group unallocated £	Consolidated data £
Revenue from external customers	2,365,877	—	—	2,365,877
Operating loss	(6,318,992)	(19,434)	(2,319,847)	(8,658,273)
Interest income	26,283	46,427	22,633	95,343
Interest expense	(61,231)	(94)	(1,970)	(63,295)
Segment (loss)/profit for the year before taxation	(6,522,990)	26,899	(2,299,183)	(8,795,274)
Segment assets	31,621,394	5,471	2,329,326	33,956,191
Segment liabilities	1,428,671	8,000	249,845	1,686,516
Costs to acquire property, plant and equipment	30,834	—	—	30,834
Costs to acquire intangible assets	259,980	—	—	259,980
Depreciation and amortisation	322,016	1,277	—	323,293
Income tax income	—	—	—	—
Charge for non-cash expenses: share-based payments charge	391,571	—	267,447	659,018
Segment non-current assets	29,579,280	—	—	29,579,280

Notes to the financial statements continued

year ended 31 December 2010

4. Segment reporting continued

Business segments continued

2009	RNAi Therapeutics £	Immunotherapy £	Group unallocated £	Consolidated data £
Revenue from external customers	1,422,289	301,000	—	1,723,289
Revenue from other operating segments	—	—	246,373	246,373
Operating (loss)/profit	(5,278,476)	205,598	(2,481,537)	(7,554,415)
Interest income	1,360	773	43,971	46,104
Segment (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
Segment non-current assets	9,242,488	1,277	—	9,243,765

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

5. Operating loss

This is stated after charging:

	2010 £	2009 £
Depreciation of property, plant and equipment	**141,689**	150,293
Amortisation of intangibles	**181,604**	220,658
Share-based payments charge	**659,018**	661,704
Auditor's remuneration:		
– Group audit fee – KPMG Audit Plc	**40,000**	—
– Group audit fee – Grant Thornton UK LLP	**—**	50,340
– audit of subsidiaries pursuant to legislation	**25,000**	12,000
– taxation	**11,000**	—
– other services pursuant to legislation	**2,500**	—
Operating lease payments on offices	**546,181**	295,756

Fees payable to auditors other than the auditor of the Company amounted to £nil (2009: £22,017).

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

6. Directors and staff costs

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

	2010 £	2009 £
Wages and salaries	**3,531,703**	2,561,158
Termination benefits	**867,676**	—
Social security costs	**638,555**	317,458
Charge in respect of share-based payments	**659,018**	661,704
Pension costs	**16,375**	17,500
	5,713,327	3,557,820

The average number of employees, including both Executive and Non-executive Directors, during the year was 49 (2009: 43).

Apart from the Directors, the average number of employees of the parent company was 1 (2009: 2).

6. Directors and staff costs continued

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

	Salary and fees[1]	Monetary value of benefits[2]	Termination pay	Total excluding pension	2010 Pensions	2009 Total excluding pensions	2009 Pensions
P Haworth	189,676	6,711	—	189,676	—	—	—
J A P Randall	55,000	—	—	55,000	—	30,000	—
M Herrmann	120,000	—	—	120,000	12,000	—	—
J M Davies[3]	147,403	1,147	148,958	297,508	4,375	141,257	17,500
A Clancy	30,000	—	—	30,000	—	30,000	—
D C U'Prichard	30,000	—	—	30,000	—	30,000	—
I G Ross[3]	135,000	—	120,200	255,200	—	240,000	—
J L Curnock Cook[4]	—	—	15,000	15,000	—	30,000	—
H R P Reynolds[4]	—	—	15,000	15,000	—	30,000	—
B O Wetzel[4]	—	—	15,000	15,000	—	30,000	—
	707,079	7,858	314,158	1,022,384	16,375	561,257	17,500

1 No bonuses will be paid to Directors in respect of the year ended 31 December 2010.

2 Executive Directors' benefits include private health insurance.

3 J L Curnock Cook, H R P Reynolds and B O Wetzel resigned as Directors of the Company with effect from 5 January 2010.

4 J M Davies and I G Ross resigned as Directors of the Company with effect from 27 February 2010.

Details of share options granted to Directors are detailed in Note 19.

Included in the amounts shown above are payments to third parties amounting to £nil for the services of certain Directors (2009: £120,000).

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:

	2010 £	2009 £
Bank interest receivable	**37,565**	46,104
Exchange differences	**57,778**	—
Total	**95,343**	46,104

8. Taxation

There was no tax charge in the year. The credit for the prior year is made up as follows:

	2010 £	2009 £
Corporate taxation on the results for the year:		
– UK	—	—
– non-UK	—	—
Adjustment in respect of prior years (UK)	—	37,714
Taxation credit for the year	—	37,714

Notes to the financial statements continued

year ended 31 December 2010

8. Taxation continued

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:

	2010 £	2009 £
Loss per accounts	**(8,795,274)**	(7,508,311)
Tax credit at the standard rate of UK corporation tax of 28% (2009: 28%)	**2,462,677**	2,102,327
Effect of overseas tax rate (Germany and US)	**430,853**	116,983
Impact of costs disallowable for tax purposes	**(489,261)**	(495,490)
Impact of income not taxable	**(50,117)**	41,578
Deferred tax in respect of temporary differences	**711**	181
Impact of unrelieved tax losses not recognised	**(2,354,863)**	(1,765,579)
Sub-total	**—**	—
Adjustment to that relief in respect of prior periods	**—**	37,714
Taxation credit for the year	**—**	37,714

Estimated tax losses of £72.3m (2009: £46.0m) 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 £24.75m (2009: £12.79m).

The rate of UK corporation tax is expected to be 26% in 2011 and will then reduce by 1% each year until it reaches 23%.

9. Loss per share

The calculation of the loss per share is based on the loss for the financial year after taxation of £8,795,274 (2009: £7,470,597) and on the weighted average of 278,303,966 (2009: 134,640,515) ordinary shares in issue during the year.

The options outstanding at 31 December 2010 and 31 December 2009 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. Business combinations

Acquisitions in the current period

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 £16,903,732. The fair value of each share was 21.225p, based on the average mid-price of the shares over the preceding 10 days. Additional consideration for the acquisition included 1,138,817 immediately vesting options, which were issued to executives of Intradigm Corporation on completion of the deal.

The total cost of acquisition includes the components stated below:

	£
Purchase price settled in shares	16,903,732
Value of options issued to Intradigm Corporation executives	101,035
Total cost of acquisition	17,004,767

10. Business combinations continued

Acquisitions in the current period continued

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

	Carrying amount £	Fair value £
Property, plant and equipment	265,744	265,744
Other intangible assets	—	162,622
Trade and other receivables	169,450	169,450
Cash and short-term deposits	746,108	746,108
Trade and other payables	(2,151,095)	(2,151,087)
Short-term borrowings	(1,876,407)	(1,876,407)
Deferred revenue	(423,142)	(423,142)
Fair value of net liabilities acquired		(3,106,712)
Goodwill arising on acquisition		20,111,479
		17,004,767

The carrying value of goodwill arising on acquisition reflects the position Intradigm Corporation occupies in the high profile field of RNAi therapeutics, the synergies expected to arise from the combination with the Company, already a leader in the field, and the strengthened management team resulting from the acquisition.

Reconciliation of goodwill

	£
Goodwill brought forward at 1 January 2010	8,130,972
Goodwill on acquisition	20,111,479
Translation adjustment	103,825
Total	28,346,276

If the acquisition had been completed on the first day of the financial year, no significant additional revenue and no significant operating loss would have been recognised in the Group results. The inclusion of Intradigm Corporation from 5 January 2010 to 31 December 2010 contributed £239,395 to revenues and £3,469,368 to the net loss of the Group.

Acquisition related costs

In 2010, the Group incurred acquisition related costs of £70,000 related to the merger with Intradigm Corporation (2009: £1,010,137). These costs have been included in administrative expenses in the Group's consolidated statement of comprehensive income.

Issue of shares in conjunction with the Intradigm Corporation acquisition

In conjunction with the acquisition of Intradigm Corporation, on 5 January 2010 the Company raised £14.36m in cash net of expenses. The fundraising was conducted by way of a placing and subscription of 65,217,392 new ordinary shares of 1p each at a price of 23p per share. The nominal value of these shares was £652,174.

Repayment of loan

On 4 June 2010, the Group repaid all amounts outstanding on its short-term loan with Silicon Valley Bank. The loan had been taken out by Intradigm Corporation prior to its acquisition by Silence Therapeutics and was due for repayment on 31 December 2010.

Notes to the financial statements continued

year ended 31 December 2010

11. Property, plant and equipment

Group	Equipment and furniture total £
Cost	
At 1 January 2009	4,085,886
Additions	36,648
Disposals	(181,616)
Translation adjustment	(222,242)
At 31 December 2009	3,718,676
Additions through business combinations	719,348
Additions	30,834
Disposals	(752,975)
Translation adjustment	(147,940)
At 31 December 2010	**3,567,943**
Depreciation	
At 1 January 2009	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
Acquisition of Intradigm	453,604
Charge for the year	141,689
Eliminated on disposal	(517,458)
Translation adjustment	(139,505)
At 31 December 2010	**3,280,330**
Net book value	
As at 31 December 2009	376,676
As at 31 December 2010	**287,613**

12. Goodwill

The carrying amount of goodwill is attributable to the acquisition of Silence Therapeutics AG in 2005 and Intradigm Corporation in 2010.

	2010 £	2009 £
Balance at start of year	**8,130,972**	8,611,087
Acquisition of Intradigm	**20,111,479**	—
Translation adjustment	**103,825**	(480,115)
Balance at end of year	**28,346,276**	8,130,972

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 to sell.

To arrive at fair value less costs to sell, the Directors have performed risk adjusted discounted cash flow analysis of the RNAi therapeutics business area, the cash-generating-unit that encompasses Silence Therapeutics AG and Intradigm Corporation. Based on the net present value of these discounted cash flows the Board considers there is no need to impair the carrying value of goodwill. The acquisition of Intradigm resulted in additional goodwill of £20,111,479 being recognised by the Group. The Directors believe that this amount of goodwill is supported by the future potential of the RNAi therapeutics business area as described above. The enlarged Group is one of the strongest players in the RNAi therapeutics arena. The Directors believe that significant synergies have been created by combining the strength of Silence's intellectual property in structural chemistry (AtuRNAi) with Intradigm's exclusive license to the Zamore Design Rules from University of Massachusetts. Therefore, the Group is now better placed to secure licensing revenue from pharmaceutical partners.

The recoverable amount of the RNAi therapy business has been calculated with reference to its value in use. The key assumptions of this calculation are shown below:

	2010
Period on which management approved forecasts are based	2022
Growth rate applied beyond approved forecast period	n/a
Discount rate	9%
Terminal valuation multiple (price/earnings)	15x
Probability of success of Phase I compound	10%
Probability of success of Phase II compound	20%

Management has used an approved forecast period of greater than five years because of the long-term nature of revenue streams from clinical development stage pharmaceutical drug candidates.

The terminal valuation used is based on the current average price/earnings ratio for profitable biotechnology companies.

The discount rate used is based on the current discount rate used by professionals to value publicly traded equities and corporate market-specific risk. Silence has applied industry standard attrition rates to risk adjust products in clinical development.

Sensitivity analysis has been conducted on both the discount rate and sales assumptions used to calculate net present value (NPV) of the RNAi therapeutics business area. A 25% reduction in sales estimates for all products in development still left an NPV in excess of the carrying value of the business area as did an increase in the discount rate used of 13%.

In prior years, the fair value less costs to sell methodology was applied by management to assess the carrying value of Group goodwill. This was based on the current share price at 31 December 2009 to calculate the market capitalisation of the Group.

Notes to the financial statements continued

year ended 31 December 2010

13. Other intangible assets

	Licences £	Internally generated patents and patent applications £	Total £
Cost			
At 1 January 2009	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
Additions acquired through business combinations	162,622	—	162,622
Additions	152,005	107,975	259,980
Translation adjustment	(113,640)	(47,260)	(160,900)
At 31 December 2010	**2,689,370**	**1,073,225**	**3,762,595**
Amortisation			
At 1 January 2009	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
Charge for the year	53,995	127,609	181,604
Translation adjustment	(112,892)	(16,284)	(129,176)
At 31 December 2010	**2,356,783**	**460,421**	**2,817,204**
Net book value			
As at 31 December 2009	72,703	663,414	736,117
As at 31 December 2010	**332,587**	**612,804**	**945,391**

The licences included above have finite useful lives estimated to be of 10–14 years from date of initial acquisition, over which period the assets are amortised. The Group's internally generated patent costs above represent expenses connected with filings for patent registration in respect of technology that has been developed by the Group for use in revenue generating activities. These costs are amortised on a straight-line basis over 10–14 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 impairment of definite lives intangible assets on a regular basis. If indicators of impairment exist, such as a change of use of the asset, a reduction in operating cash flow or a change in technology, the Company compares the discounted cash flows related to the asset to the carrying value of the asset. If the carrying value is greater than the discounted cash flow amount, an impairment charge is recorded for the amount necessary to reduce the carrying value of the asset to fair value. Fair value for the purpose of the impairment tests is determined based on current market value or discounted future cash flows. In determining the fair value, certain assumptions are made concerning, for example, estimated cash flow and growth of the Group's operations.

The Zamore intellectual property assets have been valued based on a risk-adjusted estimate of future discounted cash flows. At 31 December 2010 the Zamore intellectual property assets had a net book value of £299,680 (2009: £nil). Additional other intangible assets include intellectual property relating to AtuPlex and AtuRNAi technologies which are already subject of commercial licences. These technologies have been valued based on estimated future discounted cash flows and had a net book value of £645,711 (2009: £736,117). In 2010, there were no other intangible assets in the Company (2009: £nil).

14. Investments

Company	2010 £	2009 £
Investment in subsidiary undertakings	**50,615,307**	23,494,482

The investment in subsidiary undertakings is made up as follows:

	Investment at cost £	Impairment provision £	Net total £
Shares in subsidiary undertakings			
At 1 January 2009	19,319,714	(209,991)	19,109,723
Additions	3,746,635	4,514	3,751,149
At 31 December 2009	23,066,349	(205,477)	22,860,872
Additions	23,731,737	2,477	23,734,214
At 31 December 2010	**46,798,086**	**(203,000)**	**46,595,086**
Loans to subsidiary undertakings			
At 1 January 2009	23,499,549	(22,692,008)	807,541
Reductions	(310,084)	136,153	(173,931)
At 31 December 2009	23,189,465	(22,555,855)	633,610
Additions	3,236,753	149,858	3,386,611
At 31 December 2010	**26,426,218**	**(22,405,997)**	**4,020,221**
Total investment			
As at 31 December 2009	46,255,814	(22,761,332)	23,494,482
As at 31 December 2010	**73,224,304**	**(22,608,997)**	**50,615,307**

Shares in and loans to subsidiary undertakings at 31 December 2009 have been reclassified to reflect a loan amount of £124,393 previously treated as shares in subsidiary undertakings.

At 31 December 2010, a non-interest bearing unsecured loan of £22,405,997 from Silence Therapeutics plc to Stanford Rook Ltd was outstanding (2009: £22,555,855). A further subordinated 5% interest-bearing loan from Silence Therapeutics to Silence Therapeutics plc AG was outstanding (2009: £nil). Included in investments in subsidiary undertakings at 31 December 2009 was an unsecured loan of £633,610.

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%
Intradigm Corporation	USA	RNAi therapeutics	100%
Stanford Rook Ltd	England	Immunotherapy	100%
Innopeg Ltd	England	Not active	100%

The Company has made additional investments during the year in its operating subsidiaries Silence Therapeutics AG and Intradigm Corporation. 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 or Intradigm Corporation as the Directors believe that the fair value exceeds the cost of investment to date.

Notes to the financial statements continued

year ended 31 December 2010

15. Trade and other receivables

	Group 2010 £	Company 2010 £	Group 2009 £	Company 2009 £
Trade receivables	**597,952**	**—**	164,871	—
Other receivables	**96,732**	**18,102**	197,212	78,818
Prepayments	**87,912**	**27,922**	198,107	12,418
	782,596	**46,024**	560,190	91,236

The Directors consider that the carrying amount of trade and other receivables approximates to their fair value. Trade and other receivables were all payable within 90 days. Fair values have been calculated by discounting cash flows at prevailing interest rates. See also Note 25.

No interest is charged on outstanding trade receivables.

16. Cash and cash equivalents

	Group 2010 £	Company 2010 £	Group 2009 £	Company 2009 £
Cash at bank	**3,566,877**	**2,283,300**	1,131,146	358,256

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

Although the sums are in a short-term notice account, they are instantly available to the Group but only by breaking the terms of the deposit which may incur a minor loss of interest. During the year, the effective rate of interest in notice accounts was 0.75% per annum.

17. Trade and other payables

	Group 2010 £	Company 2010 £	Group 2009 £	Company 2009 £
Trade payables	**345,785**	**38,441**	626,315	522,500
Social security and other taxes	**8,644**	**8,644**	24,149	24,149
Deferred revenues	**556,105**	**—**	511,766	—
Accruals and other payables	**775,982**	**202,761**	940,914	625,192
Amounts due to Group companies	**—**	**—**	—	13,864
	1,686,516	**249,846**	2,103,144	1,185,705

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 25.

18. Deferred taxation

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

	2010 £	2009 £
Deferred tax liability:		
– in respect of intangible assets	**310,000**	214,000
Liability	**310,000**	214,000
Less: offset of deferred tax asset below	**(310,000)**	(214,000)
	—	—

18. Deferred taxation continued

	2010 £	2009 £
Deferred tax asset:		
– in respect of available tax losses	**23,620,000**	11,900,000
– in respect of share-based payments	**1,130,000**	890,000
Deferred tax asset	**24,750,000**	12,790,000
Less: offset against deferred tax liability	**(310,000)**	(214,000)
provision against asset	**(24,440,000)**	(12,576,000)
Asset	**—**	—

Due to the uncertainty of future profits, a deferred tax asset was not recognised at 31 December 2010 (2009: £nil).

19. Share capital

	2010 £	2009 £
Allotted, called up and fully paid		
279,891,452 (2009: 135,033,392) ordinary shares (par value 1p per share)	**2,798,915**	1,350,334

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

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

	£
Number of shares in issue at 1 January 2009	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
Shares issued during 2010:	
– issue of shares for cash at 23p per share	65,217,392
– issue of shares to acquire entire issued share capital of Intradigm at 21.225p per share	79,640,668
Total issued in year	144,858,060
Number of shares in issue at 31 December 2010	**279,891,452**

Notes to the financial statements continued

year ended 31 December 2010

19. Share capital continued

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 2010 there were options outstanding over 24,674,843 (2009: 20,585,547) unissued ordinary shares and no warrants outstanding (2009: 925,926) over unissued ordinary shares.

Details of the options outstanding are as follows:

Exercise date	Number	Exercise price
At any time up to 31 December 2011	213,560	21.23p
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	80,000	109p
At any time up to 26 July 2017	1,000,000	127p
At any time up to 14 December 2017	580,000	67.75p
At any time up to 6 May 2018	53,333	41.5p
Between 7 May 2011 and 6 May 2018	51,666	41.5p
At any time up to 25 September 2018	410,000	29.5p
Between 26 September 2011 and 25 September 2018	5,000	29.5p
At any time up to 4 December 2018	5,583,330	20p
Between 5 December 2011 and 4 December 2018	1,366,670	20p
At any time up to 4 January 2020	2,154,848	21.23p
Between 5 January 2011 and 4 January 2020	860,445	21.23p
Between 5 January 2012 and 4 January 2020	860,443	21.23p
Total	**24,674,843**	—

The options held by the Directors at the beginning and end of the year are as detailed on the next page. No Director exercised options during 2010.

19. Share capital continued

Director	At 1 January 2010	Lapsed in the year	At 31 December 2010	Exercise price	Latest date of exercise
I G Ross					
– Unapproved Scheme	500,000	—	**500,000**	27p	27/05/14
– Unapproved Scheme	4,000,000	—	**4,000,000**	23p	24/07/15
– Unapproved Scheme	400,000	—	**400,000**	43p	23/11/16
– Unapproved Scheme	1,100,000	—	**1,100,000**	20p	04/12/18
J M Davies					
– EMI Scheme	200,000	—	**200,000**	27p	28/05/14
– Unapproved Scheme	1,300,000	—	**1,300,000**	23p	24/07/15
– Unapproved Scheme	200,000	—	**200,000**	43p	23/11/16
– Unapproved Scheme	750,000	—	**750,000**	20p	04/12/18
– Unapproved Scheme	—	—	**300,000**	21.225p	04/01/20
J L Curnock Cook					
– Unapproved Scheme	250,000	—	**250,000**	23p	24/07/15
– Unapproved Scheme	350,000	—	**350,000**	20p	04/12/18
H R P Reynolds					
– Unapproved Scheme	200,000	—	**200,000**	27p	27/05/14
– Unapproved Scheme	250,000	—	**250,000**	23p	24/07/15
– Unapproved Scheme	350,000	—	**350,000**	20p	04/12/18
D C U'Prichard					
– Unapproved Scheme	250,000	—	**250,000**	23p	24/07/15
– Unapproved Scheme	350,000	—	**350,000**	20p	04/12/18
B O Wetzel					
– Unapproved Scheme	250,000	—	**250,000**	23p	24/07/15
– Unapproved Scheme	350,000	—	**350,000**	20p	04/12/18
A Clancy					
– Unapproved Scheme	200,000	—	**200,000**	29.5p	25/09/18
J A P Randall					
– Unapproved Scheme	200,000	—	**200,000**	29.5p	25/09/18
P Haworth					
– Unapproved Scheme	—	—	**1,325,000**	21.225p	04/01/20
Total	**11,450,000**	**—**	**13,075,000**	**—**	**—**

Upon the close of the merger with Intradigm, certain Silence Therapeutics Directors were asked to step down. As part of their separation letters, these Directors were made eligible under the plan to exercise their share options through to 31 December 2011.

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 7.79p per share (2009: 18.5p).

During the year, the minimum and maximum prices were 4.87p and 18.52p per share respectively.

At 31 December 2009, the Group had outstanding warrants over 925,926 shares that were convertible at 27p per share. All warrants lapsed unexercised on 24 July 2010.

Notes to the financial statements continued

year ended 31 December 2010

20. Capital reserves

Group	Share premium account £	Merger reserve £	Share-based payment reserve £	Total £
At 1 January 2009	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
On shares issued in the year:	14,347,826	16,107,325	—	30,455,151
– less costs of share issue	(641,687)	—	—	(641,687)
On options in issue during the year	—	—	760,053	760,053
On vested options lapsed during the year	—	—	(2,477)	(2,477)
On vested warrants lapsed during the year	—	—	(111,833)	(111,833)
Movement in the year	13,706,139	16,107,325	645,743	30,459,207
At 31 December 2010	**54,189,445**	**22,248,199**	**3,831,634**	**80,269,278**

Shares of 79,640,668 were issued during the year to acquire 100% ownership of Intradigm Corporation. The premium on the issuance of these shares has been added to the merger reserve in accordance with the Companies Act 2006.

Company	Share premium account £	Merger reserve £	Share-based payment reserve £	Total £
At 1 January 2009	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
On shares issued in the year:	14,347,826	16,107,325	—	30,455,151
– less costs of share issue	(641,687)	—	—	(641,687)
On options in issue during the year	—	—	760,053	760,053
On options exercised during the year	—	—	—	—
On vested options lapsed in the year	—	—	(2,477)	(2,477)
On vested warrants lapsed during the year	—	—	(111,833)	(111,833)
Movement in the year	13,706,139	16,107,325	645,743	30,459,207
At 31 December 2010	**54,189,445**	**22,064,283**	**3,831,634**	**80,085,362**

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

The share premium account reflects the premium to nominal value paid on issuing shares less costs relating to the issue.

The merger reserve was created on the issuance of shares relating to the acquisition of Silence Therapeutics AG.

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

21. 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 six months following the employee leaving the Group.

As part of the fee structure in respect of the acquisition of Silence Therapeutics AG and the subsequent fundraising in mid-2005, the Group issued warrants to its advisers which could be exercised at any time within five years from the date of issue. Most of those warrants have been converted into shares; see Note 19 on pages 45 to 47. The remaining warrants expired unexercised on 24 July 2010.

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

	2010		2009	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Options				
Outstanding at the beginning of the year	20,585,547	29.82p	22,058,911	31.69p
Granted during the year	4,089,296	21.225p	—	—
Lapsed during the year	—	—	1,353,364	61.67p
Exercised during the year	—	—	120,000	13.79p
Outstanding at the year end	24,674,843	28.40p	20,585,547	29.82p
Exercisable at the year end	21,530,619	29.47p	14,928,553	30.37p
Warrants				
Outstanding at the beginning of the year	925,926	27.00p	925,926	27.00p
Granted during the year	—	—	—	—
Lapsed during the year	925,926	27.00p	—	—
Exercised during the year	—	—	—	—
Outstanding at the year end	—	—	925,926	27.00p
Exercisable at the year end	—	—	925,926	27.00p

The options outstanding at the year end have a weighted average remaining contractual life of 6.4 years (2009: 7.0 years). The exercise price of the options outstanding at the year end range from 12.75p to 127p per share. 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. The remaining warrants expired unexercised on 24 July 2010 (see Note 20 on page 48).

The Group granted 4,089,296 options during the year. The fair values of options granted were calculated using a binomial model and the inputs into the model were as follows:

	2010	2009
Weighted average share price	18.75p	30.509p
Weighted average exercise price	21.225p	20.981p
Expected volatility	70%	85–115%
Risk-free rate	4.14%	3.05–4.48%
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 £659,018 (2009: £661,704) related to equity-settled share-based payment transactions during the year.

Notes to the financial statements continued

year ended 31 December 2010

22. Capital commitments

There were no capital commitments at 31 December 2010 or 31 December 2009.

23. Contingent liabilities

There were no contingent liabilities at 31 December 2010 or at 31 December 2009.

24. Commitments under operating leases

The Group has one operating lease in respect of the office in Redwood City, California, which ends in July 2011. At 31 December 2010, the Company did not have any operating lease commitments. There were no commitments under operating leases at 31 December 2009.

Group non-cancellable operating lease rentals are payable as follows:

	2010 £000	2009 £000
Less than one year	29,644	—
Between one and five years	—	—
More than five years	—	—

25. 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. The Group assesses counterparty risk on a regular basis. Board approval is required for adoption of any new financial instrument or counterparty. The primary focus of the treasury function is preservation of capital.

Financial assets by category

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

	Group 2010 £	Company 2010 £	Group 2009 £	Company 2009 £
Current assets				
Trade and other receivables	694,684	18,102	362,083	78,818
Cash and cash equivalents	3,566,877	2,283,300	1,131,146	358,256
Categorised as loans and receivables	4,261,561	2,301,402	1,493,229	437,074

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

Financial liabilities by category

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

	Group 2010 £	Company 2010 £	Group 2009 £	Company 2009 £
Current liabilities				
Trade and other payables	1,686,516	249,846	1,567,229	1,161,556
Categorised as financial liabilities measured at amortised cost	1,686,516	249,846	1,567,229	1,161,556

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

25. Financial instruments and risk management continued

Credit risk

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

	Group 2010 £	Company 2010 £	Group 2009 £	Company 2009 £
Loans and receivables	**782,596**	**46,024**	1,750,534	449,492

Capital management

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

Interest rate risk

The nature of the Group's activities and the basis of funding are such that the Group has significant liquid resources. The Group uses these resources to meet the cost of future research and development activities. Consequently, it seeks to minimise risk in the holding of its bank deposits while maintaining a reasonable rate of interest. The Group is not financially dependent on the income earned on these resources and therefore the risk of interest rate fluctuations is not significant to the business. Nonetheless, the Directors take steps to secure rates of interest which generate a return for the Group by depositing sums which are not required to meet the immediate needs of the Group in interest-bearing deposits. Other balances are held in interest-bearing, instant access accounts. All deposits are placed with main clearing banks to restrict both credit risk and liquidity risk. The deposits are placed for the short term, between one and 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 2010 £	Company 2010 £	Group 2009 £	Company 2009 £
Financial assets	**1,486,612**	**—**	1,141,216	—
Financial liabilities	**(674,104)**	**—**	(890,633)	—
Net financial assets	**812,508**	**—**	250,583	—

Financial assets and liabilities denominated in US Dollars and translated into Sterling at the closing rate were:

	Group 2010 £	Company 2010 £	Group 2009 £	Company 2009 £
Financial assets	**555,502**	**—**	—	—
Financial liabilities	**(754,567)**	**—**	—	—
Net financial assets	**(199,065)**	**—**	—	—

Notes to the financial statements continued

year ended 31 December 2010

25. Financial instruments and risk management continued

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

During 2010, the Sterling:Euro exchange rate remained broadly stable. During the year Sterling appreciated by 5% versus the Euro. The table shows the impact of a further strengthening or fall of Sterling against the Euro by 20%.

	2010 As reported £	If Sterling rose 20% £	If Sterling fell 20% £
Group result for the year	**(8,795,274)**	(8,286,336)	(9,558,680)
Euro denominated net financial assets	**812,508**	677,090	1,015,635
Total equity at 31 December 2010	**(32,269,675)**	(31,218,054)	(33,847,099)

	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

The table shows the impact of a further strengthening or fall of Sterling against the US Dollar by 20%.

	2010 As reported £	If Sterling rose 20% £	If Sterling fell 20% £
Group result for the year	**(8,795,274)**	(8,217,046)	(9,662,616)
USD denominated net financial assets	**(199,065)**	(165,887)	(248,831)
Total equity at 31 December 2010	**(32,269,675)**	(28,245,300)	(38,306,230)

There were no USD denominated financial assets in 2009.

26. Related party transactions

During the year the Company charged a management fee to its subsidiary companies Stanford Rook Limited amounting to £nil (2009: £15,251), Silence Therapeutics AG amounting to £100,581 (2009: £231,123) and Intradigm Corporation to £29,237. During the year, Intradigm Corporation charged the Company a management fee of £187,612 (2009: £nil). During the year, H R P Reynolds provided professional services to Silence Therapeutics of £60,000 in addition to his compensation as a Director.

Related party transactions were made on terms equivalent to those that prevail in arm's-length transactions. Full details of capital contributions and loans made during the year to the Company's subsidiaries can be found in Note 14.

27. Subsequent events

On 26 April 2011, commitments were secured from investors to complete a fundraising by way of a placing and open offer. The Company has agreed to raise £5.5m before expenses by placing 275,000,000 new ordinary shares at 2p with certain existing and new investors. The placing has been fully underwritten by Singer Capital Markets Limited. In addition, the Company is looking to raise up to an additional £1.0m before expenses through an open offer of up to 50,380,461 New Ordinary Shares. The fundraising is subject to shareholder approval. A circular will be sent to shareholders on 27 April 2011 and a general meeting has been set for 16 May 2011.

Company information and advisers

Secretary
Max Herrmann

Registered office
22 Melton Street
London NW1 2BW

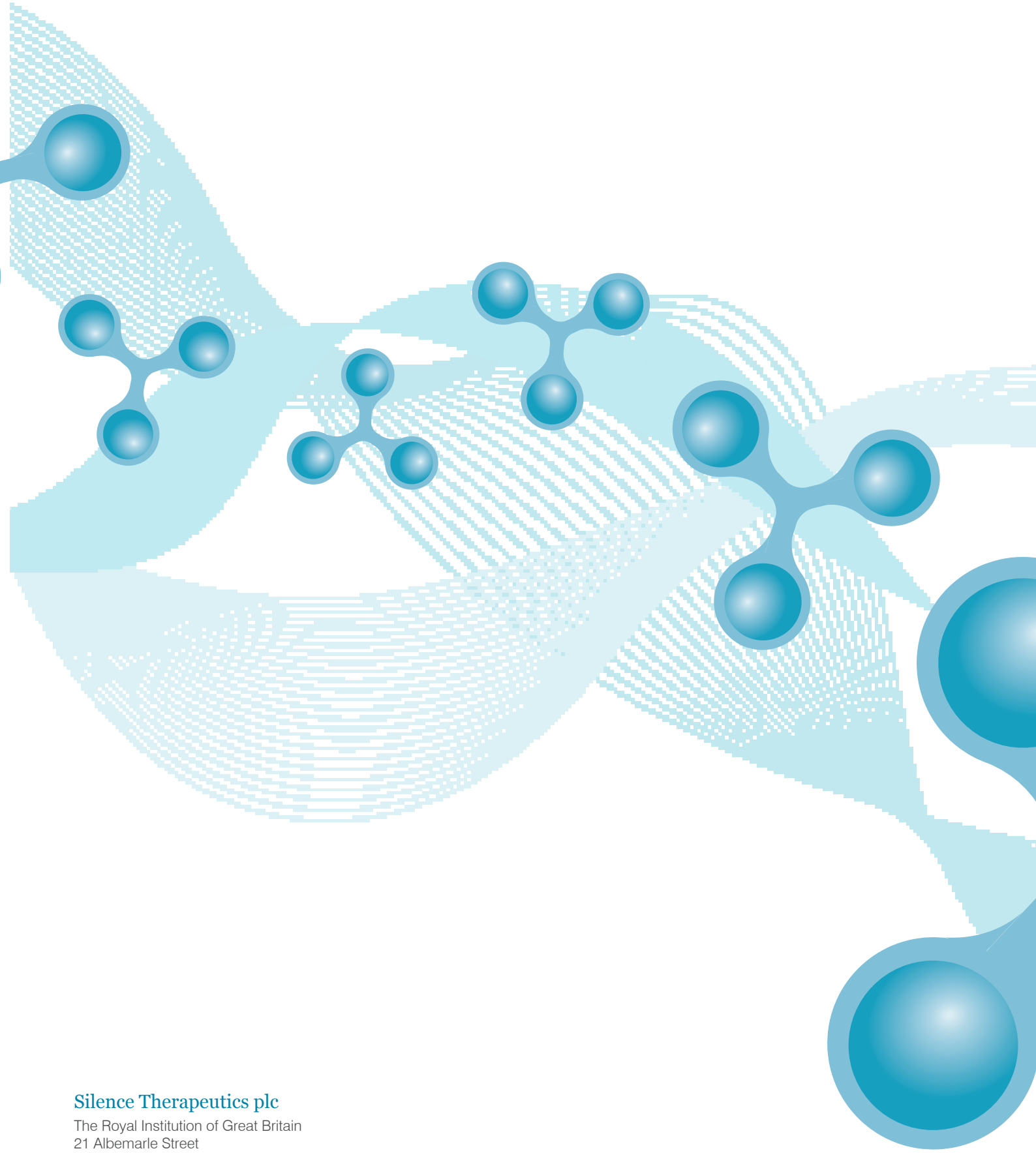
Registered number
2992058

Nominated advisers
Singer Capital Markets Ltd
1 Hanover Street
London W15 1YZ

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

Auditor
KPMG Audit Plc
15 Canada Square
London E14 5GL

designed and produced by
the design portfolio
marketing services.
www.design-portfolio.co.uk



Silence Therapeutics plc

The Royal Institution of Great Britain
21 Albemarle Street
London W1S 4BS

Tel: +44 (0) 20 7491 6520
Fax: +44 (0) 20 7491 6521
Email: mail@silence-therapeutics.com

www.silence-therapeutics.com