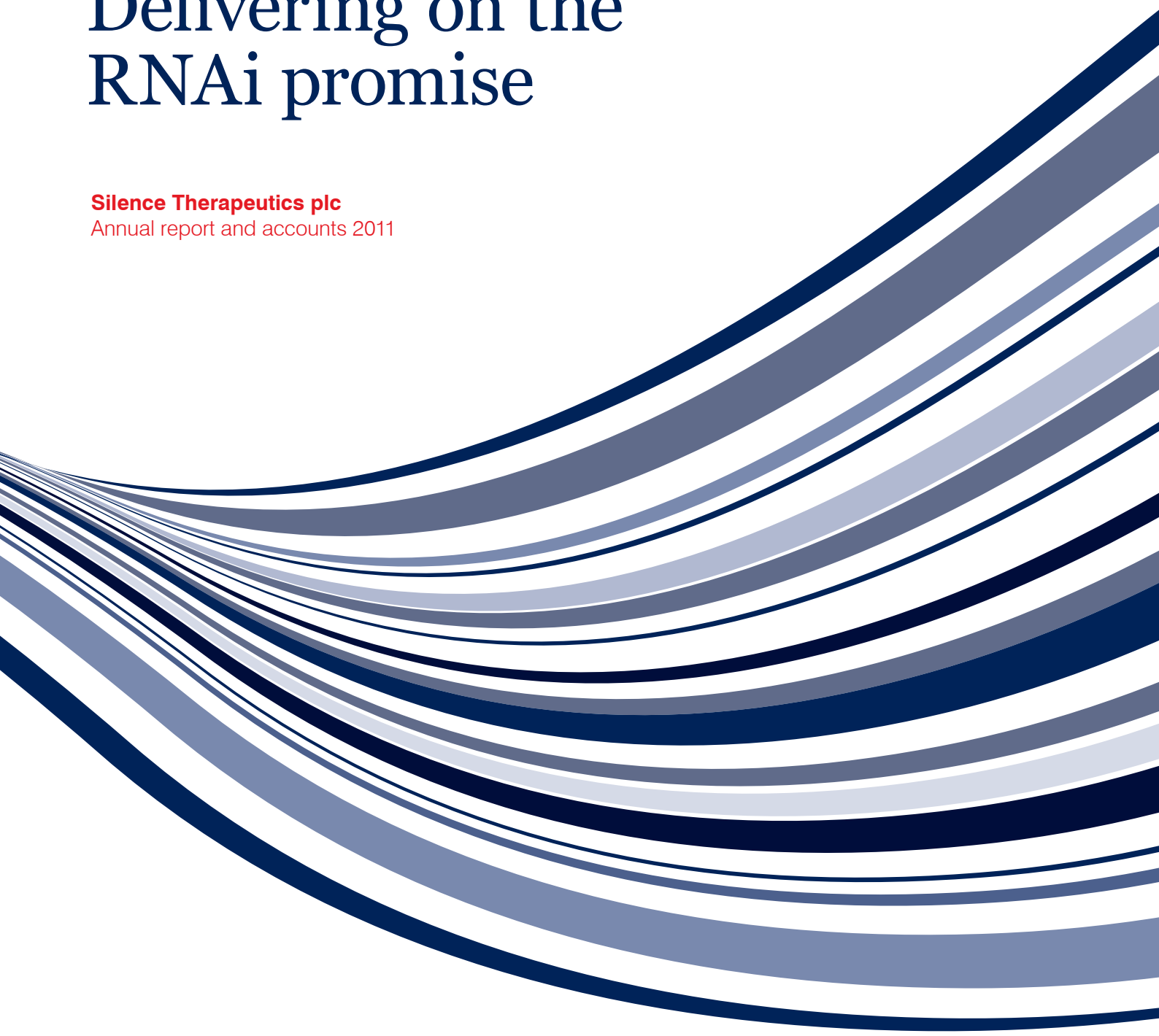
Delivering on the RNAi promise

Silence Therapeutics plc
Annual report and accounts 2011



SILENCE
THERAPEUTICS

Highlights of 2011

Operational

- **Impressive interim data from Phase I trials of Atu027,** our lead programme in metastatic cancer, were presented at the prestigious American Society of Clinical Oncology conference in June 2011. The data showed disease stabilisation and other indications of potential efficacy. Atu027 remains one of the most advanced RNAi therapeutics candidates in cancer.
- **Silence's leadership position in RNAi delivery validated by three new partnerships including deals** with a top ten pharmaceutical company, InteRNA Technologies and miRNA Therapeutics. These agreements covered all three of our proprietary delivery technologies and two were for the delivery of a new form of RNA therapeutic (microRNA), showing the versatility of our portfolio.
- **Positive clinical data from our partners** Quark Pharmaceuticals and Pfizer announced that their Phase II trial of PF-04523655 in diabetic macular oedema showed it to be more effective than laser therapy. Quark has now initiated a Phase IIb trial. This compound is based on Silence's AtuRNAi technology.
- **Silence streamlined and reorganised its operations** to increase efficiency and reduce cash spend. As part of this, the facility in Redwood City, California was closed. In addition, headcount in some non-critical roles was reduced in Berlin and the Non-executive Board membership reduced.
- **Enhanced commercial focus** and strengthened business development team at Silence with the appointment of Georg Buchner as VP Business Development, focused on partnering our assets and accessing non-dilutive sources of finance.
- **Silence possesses one of the world's most comprehensive RNAi intellectual property portfolios** which was further strengthened in 2011 with the issuance of patents in Japan and the US.
- **In May 2011, Silence raised £5.51m net of expenses** to fund the development of the pipeline and investment in the RNAi technology platform. Combined with the impact of the restructuring, the cash runway extends to the end of Q3 2012.

Financial

Revenue:
(2010: £2.37m)

£0.69m

Research and development costs:
(2010: £5.82m)

£3.36m

Administrative expenses:
(2010: £5.20m)

£3.12m

Cash position at year end:
(2010: £3.57m)

£3.69m

Post year end events

- **Dr Tony Sedgwick was promoted to Chief Executive Officer** in February 2012.
- **Deal announced with miRagen Therapeutics** in January 2012 for the delivery of microRNAs using the DBTC liver delivery system, Silence's second deal on DBTC and third for microRNAs.
- **Creation of a Scientific Advisory Board** with two Key Opinion Leaders in the area of liver disease.

visit us online at
www.silence-therapeutics.com

About us

Silence Therapeutics is a global leader in the discovery, development and delivery of novel 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.

To find out more about how RNAi therapeutics work, visit **www.silence-therapeutics.com**

Leveraging our broad RNAi platform

Silence now possesses one of the most comprehensive platforms in RNAi therapeutic development, spanning delivery, sequences and structural features. We are executing a two-pronged strategy to best leverage this platform and our development expertise towards the creation of corporate and shareholder value.

Our process

Partnerships with nine other companies

Silence's RNAi therapeutic platform has received key validation through multiple partnerships with several major pharmaceutical companies.

read more
turn to page 2

Our progress

An impressive pipeline of products

Silence has successfully progressed the development of its proprietary drug candidates and built further foundations to support the Company's future growth.

read more
turn to page 5

Our process

A key component of Silence's business strategy is the establishment of additional high-value partnerships with the leading pharmaceutical and bio technology companies.

Partnership landscape

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

During 2011, Silence announced that it had entered into an agreement with InteRNA Technologies B.V., Mirna Therapeutics Inc. and a top ten pharmaceutical company.

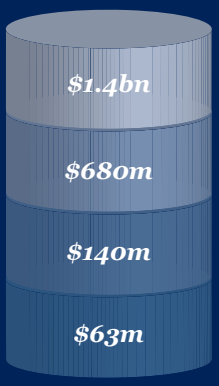
More than 26 RNAi-related transactions with total value of more than $2.4bn have been completed since January 2010.

Kyowa Hakko Kirin licence from Dicerna Pharmaceuticals, Inc.

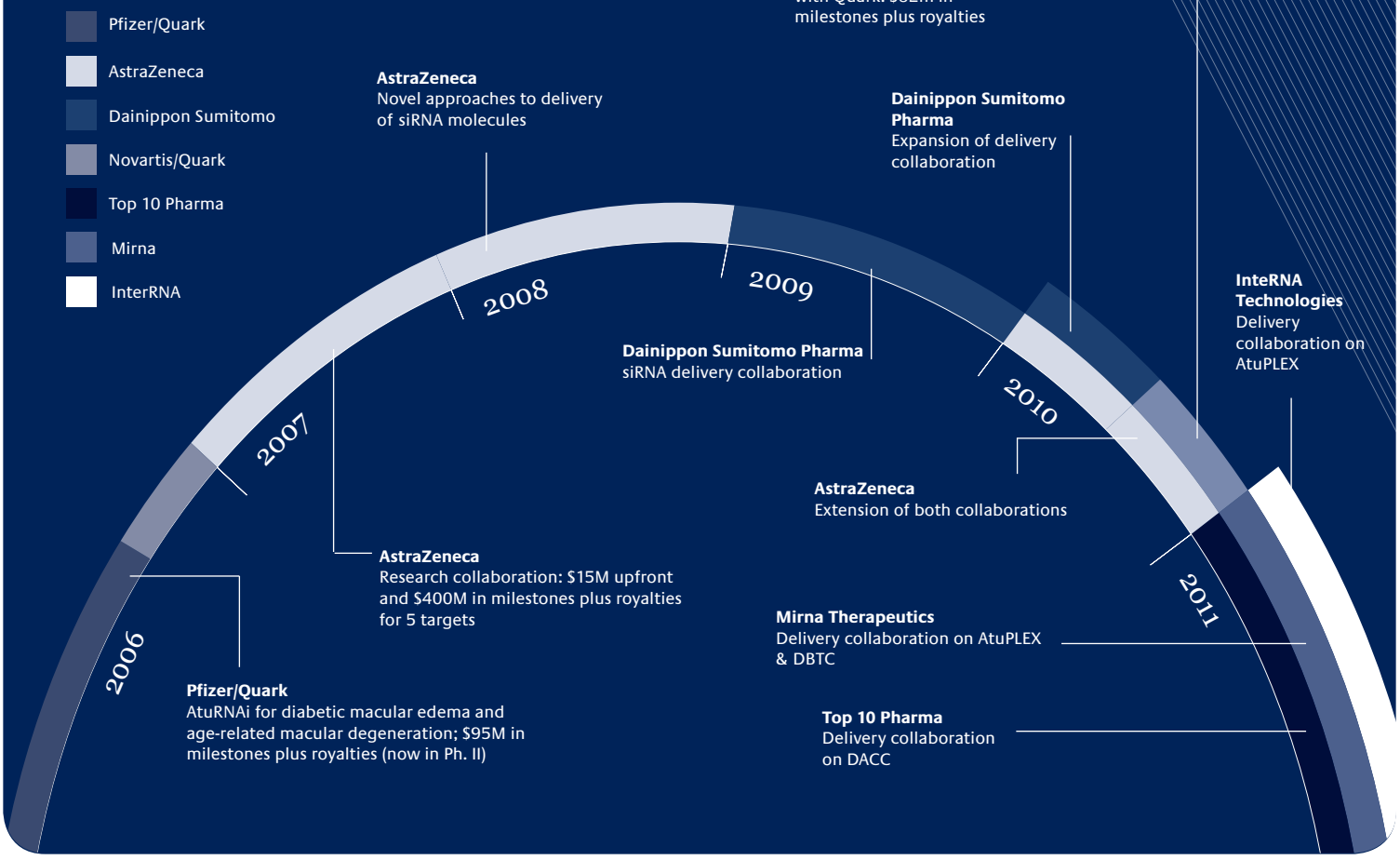
Novartis option & licence of QPI-1002 from Quark

US Department of Defense deal with Tekmira Corp. for Ebola treatment

Mirna Therapeutics licencing deal with Marina Biotech, Inc.



Our partnerships to date



Chairman's statement

"Our strong portfolio of intellectual property and delivery technologies makes us a partner of choice for companies active in RNA therapeutics."

Jerry Randall ACA Chairman

Silence Therapeutics is a leading RNAi therapeutics product and technology platform company with proprietary delivery systems. We have created two powerful platforms and a strong pipeline to exploit our impressive technological know-how and IP.

Despite the difficult economic times and capital market turmoil, with your support, in 2011 we were able to announce positive progress in our internal clinical programme, refinance and streamline the business, as well as sign further collaborative agreements covering our RNAi delivery technologies.

We believe that our achievements throughout the year validate the Board's decision to focus on building an independent and high value RNAi therapeutics company. Indeed, industry commentators believe that the field of oligonucleotide therapeutics, of which RNAi is a part, may be the third major drug development platform after small molecules and monoclonal antibodies.

When we reported to you in our 2010 Annual Report, we predicted that 2011 would be a year rich in data from RNAi clinical trials, both from Silence Therapeutics and other companies in this therapeutic area. This has proved to be the case, with encouraging interim Phase I data from our lead product, Atu027 for metastatic cancer, which we were pleased to be able to present at the prestigious annual American Society of Clinical Oncology ('ASCO') meeting in June 2011. We believe it to be one of the most interesting and potentially promising RNAi therapeutics in clinical development.

During the year, our partner, Quark Pharmaceuticals, also presented positive Phase II data with PF-04523655, which incorporates our AtuRNAi technology, in the area of diabetic macular oedema.

Silence Therapeutics' RNAi therapeutic platform, comprising our delivery technologies, siRNA sequences and structural features, has been validated by nine partnerships (some of these via our licensee Quark Pharmaceuticals). In 2011 alone, we were pleased to add three new deals, including delivery deals with InteRNA Technologies, miRNA Therapeutics and a top ten pharmaceutical company. As a result, we now have links to four of the world's leading pharmaceutical firms.

Assuming these collaborations continue to proceed successfully, we believe that associated milestone payments represent a significant potential revenue stream to Silence Therapeutics in the coming years.

Other achievements for Silence Therapeutics in 2011 included a fundraising, which has extended existing funding until the end of the third quarter of 2012, streamlining of the business, and a significant strengthening of the business development and management team. The latter two, we believe, represent an appropriate response to our developing pipeline, expanding portfolio of high-quality delivery technologies, and re-focused business approach. Assuming that our pipeline continues to progress, Silence will be seeking deals with partners to further its development. In addition, we believe that our strong portfolio of intellectual property and delivery technologies makes us a partner of choice for companies active in RNA therapeutics, and we will continue to build this important non-dilutive source of income. As with many other approaches in the medical field, delivery of the active RNAi therapeutic is the rate-limiting step and so we consider our suite of delivery technologies an important asset for us and our partners.

The evolution of the Company since the beginning of 2011 has resulted in some personnel changes, with Dr Tony Sedgwick recently appointed Chief Executive Officer and Dr Georg Buchner joining as Vice-President of Business Development. On behalf of the Board I would like to thank Dr Phil Haworth, Dr David U'Prichard and Dr James Topper, all of whom stood down during or at the end of 2011, for their contributions to the Company as Chief Executive Officer and Non-executive Directors respectively. David U'Prichard in particular has been with the business for almost eight years. Our thanks are also due to Thomas Christély who initially replaced Dr Phil Haworth and has recently left the Company to be succeeded by our new and commercially driven Chief Executive Officer, Dr Tony Sedgwick. Tony comes with a strong background in the commercial biotech environment, and has been successfully involved in developing biotech businesses and delivering value to shareholders.

Chairman's statement continued

"We believe we have the industry's broadest siRNA clinical pipeline and we look forward to further clinical advances in 2012."

Clinical data emphasises potential of RNAi therapeutics

With five of the estimated 13 clinical programmes ongoing worldwide using Silence Therapeutics' AtuRNAi technology, and having treated in excess of 300 patients, we believe we have the industry's broadest siRNA clinical pipeline. Looking elsewhere in the RNAi sector in 2011, we were pleased to observe encouraging clinical data from other players, which underlines the potential of the approach. Many of those working in this field share our view that the range of clinical results announced in 2011 represent a significant derisking of RNAi technology and we look forward to further clinical advances in 2012.

The significant progress that Silence Therapeutics made in 2011 was achieved against a backdrop of a restructuring and consolidating pharmaceutical sector, restricted access to capital for small and innovative companies and turbulent, risk-averse financial markets. That we were able to raise £5.51m (net of costs) under these conditions is a testament to the potential of the Company and the confidence placed in us by our shareholders, and many thanks are due to you for this. I am as disappointed as you are that our increasing maturity is not yet reflected in Silence Therapeutics' share price and believe that our new focused approach, coupled with the newsflow and advances we expect to announce in 2012, will go a considerable way to building shareholder value and enhancing our share price.

At Silence Therapeutics, the Directors consider our key performance indicators ('KPIs') an important way for us and you to monitor our progress. Our financial and non-financial KPIs are listed below, and are, we believe, appropriate for a biotechnology company at this stage of development.

KPIs at Silence Therapeutics

Financial KPIs

- Cash position in relation to cash flows
- Expenditure on research and development activities

Non-financial KPIs

- Number of drugs in development by stage of development
- Number of pharmaceutical collaborations
- Development milestones reached
- Signature of research collaborations and licences to bring in both development partners and revenue

The performance of Silence Therapeutics versus these KPIs is discussed in my report as well as in the Chief Executive's statement on pages 6 to 12 and the Financial Review on page 13. Since there are a number of potential risks and uncertainties that could have a material impact on the Group's performance – including clinical and regulatory risk, competition and intellectual property risk, and economic, financial and counterparty risk – I should also draw your attention to the Directors' statement on these matters on pages 14 to 21.

Silence Therapeutics is proud of its RNAi therapeutic platform, comprising proprietary delivery technologies, potent siRNA sequences and innovative RNAi structural features. We believe that our progress in 2011 shows the synergistic value of these assets and we look forward to updating you on further advances in the clinic and other areas delivered via our new and focused management team throughout 2012.

Thank you for your continued support of Silence Therapeutics.

Jerry Randall ACA
Chairman
27 March 2012

Our progress in 2011

Silence is a leader in the development of clinical-stage RNAi therapeutics, having developed a broad pipeline of internal and partnered product candidates.

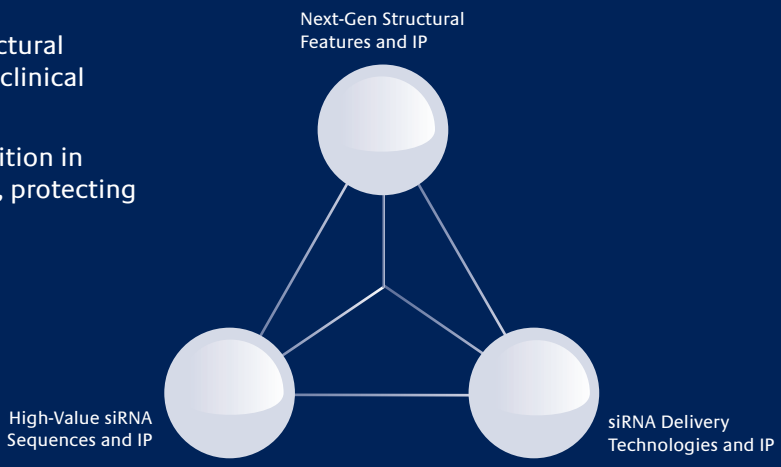
Almost half of the siRNA programmes currently in clinical trials are based on Silence's technology.

Delivery from sequence to clinic

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

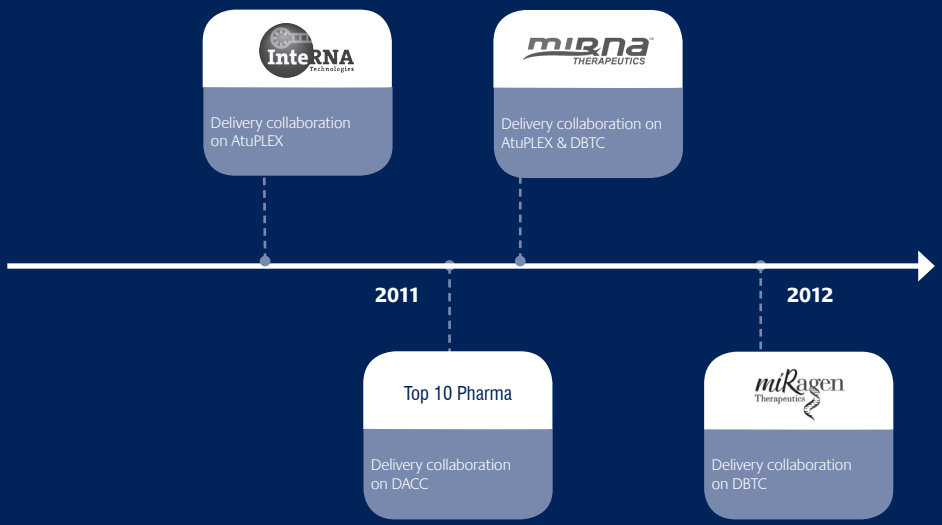
Silence holds a powerful and strategic position in each of the three areas critical to building, protecting and commercialising RNAi therapeutics:

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



Deals since 2011

Silence has announced four deals since January 2011 to leverage its growing portfolio of RNAi delivery capabilities, particularly in the area of MicroRNAs.



To read more about our pipeline, turn to page 9

Chief Executive's review

"We have worked hard on building the financial future of the business, improving its efficiency and strengthening its commercial activities."

Tony Sedgwick Chief Executive Officer

Overview

Since joining Silence Therapeutics in September 2011, I have been excited by the Company and the opportunities that lie ahead. As a consequence, I was pleased to take over as Chief Executive Officer in February 2012, as I believe we have a unique proprietary position in RNAi therapeutics and their delivery. Over the next few years, I intend to increase the commercial focus of the Company, harness the RNAi therapeutics opportunity and, as a result, create substantial shareholder value.

2011 has been an exciting year for Silence Therapeutics, with progress across all areas of the business. We started this year looking forward to clinical data to validate both the therapeutic benefit to be obtained by RNA interference (RNAi or siRNA), as well as our proprietary delivery technologies. I am pleased to report that our Company has delivered on this expectation, in both our proprietary and partnered programmes.

We have also worked hard on building the financial future of the business, improving its efficiency and strengthening its commercial activities, all of which is discussed below. Silence Therapeutics is proud of its RNAi therapeutic platform, comprising proprietary delivery technologies, potent siRNA sequences and innovative RNAi structural features. We believe that our progress in 2011 shows the synergistic value of these propositions.

Encouraging clinical data

Silence Therapeutics is prominent in an exciting new sector in the drug development arena, the translation of RNA blocking (RNAi) technology into therapies. Since we, and others active in this area, believe that the technology has potential in a broad range of clinical indications – including oncology, vascular, metabolic and ophthalmic diseases – it brings the potential for better patient outcomes in these major therapeutic areas. One of the first steps in demonstrating this potential is the generation of data from clinical studies conducted with RNAi therapeutics.

In June 2011, Silence presented encouraging interim data from its ongoing Phase I trial of proprietary product Atu027 in patients with solid tumours at the prestigious annual meeting of the American Society of Clinical Oncology (ASCO). We believe that these important findings serve as valuable validation for Silence's RNAi technology platform, as well as its AtuPLEX™ delivery technology. This should stand the Company, with its increased business development focus, in good stead as we work on partnering our programmes and exploiting our valuable RNAi delivery intellectual property estate.

To summarise, Silence Therapeutics made progress in several key areas in 2011, which we discuss in more detail below. These include:

- clinical trial progress for both our proprietary and partnered programmes;
- three new delivery deals, with further progress in established programmes;
- sharpening of our business development focus with important new top-level hires;
- refinancing and restructuring of the organisation; and
- further development and recognition of Silence's intellectual property portfolio, particularly in the area of RNAi delivery.

Operational

Clinical trial progress for both our proprietary and partnered programmes

Clinical trial data is key to establishing the potential of RNAi therapeutics and we are pleased that it generated significant excitement this year both for Silence and its partners.

Proprietary programmes

Atu027, Silence Therapeutics' lead programme for cancer

In 2011, we were able to report impressive interim results from the Phase I ascending dose clinical trial of our lead programme, cancer treatment Atu027 for solid tumours. Atu027 incorporates our AtuPLEX delivery system with AtuRNAi, our proprietary RNAi chemistry, and specifically targets PKN3, a protein implicated in cancer growth and metastases.

These results were presented at ASCO and showed stabilisation of the disease in 38% of the cases (9 of 24 patients), as well

as other indications of potential efficacy. Importantly, on the safety side, the trial data obtained so far have indicated that AtuPLEX is safe in humans at dose levels above those that have shown effectiveness in preclinical studies. Among the patients who achieved stable disease, one individual with neuroendocrine cancer achieved disease stabilisation for nine months with a second neuroendocrine cancer patient showing partial regression of pulmonary metastases. An additional patient with breast cancer experienced some regression in liver metastases.

32 patients have been treated so far and enrolment of all 33–36 patients is expected to be completed in the first half of 2012 with results announced in the middle of the year.

The Company believes that the encouraging data received to date represents an important step along the path towards realising value for shareholders. Assuming successful completion of the Phase I study, we expect to initiate a Phase Ib/IIa clinical study of Atu027 in the second half of 2012. The Company will also continue licensing discussions regarding Atu027 with potential pharmaceutical partners.

Atu111, our most advanced product outside oncology

Atu111, for the treatment of acute lung injury, is our most advanced drug development candidate outside oncology. It combines our DACC drug delivery system with AtuRNAi and its target is undisclosed. We have recently completed proof of concept studies in a preclinical model of acute lung injury, demonstrating very impressive results using Atu111. Further studies are ongoing in a variety of other preclinical models of the disease.

Earlier preclinical work using Atu111 has shown sustained gene knockdown of up to three weeks in the lung endothelium, suggesting the drug could be used with a single dose.

Atu134

Following the encouraging data generated from the ongoing Phase I trial of Atu027 and additional data from preclinical models of Atu134, Silence has concluded that the potential clinical profiles of these two products are too similar to warrant further development of both programmes. We therefore decided in November to divert the resources for Atu134 to other areas, specifically potential targets in the liver that could be inhibited by using Silence's novel liver-focused DBTC delivery system.

Partnered programmes

Silence Therapeutics has two licence agreements with partner Quark Pharmaceuticals, for products PF-04523655 and QPI-1002, both of which are in development in two different therapeutic indications. Quark has licensed these to Pfizer and Novartis, respectively. The positive data received from the programmes in 2011 further highlights both the potential of RNAi therapeutics and of Silence's AtuRNAi technology, which is incorporated into these products.

Summary

- Silence Therapeutics is a leader in an exciting new drug development arena known as RNAi.
- Silence made significant progress in 2011 with its internal pipeline. In particular, interim Phase I data of lead programme Atu027 was presented in June at the prestigious annual meeting of the American Society of Clinical Oncology (ASCO).
- Silence's partnered programmes made significant advances during 2011 with PF-04523655 (Quark/Pfizer) successfully completing a Phase II trial in diabetic macular oedema and QPI-1002 progressing well in a Phase II trial in prevention of delayed graft function.
- The value of this portfolio of delivery technologies was underlined in 2011 with the signature of three agreements with new partners, InteRNA Technologies B.V., miRNA Therapeutics Inc and a top ten pharmaceutical company.
- Silence Therapeutics has two licence agreements with partner Quark Pharmaceuticals, for products PF 04523655 and QPI 1002, both of which are in development in two different therapeutic indications.
- Efficient and safe delivery of RNAi therapeutics is key to the success of the field and Silence now has three such delivery systems (AtuPLEX, DACC and DBTC).

Quark/Pfizer programmes

In March 2011, Quark announced the completion of the DEGAS study, a Phase II clinical trial of PF-04523655 for the treatment of the ophthalmic indication of diabetic macular oedema. The product, which incorporates Silence's AtuRNAi technology, was shown to be more effective than laser therapy. Quark has now initiated a Phase IIb study comparing PF-04523655 to Lucentis (Roche/Novartis), the new standard of care in the treatment of diabetic macular oedema.

In addition, PF-04523655 recently completed a Phase II trial in the second ophthalmic indication of age related macular degeneration. The trial demonstrated a dose-dependent increase in benefit of PF-04523655. Quark is now awaiting results from the Phase IIb trial in diabetic macular oedema before deciding on plans for the drug in age-related macular degeneration.

Quark/Novartis programmes

In August 2010, Quark signed an option and licence agreement with Novartis for QPI-1002 as mentioned previously. In September of that year, Quark initiated a Phase II study in prevention of delayed graft function in patients undergoing kidney transplantation. Recruitment into this trial has progressed well and we expect the trial to be completed in the middle of 2012. A Phase I study has been successfully completed in the second indication of acute kidney injury. Quark plans to initiate a Phase II trial depending on the results of the ongoing trial in the prevention of delayed graft function.

Chief Executive's review continued

"The value of our portfolio of delivery technologies was underlined in 2011 with the signature of three agreements with new partners."

Goal review

Last year we set ourselves some goals for completion at the end of 2011.

1. Complete Phase I clinical trial of Atu027	Completion is now expected in the middle of 2012.
2. Present interim Phase I data on Atu027	Data was presented at the American Society of Clinical Oncology (ASCO).
3. Advance preclinical programmes for Atu134 and Atu111	Atu111 continues to progress through preclinical development. However, in November 2011, the decision was taken to refocus resources away from Atu134.
4. Complete new corporate alliances	During 2011, Silence signed three new collaborations relating to its RNAi delivery technologies.

Our goals for 2012

1. Complete Phase I clinical trial of Atu027
2. Announce results of Atu027
3. Advance Atu111 and establish new preclinical programmes
4. Complete new corporate alliance

Operational continued

Progress in research collaborations

Silence is pleased to have been working with AstraZeneca in the area of RNAi since 2007, in the form of two collaborations, both of which were extended in 2010. AstraZeneca has now completed the research phase of the first of these collaborations, a research and development collaboration focused on five respiratory and oncology targets, and nominated three of the five targets as "Accepted Programmes".

The second collaboration, for the development of novel approaches for the delivery of siRNA molecules, was entered into in March 2008. The research phase of this collaboration has also been completed and AstraZeneca retains the right to use the DACC delivery system developed for their "Accepted Programmes".

Valuable portfolio of delivery technologies

Efficient and safe delivery of RNAi therapeutics is key to the success of the field and Silence Therapeutics' programmes, as well as those of other companies active in this area. The Company possesses three proprietary siRNA delivery technology platforms, AtuPLEX, DACC (lung) and DBTC (liver), two of which are already being used in the programmes of partners. This comprehensive delivery platform allows our RNAi therapeutics to reach many different organs, with the liver and lungs increasingly becoming targets of interest in the RNAi field and the pharmaceutical industry generally.

Because of the importance of appropriate delivery in this therapeutic area, we believe our delivery platform will deliver significant value to the Company via non-exclusive partnership deals:

- AtuPLEX enables the delivery of siRNA molecules to targeted diseased tissues and cells in the vascular endothelium (blood vessels), while increasing their bioavailability and intracellular uptake. It incorporates Silence's proprietary lipid AtuFect and is used to embed siRNAs into a multiple lipid bi-layer structure. It is incorporated in Atu027.
- The DACC novel lipid delivery system enables functional, highly specific and efficient delivery of siRNA molecules selectively to the lung endothelium with a long duration of action (over three weeks). Like AtuPLEX, it also incorporates Silence's proprietary lipid AtuFect and is used to embed siRNAs into a multiple lipid bi-layer structure. The DACC delivery system is incorporated in Atu111, Silence's preclinical development candidate for the treatment of acute lung injury.
- The DBTC delivery system is lipid-based and targets the liver. Studies have shown it to be well tolerated and have a significant duration of action. It therefore has therapeutic potential in areas such as heptatocellular carcinoma, liver fibrosis and acute liver failure.

Three new delivery deals

The value of this portfolio of delivery technologies was underlined in 2011 with the signature of three agreements with new partners, InteRNA Technologies B.V., miRNA Therapeutics Inc and a top ten pharmaceutical company. Interestingly, two of these three agreements were for a different form of RNA therapeutic to the siRNA approach being used by Silence Therapeutics, i.e. microRNA. This emphasises the value of our delivery platform.

In September, we established an agreement with InteRNA Technologies B.V., which is developing microRNA (miRNA)-based therapeutics for cancer. MicroRNA intervention is an exciting new therapeutic area for which the Silence technology platform is well suited and the deal was our first in this area. We are looking forward to the results from this collaboration, which we believe will demonstrate the potential of AtuPLEX for the delivery of RNA-based therapeutics outside of the siRNA arena.

Under the agreement, we will combine Silence's proprietary AtuPLEX delivery system with InteRNA's novel microRNAs to develop multiple novel candidate drugs. The two companies will then undertake in vitro and in vivo studies of the candidate drugs and select lead candidates for further evaluation.

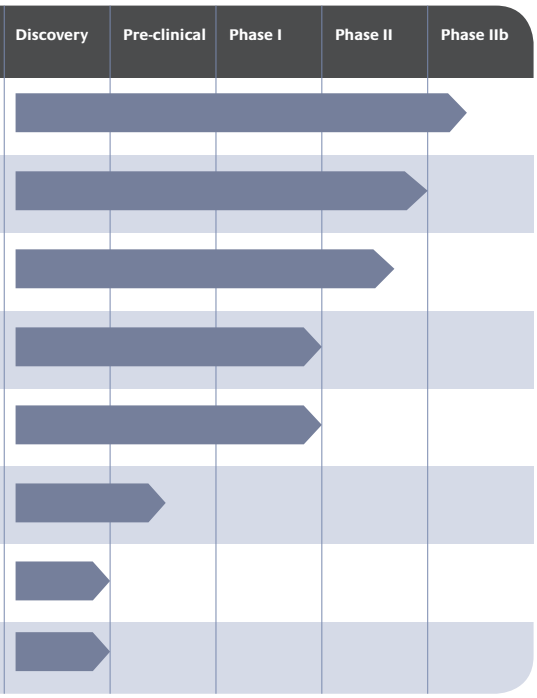
Silence is eligible to receive up-front fees as well as staged research payments if the collaboration progresses.

The potential of Silence Therapeutics' delivery technologies in this new area was further underlined in October 2011 with our second miRNA deal. The collaboration, with miRNA Therapeutics, is to investigate the potential of both AtuPLEX and our DBTC delivery system with our partner's novel microRNAs for the treatment of cancer. We are pleased that our first deal on DBTC is in this exciting new therapeutic area. Silence Therapeutics will formulate selected miRNA sequences into AtuPLEX and DBTC in order to generate candidate drugs, which will then undergo in vitro and in vivo testing at miRNA in order to select those to take forward for further evaluation.

In October 2011 we also signed an siRNA delivery collaboration for DACC with a top ten pharmaceutical company – our first deal covering this technology for delivery to the lung. Under the terms of the agreement, our partner will provide us with specific siRNAs, which we will formulate into the DACC delivery system. Silence and its partner will undertake in vitro and in vivo studies of the DACC-formulated siRNAs developed under the agreement and select lead candidates for further evaluation.

Silence's impressive pipeline of products not only validates the strength of the company's technology but also the depth of knowledge that has guided the development path.

Products	Partners	Target Tissue/Organ	Delivery Method	Market size
PF-4523655 Diabetic Macular Edema	**Pfizer/Quark**	RTP801 – Local delivery to the eye	Naked siRNA	$1bn+ (potential)
PF-4523655 Age-related Macular Degeneration	**Pfizer/Quark**	RTP801 – Local delivery to the eye	Naked siRNA	$3.1bn (2010)
QPI-1002 Prevention of Delayed Graft Function	**Novartis/Quark**	P53 – Systemic delivery to the kidney	Naked siRNA	$4.4bn (2010)
QPI-1002 Acute Kidney Injury	**Novartis/Quark**	P53 – Systemic delivery to the kidney	Naked siRNA	$1bn+ (potential)
Aut027 Solid Tumours	**Silence**	PKN3 – Systemic delivery to Tumour endothelium	AtuPLEX	$8.2bn+ (angiogenesis mkt 2010)
Atu111 Acute Lung Injury	**Silence**	Systemic delivery to Lung endothelium	DACC	$1bn+ potential
Liver Diseases (DBTC programs)	**Silence**	Systemic delivery to liver hepatocytes and endothelium	DBTC	Undisclosed
Lung Diseases (DACC system)	**Silence**	Systemic delivery to Lung endothelium	DACC	Undisclosed



Chief Executive's review continued

"In 2011, we achieved significant success in obtaining new issued patents further strengthening protection of our innovative technologies."

Operational continued

Ongoing delivery collaborations progress

In addition to these exciting new deals, we have an ongoing siRNA delivery collaboration with Dainippon Sumitomo signed in 2008. Under this collaboration, we are jointly leveraging Silence's proprietary siRNA molecules and delivery technologies to demonstrate delivery of RNAi therapeutics to specific disease targets. This agreement, which originally included two drug targets, was expanded in 2010 to include two more.

Securing our financial position

Silence Therapeutics ended 2010 with cash reserves of £3.57m and we indicated in the first quarter of 2011 that we would be seeking additional funding to drive continued development of the Company. Accordingly, in May 2011, Silence successfully raised £5.51m net of expenses through a placing and open offer.

Given the substantial financial and economic volatility experienced globally over the last few years, particularly in the biotechnology sector, we were extremely pleased with this result, which gave us a substantially improved financial footing and extended the cash runway to the end of the third quarter of 2012 from existing cash resources alone. The fundraising was supported by both existing and new shareholders, whom we thank for their support and welcome to Silence Therapeutics.

Part of the proceeds are to be used to, among other things, complete the ongoing Phase I trial and initiate a Phase Ib trial of Atu027, and advance preclinical development of the Atu111 programme for lung disease. As shareholders can see, we have made progress in these areas and expect to continue to do so.

A streamlined business focused on business development

Increased financial efficiency

As 2011 progressed it became clear to Silence Therapeutics that, in order to create a more streamlined and efficient business, some streamlining and consolidation of operating sites was needed. Following the 2010 acquisition of Intradigm Inc, managing and working across our three sites in the UK, Germany and the US had generated considerable operational difficulties as well as increased costs.

In April 2011, we announced plans to close our Redwood City office in California. This was completed in August. As a consequence, our US-based Chief Executive Officer, Dr Phil Haworth, stepped down. I joined the business in September initially as Chief Business Officer, but was delighted to be able to accept the appointment as Chief Executive Officer in February 2012 following the departure of Thomas Christély, who took on the role of Chief Executive Officer briefly after the departure of Dr Haworth.

With the US-based business development and legal functions absorbed elsewhere in the Group, its operations are now based in Berlin, where our research and development facilities have always been located. In addition there is a small management presence in London.

In addition to the closure of the US facility, we were able to further streamline the business by reducing headcount in Berlin from 32 to 27, via the loss of some non-critical roles and by reducing the size of our Board. The latter had become too large following the acquisition of Intradigm Corporation and, as a consequence, Dr James Topper and Dr David U'Prichard resigned from the Board of Directors effective 29 July 2011 and 31 December 2011, respectively. We thank both Dr Topper and Dr U'Prichard for their valuable contribution to Silence Therapeutics.

These measures helped us to increase our cash runway and, combined with our fundraising, mean that we have sufficient funding to last us until Q3 2012.

Significantly strengthened business development focus

With encouraging data so far from the Phase I trial of Atu027, and the level of interest in Silence Therapeutics' RNAi delivery technologies in 2011, it was clearly time to invest more significantly in our business development activities. An important part of this will be the partnering with and generation of value from these assets. In addition, with the availability of finance significantly reduced in the current economic crisis, the global biotechnology sector has increasingly accessed non-dilutive financing from sources such as public sector organisations (for example, research councils and leading charities). We consider this to be a major objective in our enhanced business development activity.

Strong business development team

Our business development activity was further enhanced in November 2011 with the appointment of Dr Georg Buchner, as Vice president of Business Development. Georg was formerly Vice-president of Corporate and Business Development at Novacta Biosystems Ltd (Novacta). Prior to joining Novacta, Georg was Business Development Director at Haptogen Ltd where he was instrumental in the sale of the business to Wyeth (now part of Pfizer) in 2007. He has a PhD in Molecular Genetics from King's College London and an MBA from the University of Cambridge's Judge Institute of Management and will be working with myself to continue to broaden our collaborations with global pharmaceutical and biotechnology companies.

Strength through intellectual property

Our broad and diverse intellectual property portfolio continues to provide us with a competitive advantage and a strong proprietary position in the RNAi therapeutics space. We believe that we have been successful in aggressively building one of the world's most comprehensive RNAi patent estates and expect that this asset will continue to offer significant support for our ongoing partnering activities.

Our patent estate covers the areas which we believe to be pivotal to the successful development of RNAi therapeutics, from the structure of the molecules themselves to how they are delivered. In addition, we have achieved significant successes in establishing key levels of patent protection for our technologies in Europe, the US and Japan, offering opportunities in these important healthcare markets. Silence remains committed to the expansion and strengthening of its intellectual property portfolio in target markets around the globe. In 2011 we made progress in both the US and Japan, covering RNAi structures and delivery, as well as receiving further confirmation of the strength of the Zamore Design Rules patents, as discussed below.

Patent issuance and success versus challenges

In the US, a new patent that broadens Silence Therapeutics' existing protection of optimised RNAi molecules, including our proprietary AtuRNAi platform, was issued. Also in that territory, we received a notice of allowance of a new patent that provides protection for a core component of our proprietary AtuPLEX delivery platform.

Protection in Japan was enhanced by issuance of a patent covering novel AtuRNAi molecules, which will support our efforts to establish partnerships with leaders in the pharmaceutical industry there. In addition, we received news of issuance of a Japanese patent covering methods for screening a therapeutic agent for the treatment and/or prevention of any disease that involves elevated activity within the PI3-kinase pathway. This new intellectual property includes coverage for the use of the gene target protein kinase N beta ('PKN3') for screening of therapeutic agents and is important to us as PKN3 is the target of our leading therapeutic programme Atu027.

Our patents in this area were further supported in December 2011 with a positive outcome from an oral hearing at the European Patent Office (EPO) over the opposition to Silence's granted European Patent EP 1 536 827 "Further use of protein kinase N beta". The Opposition division of the EPO decided to uphold the patent in amended form, now restricted to metastatic cancers. This is the focus of Silence's ongoing Atu027 Phase I study and we are pleased that the product continues to be protected by this intellectual property and other patents, for example, those around AtuPLEX and the AtuRNAi sequence used in the product.

Looking at Atu027

Silence's lead internal RNAi therapeutic candidate, Atu027, is currently in a Phase I clinical trial. Atu027 has demonstrated anticancer activity against a broad range of tumour types including gastrointestinal, non-small cell lung, prostate, melanoma, breast and others.

Top-line data presented at ASCO in June 2011 included results for 24 patients who received the study's first eight doses of Atu027.

- Six of these patients experienced stable disease after three months.
- One patient with neuroendocrine cancer had disease stabilization for nine months.
- A second neuroendocrince cancer patient experienced partial regression of pulmonary metastases
- A patient with breast cancer demonstrated regression of liver metastases.

"This positive data is very encouraging and we believe the disease stabilization and antitumor activity, in particular, are suggestive of a potential therapeutic benefit for extremely ill patients who have no other treatment options."

Chief Executive's review continued

Operational continued

Patent issuance and success versus challenges continued

Silence has exclusive licences covering three patent families from the University of Massachusetts Medical School collectively known as the "Zamore Design Rules". In 2011, following an anonymous request, four of the US patents covering the Zamore Design Rules successfully completed re-examination by the US Patent and Trademark Office (USPTO) and in December 2011, we were able to report that the USPTO had issued "Notices of Intent to Issue Re-examination Certificates". In Europe, the patent is currently being opposed by Alnylam and other parties.

Investor relations (IR) strategy

Silence Therapeutics maintains active communications and an investor relations strategy to provide transparency and maximise dialogue with its stakeholders.

As part of its 2011 IR strategy, Silence has held investor meetings across Europe and attends investor conferences internationally throughout the year, full details of which can be found on the Company's website (http://silence-therapeutics.com).

In line with the London Stock Exchange's AIM requirements, Silence discloses its investor news on a frequent basis via its Regulatory Information Service provider and the Company holds a number of conference calls and meetings throughout the year in order to reach investors effectively. In addition, the Company's website serves as an effective tool for investor communications.

Silence also participates in the evolving social media scene and communicated digitally online with frequency through LinkedIn, Facebook,YouTube and recently Twitter. In February 2012, Silence launched its new website, designed with a range of interactive features and online social media tools, to reflect the new direction and more commercial focus of the Company. These included twitter feeds, company news flashes and regular industry updates from its real-time RNAi Hub.

Summary and outlook

During 2011, Silence Therapeutics has built a significantly stronger business, more able to deal with the rigours of today's financial climate and better placed to exploit our wealth of assets. By restructuring the business, strengthening the management team and raising a significant amount of financing in challenging economic conditions, we believe we have more than justified the decision made at the beginning of the year to remain an independent business.

Exciting year ahead

2012 will be an important and exciting year for Silence Therapeutics. With a new and commercially focused management team, the Company is set to achieve shareholder value uplift. Importantly, there will be clinical data from us, both for Atu027 and our partnered products, as well as other companies in the sector. 2012 clinical news flow expected from us and our partners includes the anticipated start of Phase Ib/IIa clinical trials with Atu027. This will be an important milestone for Silence Therapeutics.

As well as continuing to develop our pipeline, key priorities for Silence this year are to secure the Company's financial future and to continue to generate value through partnering. Our fundraising and moves to reduce cash burn this year have extended our cash runway to the end of the third quarter of 2012, not taking into account potential milestones from our collaboration partners.

With our enhanced business development function, we will be looking at building value and generating income through our partnering activities. One of our priorities in this area is the signature of out-licensing or co-development agreements for Atu027 or other internal candidates such as Atu111, assuming they continue to generate encouraging data. Silence also believes that the quality of its RNAi therapeutic platform – including AtuRNAi and our portfolio of delivery technologies – will continue to be recognised by partners in licensing deals and research collaborations. We are proud of our list of partners – which includes four of the top ten global pharmaceutical companies – and expect to add to it in 2012.

Silence plans to attend scientific and medical conferences throughout the year in order to undertake a structured outreach to our key audiences. We are pleased to confirm that during 2012, Dr Klaus Giese, Silence's Chief Scientific Officer, plans to present at a number of world-leading biopharmaceutical events.

Another area of focus for the business development team will be looking at accessing non-dilutive forms of financing, such as grants from the large research charities. In recent years this type of funding has grown in importance to the global biopharmaceutical sector, partly driven by financial and economic conditions. Silence Therapeutics considers it an important option for the Company to develop our pipeline of therapeutics and build shareholder value.

Providing as it does the foundation of our business, we will continue to prosecute, defend and grow our intellectual property portfolio. Areas of focus for additional patent protection include all essential components of RNAi therapeutic development, including multiple proprietary siRNA delivery technologies, potent siRNA sequences and key siRNA sequence and chemical modifications, as well as specific high-value disease targets.

2012 looks to be an exciting year for us. In concluding my comments, it is important for me to note that the achievements we made in 2011 were only possible through the hard work and dedication of our staff and the support of our shareholders. My thanks are due to all of you, as we work together to bring much-needed RNAi therapeutics to patients.

Tony Sedgwick, PhD
Chief Executive Officer
27 March 2012

Financial review

"Silence successfully strengthened its financial position in May 2011 through a placing and open offer that generated net proceeds of £5.51m."

Group cash position:
(2010: £3.57m)
£3.69m

Revenues:
(2010: £2.37m)
£0.69m

Operating loss:
(2010: £8.66m)
£5.79m

Silence successfully strengthened its financial position in May 2011 through a placing and open offer that generated proceeds of £5.51m (net of costs). This funding provided cash resources that will support the Company's operations into the third quarter of 2012. This is without taking into account any milestone, additional equity fundraisings or other such receipts that the Company believes it could receive in 2012.

Revenue

Revenue generated in the year decreased to £0.69m in 2011 from £2.37m in 2010. Revenue recognised in the year related to income from Silence's collaborations with AstraZeneca and Dainippon Sumitomo. The decrease in revenue in 2011 primarily reflects lower income from Dainippon Sumitomo and the milestone from Quark earned in 2010.

Research and development expenses

Research and development expenses during the year decreased to £3.36m in 2011 from £5.82m in 2010. The decrease in research and development expense is primarily driven by the closure of Intradigm's Palo Alto, California research facility in April 2010 as well as by a reduction in headcount at the Berlin research and development facility, announced in August 2011.

Administrative expenses

Administrative expenses during the year decreased to £3.12m (£2.65m before restructuring charges) in 2011 from £5.20m in 2010. The decrease in administrative expenses is again driven by the closure of the Intradigm research facility in 2010 followed by the closure of the Redwood City, California facility in August 2011, as well as by a reduction in expenditure in the London head office. The full benefit of these measures will be reflected in lower administrative costs onwards.

Financial income

Financial income was £0.06m in 2011 compared to £0.10m in 2010. Interest income remained low on cash balances during 2011 reflecting the continued low interest rate environment.

Taxation

Corporation tax payable in both 2010 and 2011 was £nil.

Liquidity, cash, cash equivalents and money market investments

The Group's cash position at year end was £3.69m. At the end of 2010, Silence had cash of £3.57m. A further £5.51m net of expenses was raised in May 2011 through a placing of 296,693,065 shares at 2p and open offer.

The net cash outflow from operating activities in 2011 was £5.11m (2010: £10.55m) against an operating loss of £5.79m (2010: £8.66m), primarily reflecting the impact of a reduction in other working capital of £0.26m (2010: £2.89m) and non-cash items such as depreciation, amortisation and share option charges of £0.43m (2010: £0.98m).

Trade and other receivables at year end were £0.17m (2010: £0.78m). The decrease reflects receipt of a milestone payment due from Quark, which was received in early January 2011. Trade and other payables were £1.26m at year end (2010: £1.69m). Trade and other payables were lower at 31 December 2011 reflecting lower levels of expenditure.

Goodwill at year end was £28.34m (2010: £28.35m). The small decrease reflects currency translation effects. Other intangible assets at 31 December 2011 were £0.97m (2010: £0.95m). The increase in other intangible assets primarily reflects the additional licence fees paid relating to the Zamore Design Rules patents.

Max Herrmann
Chief Financial Officer
27 March 2012

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.

Tony Sedgwick

Chief Executive Officer

Dr Sedgwick is an experienced biotechnology and pharmaceutical entrepreneur with extensive experience in small and large company transactions and will assume responsibility for the broadening of Silence's partnerships. He was most recently Chief Executive Officer of the UK biotech company Novacta and Chairman of the Norwegian biotech company Plastid AS. Previously Tony was Chief Executive Officer of the UK biotech company Daniolabs Ltd and the UK biotech company Cambridge Biotechnology Ltd, both companies being successfully exited by trade sale. Tony has been an executive and non-executive director of a large number of life sciences companies in the UK and continental Europe. Between 1986 and 2002 Tony worked for F Hoffmann-La Roche in several senior management roles, latterly as Global Head of Clinical Operations and UK Development Director.

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.

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, research and development 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 Ph.D. in 1992 from the University of Chicago.

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)
- Annette Clancy

Nominations and Governance Committee

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

- Annette Clancy (Chairman)
- 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)
- David Mack
- Jerry Randall

Directors' report

The Directors present their report and the financial statements for the year ended 31 December 2011.

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 above provides details of the Group's progress during the year against all its performance targets. The Chief Executive's Review, on pages 6 to 12, describes the research and development activity during the year and outlines future planned developments. The product development pipeline is also shown above 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 13. The Group's KPIs 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 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 £5,736,563 (2010: £8,795,274). Further details are given in the preceding Financial review. The Group is not yet in a position to pay a dividend (2010: £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 13. The Directors consider that the most important non-financial KPIs relate to the number of drugs in development by stage of development, the number of pharmaceutical collaborations, the development milestones reached and the signature of research collaborations and licences, all of which are detailed in the Chief Executive's statement on pages 6 to 12.

Directors

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

Chairman	J A P Randall	
Executive Directors	T Christély	(appointed 19 September 2011, resigned 9 February 2012)
	T Sedgwick	(appointed 9 February 2012)
	P Haworth	(resigned 1 August 2011)
	M Herrmann	
Non-executive Directors	A Clancy	
	D Mack	
	J Topper	(resigned 29 July 2011)
	D C U'Prichard	(resigned 31 December 2011)

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 2011 the Company had been informed of the following substantial interests of over 3% in the issued share capital of the Company:

	Number	Percentage of issued share capital
Robert Keith	51,989,628	9.01%
Hedger Management	50,000,000	8.66%
Frazier Healthcare Ventures	27,265,465	4.72%
Walker Crips	26,759,101	4.64%
Southern Fox Investments	26,173,913	4.54%
ACP Capital	25,356,422	4.39%
Simpson Financial	25,000,000	4.33%

Corporate governance

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

Committee structure

Remuneration:	A Clancy (Chair), JAP Randall and D Mack
Audit:	JAP Randall (Chair) and A Clancy
Nominations and Governance:	A Clancy (Chair) and D Mack

Remuneration Committee

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

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

Audit Committee

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

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

Nominations and Corporate Governance Committee

The Nominations and Corporate Governance Committee is chaired by A Clancy; D Mack is also a member 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.

Directors' report continued

Disclosure of information to auditors

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 auditors are unaware and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors

In accordance with Section 489 of the Companies Act 2006, a resolution for the re-appointment of KPMG Audit Plc as auditors 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 IFRSs 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 EU-IFRS; 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.

Risk factors continued

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

Product development risk

- The Group is involved at the leading edge of a revolutionary technology. Within the pharmaceutical sector more drugs fail in development than progress to market and there is no guarantee that the Group will be able to successfully develop this new technology or bring any of the drug candidates it is developing to market. Further, the drugs that the Group does bring to market may not be commercially successful.
- The Group has no track record of successful development and registration of any product and will need to acquire or gain access to relevant additional expertise.
- In order to progress the Group's product development plans it may be desirable or necessary to find collaborators on certain projects. The Group cannot guarantee that it will be able to find and maintain suitable collaborators under acceptable terms or that, once found, such collaborators will devote sufficient resources to the collaboration to make it commercially successful.
- The Group's suppliers may encounter unexpected difficulties in the design and construction of manufacturing processes and the scale-up of production to viable commercial levels or may otherwise be unable to supply materials to the Group in a timely manner.
- Competition for 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, increased competition. Competitors in the sector may have greater financial, human and other resources and more experience to develop competing products or technology.
- Many companies are trying to develop competing technologies and one or more of these may restrict the potential commercial success of the Group's products or render them obsolete.
- Increasing competition may also have an adverse effect on the timing or scale of commercialisation of the Group's technology.

Intellectual property risk

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

Directors' report continued

Risk factors continued

Risks applicable to the biotechnology sector and the Group continued

Intellectual property risk continued

- 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 licence. If those parties refuse to grant the Group a licence 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.

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 research and development 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 and parent company will continue in operational existence for the foreseeable future.

The Group had a net cash outflow from operating activities for the year ended 31 December 2011 of £5.11m and at 31 December 2011 had cash balances of £3.69m. Post 31 December 2011, the Group has continued to progress its research and development programmes resulting in a further net cash outflow of £0.86m to 29 February 2012. At 29 February 2012 the Group's cash balances stood at £2.83m. 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 during the third quarter of 2012. The Group does not currently have any overdraft or loan facilities.

The Directors have a reasonable expectation that further finances will become available during the course of 2012 through a combination of sources, including equity fundraisings, grants, milestone payments from existing agreements and licence fees from entering into new agreements with business partners.

The Directors, having prepared cash flow forecasts, believe that existing cash resources together with additional funds provided by equity fundraisings, grants, milestone payments and licence fees will provide sufficient funds for the Group to continue its research and development programmes and to remain in operation for at least twelve months from the date of approval of these financial statements. The Directors have also taken a number of steps to reduce expenditure during the last twelve months including the closure of the Group's US operations in Redwood City, California.

The Directors have concluded that there is a material uncertainty as to the amount and timing that funds will be obtained from equity fundraisings, grants, milestone payments and licence fees. The Directors also note that the failure to obtain sufficient funding from any or all of these sources would cast significant doubt on the Group's ability to continue as a going concern. The Group and Company may therefore be unable to continue realising their assets and discharging their liabilities in the normal course of business.

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

The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Chief Executive's review on pages 6 to 12. The financial position of the Group, its cash flows and liquidity position are as set out in the Financial review on page 13.

Political and charitable donations

The Group made no political or charitable donations during 2011 (2010: £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 49 days (2010: 22 days).

On behalf of the board

Jerry Randall
Chairman
27 March 2012

Independent auditors' report

to the members of Silence Therapeutics plc

We have audited the financial statements of Silence Therapeutics plc for the year ended 31 December 2011 as set out on pages 23 to 52. 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 auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

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

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 2011 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 sufficient additional funds, including the successful completion of an equity fundraising, 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;
- the Parent Company financial statements are not in agreement with the accounting records and returns;
- 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 Auditors
For and on behalf of KPMG Audit Plc, Statutory Auditor, Chartered Accountants
15 Canada Square, London E14 5GL
27 March 2012

Consolidated income statement

year ended 31 December 2011

	Note	2011 Ongoing operations £	2011 Restructuring £	2011 £	2010 £
Revenue	3	**693,555**	**—**	**693,555**	2,365,877
Research and development costs		**(3,360,442)**	**—**	**(3,360,442)**	(5,821,212)
Gross loss		**(2,666,887)**	**—**	**(2,666,887)**	(3,455,335)
Administrative expenses		**(2,647,189)**	**(471,825)**	**(3,119,014)**	(5,202,938)
Operating loss	5, 6	**(5,314,076)**	**(471,825)**	**(5,785,901)**	(8,658,273)
Finance income	7	**56,646**	**—**	**56,646**	95,343
Finance expense		**(12,817)**	**—**	**(12,817)**	(63,295)
Gain/(loss) on sale of assets		**5,509**	**—**	**5,509**	(169,049)
Loss before taxation		**(5,264,738)**	**(471,825)**	**(5,736,563)**	(8,795,274)
Taxation	8	**—**	**—**	**—**	—
Loss for the year attributable to owners of the parent company		**(5,264,738)**	**(471,825)**	**(5,736,563)**	(8,795,274)
Loss per share (basic and diluted)	9	**(1.1)p**	**(0.1)p**	**(1.2)p**	(3.16)p

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

Consolidated statement of comprehensive income

year ended 31 December 2011

	2011 £	2010 £
Loss for the year after taxation	**(5,736,563)**	(8,795,274)
Other comprehensive income:		
– exchange differences arising on consolidation of foreign operations	**4,472**	151,696
Total comprehensive income for the year attributable to owners of the parent company	**(5,732,091)**	(8,643,578)

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

Consolidated balance sheet

at 31 December 2011

	Note	2011 £	2010 £
Non-current assets			
Property, plant and equipment	11	**224,980**	287,613
Goodwill	12	**28,342,109**	28,346,276
Other intangible assets	13	**971,154**	945,391
		29,538,243	29,579,280
Current assets			
Inventory		**—**	27,438
Trade and other receivables	15	**174,346**	782,596
Investments held for sale		**37,423**	—
Cash and cash equivalents	16	**3,687,860**	3,566,877
		3,899,629	4,376,911
Current liabilities			
Trade and other payables	17	**1,259,984**	1,686,516
		1,259,984	1,686,516
Total assets less current liabilities		**32,177,888**	32,269,675
Net assets		**32,177,888**	32,269,675
Equity			
Share capital	19	**5,771,145**	2,798,915
Capital reserves	20	**81,141,424**	80,269,278
Translation reserve		**3,037,175**	3,032,703
Retained loss		**(57,771,856)**	(53,831,221)
Total equity		**32,177,888**	32,269,675

The financial statements were approved by the Board of Directors on 27 March 2012.

Max Herrmann
Chief Financial Officer

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

Company number: 02992058

Consolidated statement of changes in equity

year ended 31 December 2011

	Share capital £	Capital reserves £	Translation reserve £	Retained loss £	Total equity £
At 1 January 2010	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
Recognition of share-based payments	—	120,474	—	—	120,474
Transfer upon:					
– exercise of options in year	—	—	—	—	—
– lapse of vested options in year	—	(1,795,928)	—	1,795,928	—
– issued warrants in year	—	795	—	—	795
Shares issued in the year	2,972,230	2,546,805	—	—	5,519,035
Transactions with owners	2,972,230	872,146	—	1,795,928	5,640,304
Loss for the period	—	—	—	(5,736,563)	(5,736,563)
Other comprehensive income					
Exchange differences arising on consolidation of foreign operations	—	—	4,472	—	4,472
Total comprehensive income for the year attributable to owners of the parent company	**—**	**—**	**4,472**	**(5,736,563)**	**(5,732,091)**
At 31 December 2011	**5,771,145**	**81,141,424**	**3,037,175**	**(57,771,856)**	**32,177,888**

Company balance sheet

year ended 31 December 2011

	Note	2011 £	2010 £
Non-current assets			
Property, plant and equipment	11	**3,313**	—
Investment in subsidiary undertakings	14	**54,217,931**	50,615,307
		54,221,244	50,615,307
Current assets			
Trade and other receivables	15	**79,492**	46,024
Cash and cash equivalents	16	**3,322,705**	2,283,300
		3,402,197	2,329,324
Current liabilities			
Trade and other payables	17	**181,885**	249,846
		181,885	249,846
Total assets less current liabilities		**57,441,556**	52,694,785
Net assets		**57,441,556**	52,694,785
Equity			
Share capital	19	**5,771,145**	2,798,915
Capital reserves	20	**80,957,508**	80,085,362
Retained loss		**(29,287,097)**	(30,189,492)
Total equity		**57,441,556**	52,694,785

The financial statements were approved by the Board of Directors on 27 March 2012.

Max Herrmann
Chief Financial Officer

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

Company number: 02992058

Company statement of changes in equity

year ended 31 December 2011

	Share capital £	Capital reserves £	Retained loss £	Total equity £
At 1 January 2010	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
Loss for the period	—	—	(893,533)	(893,533)
Recognition of share-based payments	—	120,474	—	120,474
Transfer upon:				
– exercise of options in year	—	—	—	—
– lapse of vested options in year	—	(1,795,928)	1,795,928	—
– issued warrants in year	—	795	—	795
Shares issued in the year	2,972,230	2,546,805	—	5,519,035
Movement in the year	2,972,230	872,146	902,395	4,746,771
At 31 December 2011	**5,771,145**	**80,957,508**	**(29,287,097)**	**57,441,556**

Cash flow statements

year ended 31 December 2011

	Group		Company	
	2011 £	2010 £	**2011 £**	2010 £
Cash flow from operating activities				
Loss before taxation	**(5,736,563)**	(8,795,274)	**(893,533)**	(2,083,105)
Depreciation charges	**91,355**	141,689	**274**	—
Amortisation charges	**213,578**	181,604	**—**	—
(Gain)/loss on sale of property, plant and equipment	**(5,509)**	169,049	**—**	—
Charge for the year in respect of share-based payments	**121,269**	659,018	**28,114**	267,447
Increase/(reduction) in impairment provision against loan to subsidiary	**—**	—	**3,242**	(152,337)
Finance income	**(56,646)**	(95,343)	**(284,592)**	(124,866)
Finance expense	**12,817**	63,295	**—**	—
	(5,359,699)	(7,675,962)	**(1,146,495)**	(2,092,861)
Decrease/(increase) in trade and other receivables	**665,962**	(43,948)	**(33,468)**	45,213
Decrease/(increase) in inventory	**27,438**	(27,438)	**—**	—
Increase/(decrease) in trade and other payables	**(431,010)**	(2,819,261)	**(67,961)**	(935,859)
Cash absorbed by operations	**(5,097,309)**	(10,566,609)	**(1,247,924)**	(2,983,507)
Taxation received	**—**	59,198	**—**	—
Interest paid	**(12,817)**	(44,302)	**—**	—
Net cash outflow from operating activities	**(5,110,126)**	(10,551,713)	**(1,247,924)**	(2,983,507)
Cash flow from investing activities				
Acquisition of business	**—**	746,108	**—**	—
Investment in assets held for sale	**(6,290)**	—	**—**	—
Proceeds from sale of property, plant and equipment	**10,185**	66,407	**—**	—
Investment in subsidiary undertakings	**—**	—	**(598,046)**	(5,554,405)
(Increase) in loans to subsidiary undertakings	**—**	—	**(2,914,665)**	(4,020,223)
Interest received	**26,764**	37,565	**284,592**	124,866
Additions to property, plant and equipment	**(26,892)**	(31,539)	**(3,587)**	—
Additions to intangible assets	**(247,586)**	(259,980)	**—**	—
Net cash (used in)/generated from investing activities	**(243,819)**	558,561	**(3,231,706)**	(9,449,762)
Cash flow from financing activities				
Proceeds from issue of share capital	**5,519,035**	14,358,313	**5,519,035**	14,358,313
Repayment of notes payable	**—**	(1,940,492)	**—**	—
Net cash generated from financing activities	**5,519,035**	12,417,821	**5,519,035**	14,358,313
Increase in cash and cash equivalents	**165,090**	2,424,669	**1,039,405**	1,925,044
Cash and cash equivalents at start of year	**3,566,877**	1,131,146	**2,283,300**	358,256
Net increase in the year	**165,090**	2,424,669	**1,039,405**	1,925,044
Effect of exchange rate fluctuations on cash held	**(44,107)**	11,062	**—**	—
Cash and cash equivalents at end of year	**3,687,860**	3,566,877	**3,322,705**	2,283,300

Cash flow statements continued

year ended 31 December 2011

	Group		Company	
	2011 £	2010 £	**2011 £**	2010 £
Cash and cash equivalents includes:				
Instant access bank accounts	**3,687,860**	3,566,877	**3,322,705**	2,283,300
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	**—**	—	**93,154**	391,571
Reduction in investment through lapse of vested options	**1,795,928**	—	**1,795,928**	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 2011

1. General information

1.1 Group

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

1.2 Company income statement

The Company has taken advantage of Section 408 of the Companies Act 2006 and has not included its own profit and loss account in these financial statements. The loss for the financial year dealt with in the accounts of the Company, including provision against the loans to and investments in subsidiary companies, amounted to £893,533 (2010: loss £2,083,105).

2. Principal accounting policies

2.1 Basis of preparation

Both the Parent Company and the Group financial statements have been prepared in accordance with the Companies Act 2006 and International Financial Reporting Standards ('IFRS') as adopted by the EU 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 2015
IFRS 10	Consolidated Financial Statements	1 January 2013
IFRS 11	Joint Arrangements	1 January 2013
IFRS 12	Disclosure of Interests in Other Entities	1 January 2013
IFRS 13	Fair Value Measurement	1 January 2013
IAS 19	Employee Benefits (amended 2011)	1 January 2013
IAS 27	Separate Financial Statements (2011)	1 January 2013
IAS 28	Investments in Associates and Joint Ventures (2011)	1 January 2013

With the exception of IFRS10 Consolidated Financial Statements, the IFRS and International Accounting Standards (IAS) above are not expected to have a significant impact on the financial statements when they become effective.

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

- IAS 24 (revised 2010) Related Party Disclosures. The revised standard does not have a material impact on the Group's Financial Statements.
- IFRIC 14 (amendment to) Prepayments of a Minimum Funding Requirement. Adoption of the amendment has not had a significant impact on the Group Financial Statements.

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 2011. 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.

2.3 Going concern

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

The Group had a net cash outflow from operating activities for the year ended 31 December 2011 of £5.11m and at 31 December 2011 had cash balances of £3.69m. Post 31 December 2011, the Group has continued to progress its research and development programmes resulting in a further net cash outflow of £0.86m to 29 February 2012. At 29 February 2012 the Group's cash balances stood at £2.83m. 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 during the third quarter of 2012. The Group does not currently have any overdraft or loan facilities.

2. Principal accounting policies continued

2.3 Going concern continued

The Directors have a reasonable expectation that further finances will become available during the course of 2012 through a combination of sources, including equity fundraisings, grants, milestone payments from existing agreements and licence fees from entering into new agreements with business partners.

The Directors, having prepared cash flow forecasts, believe that existing cash resources together with additional funds provided by equity fundraisings, grants, milestone payments and licence fees will provide sufficient funds for the Group to continue its research and development programs and to remain in operation for at least twelve months from the date of approval of these financial statements. The Directors have also taken a number of steps to reduce expenditure during the last twelve months including the closure of the Group's US operations in Redwood City, California.

The Directors have concluded that there is a material uncertainty as to the amount and timing that funds will be obtained from equity fundraisings, grants, milestone payments and licence fees. The Directors also note that the failure to obtain sufficient funding from any or all of these sources would cast significant doubt on the Group's ability to continue as a going concern. The Group and Company may therefore be unable to continue realising their assets and discharging their liabilities in the normal course of business.

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

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chief Executive's review on pages 6 to 12. The financial position of the Group, its cash flows and liquidity position are as set out in the Financial review on page 13.

2.4 Business combinations

There were no business combinations as defined by IFRS 3 (revised) during 2011. Business combinations that occurred in 2010, including the acquisition of Intradigm which was completed on 5 January 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 its fair value or at its 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 2011

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 and development 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. No grant revenue was recognised in the year ended 31 December 2011 (2010: £334,029).

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 2011 (2010: £nil).

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

2.9 Foreign currency translation

Silence Therapeutics' consolidated financial statements are presented in Sterling (£), which is also the functional currency of the Parent Company. The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency).

2. Principal accounting policies continued

2.9 Foreign currency translation continued

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% per annum. Amortisation is included within research and development costs.

Capitalisation of research and development costs

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

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

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

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

Notes to the financial statements continued

year ended 31 December 2011

2. Principal accounting policies continued

2.12 Other intangible assets and research and development activities continued

Capitalisation of research and development costs continued

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. 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.

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.

2. Principal accounting policies continued

2.15 Financial instruments continued

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 treated 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.

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.

Notes to the financial statements continued

year ended 31 December 2011

2. Principal accounting policies continued

2.20 Taxation continued

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 2011 amounting to £3,360,442 (2010: £5,821,212). The Board has decided not to capitalise any development costs to date as it would not be able to prove reliably that such costs could be recovered due to the risk factors involved. Therefore, all such costs have been treated as expenses as they were incurred. Any decision to treat part of those costs as capital items could have a significant impact on the Group's results and balance sheet.

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

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 2011 is £54,217,931 (2010: £50,615,307). 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 £28,342,109 at 31 December 2011 (2010: £28,346,276).

Other intangible assets have a carrying value at 31 December 2011 of £971,154 (2010: £945,391) 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 fees generated by both European and US operations. The analysis of revenues by geographical destination is:

	2011 £	2010 £
Europe	**503,519**	711,572
North America	**14,018**	655,513
Asia/Pacific	**176,018**	998,792
	693,555	2,365,877

Revenue is earned from milestones £nil (2010: £407,628), licence fees £693,555 (2010: £1,624,220) and grants £nil (2010: £334,029).

4. Segment reporting

In 2011, the Group operated in the specific technology fields of RNAi therapeutics and Immunotherapy, although the Immunotherapy business has now almost entirely ceased operations. 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 are 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 2011, £473,036 (or 68% of Group revenues) arose from a single customer with £176,018 (25%) coming from a second customer. During 2010, the comparative figures for those two customers were £533,037 (23%) and £998,792 (42%), respectively.

In 2011, non-current assets situated in the US, UK, and Germany were £21,224,323 (2010: £20,897,053), £3,313 (2010: £nil) and £8,310,607 (2010: £8,682,227), respectively.

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

Business segments

2011	RNAi Therapeutics £	Immunotherapy £	Group unallocated £	Total £
Revenue from external customers	**693,555**	**—**	**—**	**693,555**
Operating loss	**(4,821,382)**	**(715)**	**(963,804)**	**(5,785,901)**
Interest income	**32,030**	**—**	**24,616**	**56,646**
Interest expense	**(12,817)**	**—**	**—**	**(12,817)**
Gain on sale of assets	**5,509**	**—**	**—**	**5,509**
Segment loss for the year before taxation	**(4,796,660)**	**(715)**	**(939,188)**	**(5,736,563)**
Segment assets	**30,032,362**	**—**	**3,405,510**	**33,437,872**
Segment liabilities	**1,078,098**	**—**	**181,886**	**1,259,984**
Costs to acquire property, plant and equipment	**23,305**	**—**	**3,587**	**26,892**
Costs to acquire intangible assets	**247,586**	**—**	**—**	**247,586**
Depreciation and amortisation	**304,659**	**—**	**274**	**304,933**
Income tax	**—**	**—**	**—**	**—**
Charge for non-cash expenses: share-based payments charge	**93,154**	**—**	**27,320**	**120,474**
Segment non-current assets	**29,534,930**	**—**	**3,313**	**29,538,243**

Notes to the financial statements continued

year ended 31 December 2011

4. Segment reporting continued

Business segments continued

2010	RNAi Therapeutics £	Immunotherapy £	Group unallocated £	Total £
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)
Gain/(loss) on sale of assets	(169,049)	—	—	(169,049)
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	—	—	—	—
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

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:

	2011 £	2010 £
Depreciation of property, plant and equipment	**91,355**	141,689
Amortisation of intangibles	**213,578**	181,604
Restructuring expenses	**471,825**	—
Share-based payments charge	**121,269**	659,018
Auditors' remuneration:		
– Group audit fee – KPMG Audit Plc	**48,000**	40,000
– Group audit fee overruns– KPMG Audit Plc	**—**	15,000
– audit of subsidiaries pursuant to legislation	**17,000**	25,000
– taxation	**11,000**	11,000
– other services pursuant to legislation	**—**	2,500
Operating lease payments on offices	**288,376**	546,181

Fees payable to auditors other than the auditors of the Company amounted to £nil (2010: £nil).

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.

Silence streamlined and reorganised its operations to increase efficiency and reduce cash spend. As part of this, the facility in Redwood City, California was closed which resulted in severance payments totalling £421,745. In addition, headcount in some non-critical roles was reduced in Berlin (£50,080) and the non-executive Board membership was also reduced.

6. Directors and staff costs

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

	2011 £	2010 £
Wages and salaries	**2,257,867**	3,531,703
Termination benefits	**471,825**	867,676
Social security costs	**322,612**	638,555
Charge in respect of share-based payments	**121,269**	659,018
Pension costs	**18,000**	16,375
	3,191,573	5,713,327

6. Directors and staff costs continued

The average number of employees, including both Executive and Non-executive Directors, during the year was 37 (2010: 49).

Excluding the Directors, the average number of employees of the Parent Company was 1 (2010: 1).

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 £	**2011 Total excluding pension £**	**2011 Pensions £**	2010 Total excluding pensions £	2010 Pensions £
P Haworth	124,910	4,121	207,024	**336,055**	**—**	189,676	—
J A P Randall	60,000	—	—	**60,000**	**—**	55,000	—
M Herrmann	180,000	89	—	**180,089**	**18,000**	120,000	12,000
J M Davies	—	—	—	**—**	**—**	297,508	4,375
T Christély	64,239	—	—	**64,239**	**—**	—	—
A Clancy	30,000	—	—	**30,000**	**—**	30,000	—
D C U'Prichard	30,000	—	—	**30,000**	**—**	30,000	—
I G Ross	—	—	—	**—**	**—**	255,200	—
J L Curnock Cook	—	—	—	**—**	**—**	15,000	—
H R P Reynolds	—	—	—	**—**	**—**	15,000	—
B O Wetzel	—	—	—	**—**	**—**	15,000	—
	489,149	4,210	207,024	**700,383**	**18,000**	1,022,384	16,375

1. No bonuses will be paid to Directors in respect of the year ended 31 December 2011.
2. Executive Directors' benefits include private health insurance.

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

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:

	2011 £	2010 £
Bank interest receivable	**26,764**	37,565
Gain on security held for resale	**29,882**	—
Exchange differences	**—**	57,778
Total	**56,646**	95,343

8. Taxation

	2011 £	2010 £
Loss per accounts	**(5,736,563)**	(8,795,274)
Tax credit at the standard rate of UK corporation tax of 26% (2010: 28%)	**1,491,506**	2,462,677
Effect of overseas tax rate (Germany and US)	**312,613**	430,853
Impact of costs disallowable for tax purposes	**(113,208)**	(489,261)
Impact of income not taxable	**—**	(50,117)
Deferred tax in respect of temporary differences	**—**	711
Impact of unrelieved tax losses not recognised	**(1,690,911)**	(2,354,863)
Sub-total	**—**	—
Adjustment to that relief in respect of prior periods	**—**	—
Taxation credit for the year	**—**	—

Estimated tax losses of £76.4m (2010: £72.3m) 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 £25.5m (2010: £24.8m).

The 2012 Budget on 21 March 2012 announced that the UK corporation tax rate will reduce to 22% by 2014. A reduction in the rate from 26% to 25% (effective from 1 April 2012) was substantially enacted on 5 July 2011, and a further reduction to 24% (effective from 1 April 2012) is expected to be substantively enacted by the end of March 2012.

Notes to the financial statements continued

year ended 31 December 2011

9. Loss per share

The calculation of the loss per share is based on the loss for the financial year after taxation of £5,736,563 (2010: £8,795,274) and on the weighted average of 466,864,698 (2010: 278,303,966) ordinary shares in issue during the year.

The options outstanding at 31 December 2011 and 31 December 2010 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

There were no business combinations in 2011.

Acquisitions in the prior 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 21.225 pence, based on the average mid-price of the shares over the preceding ten days. Additional consideration for the acquisition included 1,138,817 immediately vesting options, which were issued to executives of Intradigm on completion of the deal.

The total cost of acquisition includes the components stated below:

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

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
Total cost of acquisition		17,004,767

The carrying value of goodwill arising on acquisition reflects the position Intradigm occupies in the high profile field of RNAi therapeutics, the synergies expected to arise from 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.

10. Business combinations continued

Reconciliation of goodwill continued

Acquisition related costs

In 2010, the Group incurred acquisition related costs of £70,000 related to the merger with Intradigm Corporation. These costs have been included in administrative expenses in the Group's consolidated statement income statement.

Issue of shares in conjunction with the Intradigm acquisition

In conjunction with the acquisition of Intradigm, 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 prior to its acquisition by Silence and was due for repayment on 31 December 2010.

11. Property, plant and equipment

Group	Equipment and furniture Total £
Cost	
At 1 January 2010	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
Additions	26,892
Disposals	(156,643)
Translation adjustment	(130,994)
At 31 December 2011	**3,307,198**
Depreciation	
At 1 January 2010	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
Charge for the year	91,355
Eliminated on disposal	(164,332)
Translation adjustment	(125,135)
At 31 December 2011	**3,082,218**
Net book value	
As at 31 December 2010	287,613
As at 31 December 2011	**224,980**

Notes to the financial statements continued
year ended 31 December 2011

11. Property, plant and equipment continued

Company	Equipment and furniture Total £
Cost	
At 1 January 2010	—
At 31 December 2010	—
Additions	3,587
Disposals	—
Translation adjustment	—
At 31 December 2011	**3,587**
Depreciation	
At 1 January 2010	—
At 31 December 2010	—
Charge for the year	274
Eliminated on disposal	—
Translation adjustment	—
At 31 December 2011	**274**
Net book value	
As at 31 December 2010	—
As at 31 December 2011	**3,313**

12. Goodwill

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

	2011 £	2010 £
Balance at start of year	**28,346,276**	8,130,972
Acquisition of Intradigm	**—**	20,111,479
Translation adjustment	**(4,167)**	103,825
Balance at end of year	**28,342,109**	28,346,276

In accordance with IAS 36 "Impairment of Assets", the carrying value of goodwill has been assessed comparing its carrying value to its net recoverable amount. The recoverable amount has been calculated by the Directors as being the value in use.

To arrive at value in use, 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 in 2010 resulted in additional goodwill of £20,111,479 being recognised by the Group. At 31 December 2011 the carrying amount of goodwill relating to Intradigm and Silence Therapeutics AG was £20,811,801 (2010: £20,594,526) and £7,530,308 (2010: £7,751,750) respectively. 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 licence to the "Zamore Design Rules" from the University of Massachusetts. Therefore, the Group is now better placed to secure licensing revenue from pharmaceutical partners.

12. Goodwill continued

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:

	2011
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 have 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 the 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 to 10.8%.

13. Other intangible assets

	Licences £	Internally generated patents and patent applications £	Total £
Cost			
At 1 January 2010	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
Additions	133,956	113,630	247,586
Translation adjustment	(73,344)	(35,416)	(108,760)
At 31 December 2011	**2,749,982**	**1,151,439**	**3,901,421**
Amortisation			
At 1 January 2010	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
Charge for the year	56,469	157,109	213,578
Translation adjustment	(80,873)	(19,642)	(100,515)
At 31 December 2011	**2,332,379**	**597,888**	**2,930,267**
Net book value			
As at 31 December 2010	332,587	612,804	945,391
As at 31 December 2011	**417,603**	**553,551**	**971,154**

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.

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year ended 31 December 2011

13. Other intangible assets continued

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 2011 the Zamore intellectual property assets had a net book value of £412,521 (2010: £299,680). Additional other intangible assets include intellectual property relating to AtuPlex and AtuRNAi technologies which are already the subject of commercial licences. These technologies have been valued based on estimated future discounted cash flows and had a net book value of £558,633 (2010: £645,711). In 2011, there were no other intangible assets in the Company (2010: £nil).

14. Investments

Company	2011 £	2010 £
Investment in subsidiary undertakings	**54,217,931**	50,615,307

The investment in subsidiary undertakings is made up as follows:

	Investment at cost £	Impairment provision £	Net total £
Shares in subsidiary undertakings			
At 1 January 2010	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
Additions	691,201	—	691,201
At 31 December 2011	**47,489,287**	**(203,000)**	**47,286,287**
Loans to subsidiary undertakings			
At 1 January 2010	23,189,465	(22,555,855)	633,610
Reductions	3,236,753	149,858	3,386,611
At 31 December 2010	26,426,218	(22,405,997)	4,020,221
Additions	2,914,665	(3,242)	2,911,423
At 31 December 2011	**29,340,883**	**(22,409,239)**	**6,931,644**
Total investment			
As at 31 December 2010	73,224,304	(22,608,997)	50,615,307
As at 31 December 2011	**76,830,170**	**(22,612,239)**	**54,217,931**

At 31 December 2011, a non-interest bearing unsecured loan of £22,409,235 from Silence Therapeutics Plc to Stanford Rook Ltd was outstanding (2010: £22,405,997). This has been fully provided for in both 2010 and 2011. A further subordinated 5% interest-bearing loan of £6,931,644 from Silence Therapeutics to Silence Therapeutics AG was outstanding (2010: £4,020,221).

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	US	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.

15. Trade and other receivables

	Group 2011 £	Company 2011 £	Group 2010 £	Company 2010 £
Trade receivables	**35,894**	**—**	597,952	—
Other receivables	**28,721**	**33,280**	96,732	18,102
Prepayments	**109,731**	**46,212**	87,912	27,922
	174,346	**79,492**	782,596	46,024

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 2011 £	Company 2011 £	Group 2010 £	Company 2010 £
Cash at bank	**3,687,860**	**3,322,705**	3,566,877	2,283,300

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 2011 £	Company 2011 £	Group 2010 £	Company 2010 £
Trade payables	**450,187**	**85,237**	345,785	38,441
Social security and other taxes	**—**	**19,538**	8,644	8,644
Deferred revenues	**392,321**	**—**	556,105	—
Accruals and other payables	**417,476**	**77,110**	775,982	202,761
	1,259,984	**181,885**	1,686,516	249,846

Trade payables, accruals and other payables 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:

	2011 £	2010 £
Deferred tax liability:		
– in respect of intangible assets	**327,000**	310,000
Liability	**327,000**	310,000
Less: offset of deferred tax asset below	**(327,000)**	(310,000)

	2011 £	2010 £
Deferred tax asset:		
– in respect of available tax losses	**24,390,000**	23,620,000
– in respect of share-based payments	**1,136,000**	1,130,000
Deferred tax asset	**25,526,000**	24,750,000
Less: offset against deferred tax liability	**(327,000)**	(310,000)
provision against asset	**25,199,000**	(24,440,000)
Asset	**—**	—

Due to the uncertainty of future profits, no deferred tax asset was recognised at 31 December 2011 (2010: £nil).

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year ended 31 December 2011

19. Share capital

	2011 £	2010 £
Allotted called up and fully paid		
577,114,517 (2010: 279,891,452) ordinary shares (par value £0.01 per share)	**5,771,145**	2,798,915

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 2010	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
Shares issued during 2011:	
– issue of shares for cash at 2p per share	296,693,065
– issue of shares at 2.36p per share	530,000
Total issued in year	297,223,065
Number of shares in issue at 31 December 2011	**577,114,517**

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 2011 there were options outstanding over 41,762,447 (2010: 24,674,843) unissued ordinary shares and 462,963 warrants outstanding (2010: nil) over unissued ordinary shares.

Details of the options outstanding are as follows:

Exercise date	Number	Exercise price
At any time up to 24 July 2015	2,550,000	23.00p
At any time up to 25 July 2016	594,918	12.75p
At any time up to 23 November 2016	600,000	43.00p
At any time up to 29 May 2017	80,000	109.00p
At any time up to 26 July 2017	1,000,000	127.00p
At any time up to 14 December 2017	80,000	67.75p
At any time up to 6 May 2018	53,333	41.50p
Between 7 May 2011 and 6 May 2018	51,666	41.50p
At any time up to 25 September 2018	410,000	29.50p
Between 26 September 2011 and 25 September 2018	5,000	29.50p
At any time up to 4 December 2018	2,026,662	20.00p
Between 5 December 2011 and 4 December 2018	1,013,336	20.00p
At any time up to 4 January 2020	1,853,777	21.23p
Between 5 January 2011 and 4 January 2020	859,378	21.23p
Between 5 January 2012 and 4 January 2020	859,377	21.23p
Between 16 May 2011 and 16 May 2021	675,001	2.07p
Between 1 June 2012 and 16 May 2021	675,000	2.07p
Between 1 June 2013 and 16 May 2021	674,999	2.07p
Between 13 October 2012 and 13 October 2021	8,233,337	1.80p
Between 13 October 2013 and 13 October 2021	8,233,332	1.80p
Between 13 October 2014 and 13 October 2021	8,233,331	1.80p
Between 24 October 2012 and 24 October 2021	1,000,001	2.17p
Between 24 October 2013 and 24 October 2021	1,000,000	2.17p
Between 24 October 2014 and 24 October 2021	999,999	2.17p
Total	**41,762,447**	—

The options held by the Directors at the beginning and end of the year are as detailed below. No Director exercised options during 2011.

19. Share capital continued

Director	At 1 January 2011	Lapsed in the year	At 31 December 2011	Exercise price	Latest date of exercise
D C U'Prichard					
– Unapproved Scheme	250,000	—	**250,000**	23.00p	24/07/2015
– Unapproved Scheme	350,000	—	**350,000**	20.00p	04/12/2018
A Clancy					
– Unapproved Scheme	200,000	—	**200,000**	29.50p	25/09/2018
J A P Randall					
– Unapproved Scheme	200,000	—	**200,000**	29.50p	25/09/2018
P Haworth					
– Unapproved Scheme	1,325,000	—	**1,325,000**	21.23p	04/01/2020
T Christély					
– Unapproved Scheme	1,300,000	—	**1,300,000**	23.00p	24/07/2015
– Unapproved Scheme	200,000	—	**200,000**	43.00p	24/11/2016
– Unapproved Scheme	500,000	—	**500,000**	127.00p	26/07/2017
– Unapproved Scheme	750,000	—	**750,000**	20.00p	05/12/2018
– Unapproved Scheme	300,000	—	**300,000**	21.23p	05/01/2020
– Unapproved Scheme	—	—	**9,100,000**	1.80p	13/10/2021
M Herrmann					
– Unapproved Scheme	—	—	**1,700,000**	2.07p	16/05/2021
– Approved Scheme	—	—	**1,666,666**	1.80p	13/10/2021
– Unapproved Scheme	—	—	**1,633,334**	1.80p	13/10/2021
Total	**5,375,000**	**—**	**19,475,000**	**—**	**—**

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 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 2.06p per share (31 December 2010: 7.79p).

During the year, the minimum and maximum prices were 1.50p and 8.15p per share respectively.

At 31 December 2011, the Group had outstanding warrants over 462,963 shares that were convertible at 27.00p per share (to be exercised before 24 July 2013) (2010: nil).

Notes to the financial statements continued

year ended 31 December 2011

20. Capital reserves

Group	Share premium account £	Merger reserve £	Share-based payment reserve £	Total £
At 1 January 2010	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
On shares issued in the year:	2,974,121	—	—	2,974,121
– less costs of share issue	(427,316)	—	—	(427,316)
On options in issue during the year	—	—	120,474	120,474
On vested options lapsed during the year	—	—	(1,795,928)	(1,795,928)
On issued warrants during the year	—	—	795	795
Movement in the year	2,546,805	—	(1,674,659)	872,146
At 31 December 2011	**56,736,250**	**22,248,199**	**2,156,975**	**81,141,424**

Company	Share premium account £	Merger reserve £	Share-based payment reserve £	Total £
At 1 January 2010	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
On shares issued in the year:	2,974,121	—	—	2,974,121
– less costs of share issue	(427,316)	—	—	(427,316)
On options in issue during the year	—	—	120,474	120,474
On options exercised during the year	—	—	—	—
On vested options lapsed in the year	—	—	(1,795,928)	(1,795,928)
On issued warrants during the year	—	—	795	795
Movement in the year	2,546,805	—	(1,674,659)	872,146
At 31 December 2011	**56,736,250**	**22,064,283**	**2,156,975**	**80,957,508**

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 page 46. The remaining warrants expired unexercised on 24 July 2010.

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

	2011		2010	
	Number	**Weighted average exercise price**	Number	Weighted average exercise price
Options				
Outstanding at the beginning of the year	**24,674,843**	**28.40p**	20,585,547	29.82p
Granted during the year	**29,725,000**	**1.87p**	4,089,296	21.23p
Lapsed during the year	**12,637,396**	**24.87p**	—	—
Exercised during the year	**—**	**—**	—	—
Outstanding at the year end	**41,762,447**	**10.57p**	24,674,843	28.40p
Exercisable at the year end	**11,853,069**	**31.18p**	21,530,619	29.47p
Warrants				
Outstanding at the beginning of the year	**—**	**—**	925,926	27.00p
Granted during the year	**462,963**	**27.00p**	—	—
Lapsed during the year	**—**	**—**	925,926	27.00p
Exercised during the year	**—**	**—**	—	—
Outstanding at the year end	**462,963**	**27.00p**	—	—
Exercisable at the year end	**462,963**	**27.00p**	—	—

The options outstanding at the year end have a weighted average remaining contractual life of 8.7 years (2010: 6.4 years). The exercise price of the options outstanding at the year end range from 1.80p to 127.00p per share. Full details are given in Note 18 above.

The Group granted 29,725,000 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:

	2011	2010
Weighted average share price	**1.92p**	18.75p
Weighted average exercise price	**1.87p**	21.225p
Expected volatility	**100%**	70%
Risk-free rate	**1.49–1.53%**	4.14%
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 £121,269 (2010: £659,018) related to equity-settled share-based payment transactions during the year.

22. Capital commitments

There were no capital commitments at 31 December 2011 or 31 December 2010.

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year ended 31 December 2011

23. Contingent liabilities

There were no contingent liabilities at 31 December 2011 or at 31 December 2010.

24. Commitments under operating leases

The Group and Company have one operating lease in respect of the office in London, UK, which was entered into in August 2011. At 31 December 2010, the Group had one operating lease in respect of the office in Redwood City, California and which ended in September 2011. The Company did not have any other operating lease commitments than Redwood City, California at 31 December 2010.

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

	Group 2011	**Company 2011**	Group 2010	Company 2010
Less than one year	**6,861**	**6,861**	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 that 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 headings in which they are included are as follows:

	Group 2011 £	**Company 2011 £**	Group 2010 £	Company 2010 £
Current assets				
Trade and other receivables	**64,615**	**33,280**	694,684	18,102
Cash and cash equivalents	**3,687,860**	**3,322,705**	3,566,877	2,283,300
Categorised as loans and receivables	**3,752,475**	**3,355,985**	4,261,561	2,301,402

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 headings in which they are included are as follows:

	Group 2011 £	**Company 2011 £**	Group 2010 £	Company 2010 £
Current liabilities				
Trade and other payables	**1,259,984**	**181,885**	1,686,516	249,846
Categorised as financial liabilities measured at amortised cost	**1,259,984**	**181,885**	1,686,516	249,846

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

Credit risk

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

	Group 2011 £	**Company 2011 £**	Group 2010 £	Company 2010 £
Loans and receivables	**174,346**	**79.492**	782,596	46,024

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 KPIs 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 fees from new licensees.

25. Financial instruments and risk management continued

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 remainder 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 2011 £	**Company 2011 £**	Group 2010 £	Company 2010 £
Financial assets	**403,370**	**—**	1,486,612	—
Financial liabilities	**(308,362)**	**—**	(674,104)	—
Net financial assets	**95,008**	**—**	812,508	—

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

	Group 2011 £	**Company 2011 £**	Group 2010 £	Company 2010 £
Financial assets	**297,925**	**—**	555,502	—
Financial liabilities	**(769,246)**	**—**	(754,567)	—
Net financial liabilities	**(471,321)**	**—**	(199,065)	—

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 2011, the Sterling:Euro exchange rate remained broadly stable. During the year Sterling appreciated by 3% versus the Euro. The table shows the impact of a further strengthening or fall of Sterling against the Euro by 20%.

	2011 As reported £	**If Sterling rose 20% £**	**If Sterling fell 20% £**
Group result for the year	**(5,736,563)**	**(5,095,827)**	**(6,697,668)**
Euro denominated net financial assets	**95,008**	**79,174**	**118,761**
Total equity at 31 December 2011	**(32,177,888)**	**(32,017,499)**	**(32,418,471)**

	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)

Notes to the financial statements continued

year ended 31 December 2011

25. Financial instruments and risk management continued

Currency risk continued

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

	2011 As reported £	If Sterling rose 20% £	If Sterling fell 20% £
Group result for the year	**(5,736,563)**	**(5,512,150)**	**(6,073,183)**
US Dollar denominated net financial assets	**(471,321)**	**(392,768)**	**(589,152)**
Total equity at 31 December 2011	**(32,177,888)**	**(28,665,876)**	**(37,445,907)**

	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)
US Dollar 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)

26. Related party transactions

During the year the Company charged a management fee to its subsidiary companies Silence Therapeutics AG and Intradigm Corporation amounting to £182,843 (2010: £100,581) and £63,485 (2010: £29,237) respectively. During the year, Intradigm Corporation charged the Company a management fee of £126,131 (2010: £187,612).

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

There were no subsequent events to report.

Company information and advisers

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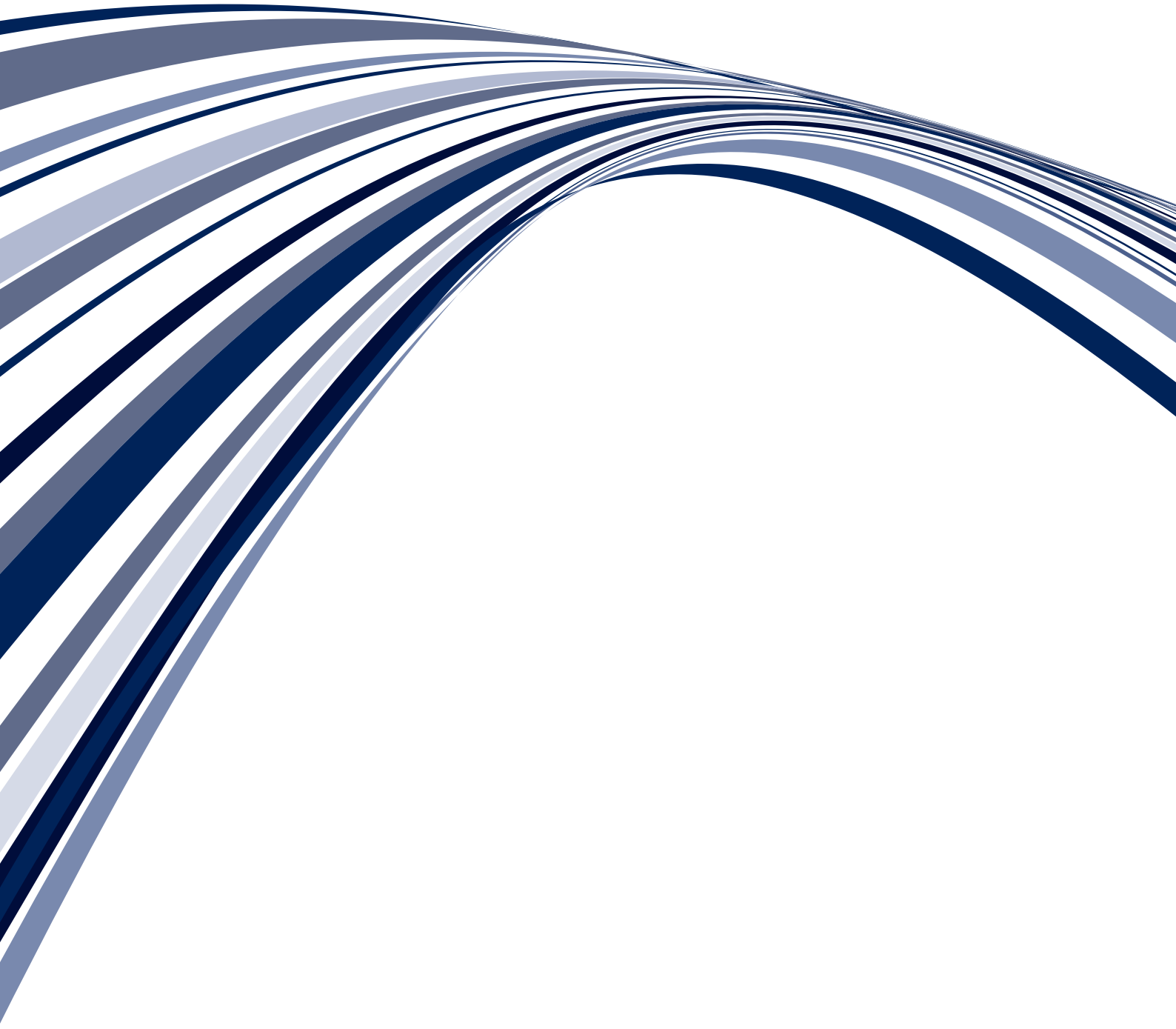

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