Silence Therapeutics plc Annual report and financial statements 2012

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Silence Therapeutics plc
Annual report and financial statements 2012

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.

Visit us online
silence-therapeutics.com

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SILENCE THERAPEUTICS AT A GLANCE

Gene silencing

- Synthetic siRNA that can silence any gene
- Patented form of siRNA tested in humans
- Over 300 patients treated to date, no evidence of adverse effects or immune response

Delivery of gene silencing siRNA

- Own delivery systems that do not require immune suppression
- Safety and tolerability demonstrated
- 34 patients treated in phase I with AtuPLEX delivery system
- Two further preclinical delivery systems, DACC for the lung and DBTC for the liver, both at preclinical stage

Current own clinical asset: Atu027

- AtuRNAi silencing PKN3 + AtuPLEX = Atu027
- Acts by preventing the spread of cancer
- To be used in combination with conventional tumour killing drugs
- Currently in human testing, in combination with a chemotherapy agent, gemcitabine

Preclinical programmes

- Eight programmes
- Oncology and non-oncology

Research and development engine

- RNAi + delivery + expertise and testing facilities = development programme
- Potential to quickly enter into the clinic at a relatively low cost
- Developing pipeline to showcase the strength of our technology

Cash resources

- £26.0m of cash in the bank following April 2013 fund raising

HIGHLIGHTS

During the year

- Management reorganisation and cost restructuring
- Completion of phase I trial in Atu027 with no serious adverse effects or immune response deemed to be directly related to Atu027
- Cash raised through equity placings totalling £10.7m before expenses
- Assets using Silence technology continue to progress

Post year-end events

- In April 2013, patient dosing started for Atu027 in combination with a chemotherapy agent, gemcitabine
- In April 2013, £19.0m gross funds were raised through an equity placing to fund two further phase 1b trials and progress preclinical development in non-cancer targets

CHAIRMAN'S STATEMENT

"RNAi therapeutics are succeeding."

Jerry Randall
Chairman

We are transforming Silence from a technology company to a product company, and developing a clinical capability that will match and exploit our expertise in preclinical development.

2012 has been a year of significant positive change and development for Silence. Helped by key long-term supportive shareholders we have been able to restructure the company and provide a significant runway of cash to enable the company to both progress its Atu027 clinical asset and to broaden its preclinical pipeline. The transformation of Silence from a technology company to a product company continues, and we are evaluating opportunities to match and exploit our expertise in preclinical development.

Clinical development

Our development strategy with our siRNAs makes drug development significantly cheaper, quicker and more efficient than traditional drug development:

- **broad applicability:** the ability to target any gene
- **specificity:** the ability to block only selected genes without interfering with others
- **simplicity:** after identification of the gene target, path to phase I is relatively simple and well defined

This is in contrast to traditional development where there is a risk of off-target effects, multiple cycles of optimisation and design before a drug candidate is identified for phase I study. Additionally, relative to other oligonucleotide-based technologies, our technology has the potential to be used at much lower doses.

During 2012 we completed the phase I clinical study for Atu027, which we believe has anti-metastatic effects. A total of 34 patients were treated, and the excellent safety and tolerability observed in the study underpins our technology. Atu027 is believed to block the extravasation and intravasation of cancer cells necessary for the spread of cancer. This activity represents a novel cancer treatment paradigm versus many other anti-cancer drugs, which target tumours directly. The potential for Atu027 when used with conventional anti-cancer drugs is a very exciting proposition for us.

The next stage for Atu027 is a phase Ib/IIa trial that combines Atu027 with a chemotherapy agent in pancreatic cancer. Our preclinical work on this combination has demonstrated a reduction in total tumour burden, including visible metastatic spread. We were given ethical committee approval for this phase Ib/IIa early in 2013 for this trial, and dosed the first patient in April 2013.

We are evaluating further studies for Atu027 in combination with other chemotherapy agents in a variety of tumour types. We plan to initiate further programmes, and will provide updates in due course.

In addition to this exciting clinical programme, we are evaluating preclinical opportunities in areas that begin to take us outside oncology, to showcase the strength of our technology, as well as take advantage of various accelerated clinical and regulatory pathways. These programmes may make use of our DBTC and DACC delivery systems targeted towards the liver and lung endothelium, respectively.

Our partner Quark Pharmaceuticals (Quark) continues to make progress in the two projects covered under our licence agreements, PFE-4523655 in diabetic macular oedema (under a licensing agreement between Quark and Pfizer), and QPI-1002 in delayed graft function post kidney transplantation (under an option agreement between Quark and Novartis). The results of these studies, if they warrant continued development by Pfizer and Novartis, respectively, could yield milestone income for us in 2014 to 2015. If these molecules are commercialised, we would be entitled to further income in the form of royalties.

Operations

During 2012 we were able to significantly restructure the head office costs in London, reducing the costs and ensuring more of our cash resources are focused on developing the assets of the company. At the same time, we have added the appropriate personnel to support our progression into a product company.

The development team in Berlin, headed by Dr Klaus Giese, has continued to make significant progress with our pipeline and technology assets, and I am excited about the developments and their future potential.

In February 2012 Thomas Christely resigned as chief executive and left the company. In August, Tony Sedgwick, chief executive, Max Herrmann, chief financial officer and Annette Clancy, non-executive director, left the company.

Ali Mortazavi joined us as Director of Corporate Strategy in August 2012, Tim Freeborn as Finance Director in October 2012, and I remain Chairman. Ali brings a wealth of experience in the capital markets as well as small cap companies, and has been instrumental in the development of Silence since he has joined. Tim has a wealth of experience in the financial markets and as an analyst and qualified accountant. He has already undertaken significant streamlining of the finance function.

Mike Khan became a non-executive director in September and Chief Medical Officer in January 2013.

We also welcome Annie Cheng to the board as Director of Corporate Development. She has 14 years of experience in the healthcare industry, in equity research and consulting. While in equity research, she covered a wide range of European and US healthcare product stocks. As a consultant, Annie advised a number of biotechnology companies in corporate development and communications with the investment community.

Capital raising

During 2012 we have continued to receive strong support from key shareholders and undertook two capital raisings, £5.7m before expenses in July, and £5.0m before expenses in November. In addition, as announced in April 2013 a further £19.0m, before expenses, was raised post year end. These capital raisings have demonstrated the continued strong support post year end of our existing key shareholders and some significant new investors. On behalf of the board of the company I would like to thank our shareholders for their continued support and input to the development of Silence in 2012 and into the future. As a board we are committed to maximising the value of the company and hence the value to shareholders.

Looking forward

Thanks to the work in the last twelve months by the whole team and key shareholders of the company, Silence is progressing in its transformation into a product company using our expertise in chemical modifications of siRNA and delivery technologies. At the same time, the field of RNA-based therapeutics continues to see positive developments, which in our view, validates our strategic direction.

As a board we are incredibly excited about 2013 and beyond, as we look to translate our preclinical excellence today into clinical results and products in the future. We look forward very positively to 2013 and the development of our pipeline and business, and to translating that into growth in shareholder value.

Jerry Randall
Chairman

28 May 2013

CHIEF EXECUTIVE'S REVIEW

"We will use our technology to change patient lives for the better, and in the process, build shareholder value."

Ali Mortazavi
Chief Executive

I am pleased to be appointed Chief Executive of Silence Therapeutics, transitioning from my prior role at the company as Director of Corporate Strategy. With the completion of the Atu027 phase I study and a strengthened cash position, Silence Therapeutics is now ready to embark on the next step in a road well-trodden by the pioneers of the biotechnology industry such as Amgen and Biogen.

New technologies enable the development of new medicines that change lives dramatically for the better. For example, five-year relative survival rate for cancer increased to 69% in 1999 to 2005, from 50% in 1975 to 1977. By supporting companies that made a difference for patients, investors in these companies were rewarded. In 2012, European small-cap biotechnology stocks were up over 40%, according to Ernst & Young's 2013 Biotechnology Industry Report.

Silence Therapeutics, as one of the few companies with intellectual property and know-how in the emerging oligonucleotide therapeutics platform, now has an opportunity to become a fully fledged biotechnology company in the tradition of the previous waves of biotechnology pioneers.

Our team of scientists, who have been with us since the inception of the company, created a powerful platform technology from which new drugs can be developed to treat previously unaddressable conditions.

The drug development industry remains an attractive investment opportunity due to demographic trends although this path is not without challenges. We believe our success is contingent on developing drugs that truly make a difference to patients. We are in the process of acquiring the capabilities to enable us to make appropriate clinical development decisions for the benefit of patients and shareholders.

In the next year, we look forward to sharing with you a research and development plan and timelines for delivering key development milestones.

Leveraging the strengths of our technology

The core technology of Silence Therapeutics enables the development of novel molecular entities that "silence" or inactivate genes. It is inspired by a naturally occurring process called RNA interference (RNAi). This process is triggered by a short, double stranded oligonucleotide known as short interfering RNA (siRNA) in cells where the target gene is expressed and when such expression is undesirable.

Our scientists improved on nature by chemically modifying a natural siRNA, to create a proprietary form of siRNA molecule known as AtuRNAi. These molecules have been demonstrated to be more stable and less immunostimulatory than unmodified siRNAs, making AtuRNAi desirable as drugs molecules.

Additionally, our scientists developed technology that preferentially delivers AtuRNAi to the vascular endothelium (AtuPLEX), the lung endothelium (DACC) and the liver (DBTC).

In contrast to conventional drugs that can access a limited proportion of disease targets, we believe our technology can be used to address the overexpression of any gene. As such, our technology may be able to help more patients and treat more diseases.

Given the properties of our technology, we believe it would be most powerful when used to address diseases with established and well-studied links between the expression of a specific gene (or the production of a specific protein) and a disease. More of these opportunities should come to light as gene sequencing technology advances.

Pursuing new clinical development projects

Our technology provides many clinical development opportunities. We have a responsibility to patients and shareholders to pursue projects with the highest chance of success. To do so, we will adhere to the following simple principles:

- **decision enabling experiments** we will do studies that enable go/no go decisions, where the benchmark for "go" is prospectively defined, and we will stop projects that are not worth doing as soon as practicable
- **efficacy signals early** we will target conditions where it is possible to know early whether the drug works. For example, where clinical outcome would be obvious in small uncontrolled studies, or where there are well-accepted surrogate endpoints for clinical outcome. Importantly, early efficacy signals may enable accelerated path to approval for the benefit of patients and value creation for shareholders
- **found patient population** we are better able to help patients if they are already known to treating physicians because their diseases are obvious enough that they seek medical help, or their diseases are screened routinely
- **in target tissues** we will pursue diseases where the undesirable gene expression and protein production are in the vascular endothelium, lung endothelium, liver, or wherever else our technology can take us in the future
- **necessary** before we embark on any clinical development project, we will establish the necessary efficacy and safety parameters for a new drug that will be meaningful to patients in light of existing options and more advanced potential therapies. The target profile will inform our study design, so we can know as early as possible whether our drug can make a difference to patients. Clear characterisation of unmet medical needs may also allow us to take advantage of certain accelerated regulatory pathways
- **elucidated biology** we plan to pursue disease where the link between the undesirable gene expression and disease is already well-studied, preferably by multiple, independent groups

How Atu027 fits into our future portfolio

Currently, we have one clinical stage project, Atu027, an AtuRNAi against PKN3, delivered by AtuPLEX, to the vascular endothelium. By acting against PKN3 in the vascular endothelium, it is hypothesised that metastatic spread would decrease, thereby slowing progression and improving survival rates of cancer patients.

We have demonstrated the safety of Atu027 in 34 patients. In 2012, we completed a phase I, monotherapy, one-month safety study of Atu027 in a variety of solid tumour patients.

The phase I study showed that none of the 34 patients experienced a serious adverse event directly associated with Atu027.

The next logical step in the development of Atu027 is to combine its presumed ability to stop cancer spread with chemotherapy agents that kill tumours, to better clarify Atu027's efficacy profile when used as intended. In April 2013, we initiated dosing of cancer patients with the chemotherapy agent gemcitabine in combination with Atu027. As such further studies are being planned, we will pay special attention to cancers where patients experience spread of disease or death within a relatively short period of time, even on best current available therapy.

If successful, Atu027 could help cancer patients at risk from developing metastasis, thereby slowing progression of disease and improve survival. Demonstration of these effects will ultimately require sizable randomised controlled trials using progression free survival or overall survival as endpoints. At this time, the early indicators of efficacy that are normally available to drugs with tumour killing properties (e.g. tumour regression) are not available to Atu027 given its mechanism of action. Therefore, we consider Atu027 to be a high-risk but high-reward opportunity.

We will therefore be looking to balance the pipeline appropriately.

Enabling infrastructure

With its solid scientific foundation, Silence is well positioned to develop impactful new treatments for patients that would also generate shareholder value. The next stage of our development will require further expertise.

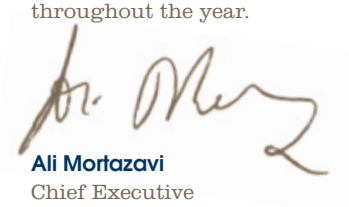
We have identified two near-term needs for the company:

- run clinical trials in a cost-efficient way to reach value inflection points early
- identify diseases where there is a significant medical need, and the required target profile for new drugs

We have taken steps to recruit the appropriate personnel to address the aforementioned needs.

Conclusion

The next year will be critical for Silence Therapeutics in its transition to a drug development company, including an update on our clinical development plan. I look forward to providing you with further updates throughout the year.



Ali Mortazavi
Chief Executive

28 May 2013

FINANCIAL REVIEW

"Silence significantly improved its cash position through a number of cash raisings, and undertook cost restructuring which will benefit the company in 2013 and beyond."

Tim Freeborn
Finance Director

The fund raisings in 2012 totalled £10.7m before expenses. A further £19.0m before expenses was raised post year end, and will allow the company to significantly advance both its clinical and preclinical programmes.

Revenue
Revenue generated during the year reduced by £0.5m to £0.2m.

Research and development expenditure
Research and development expenses during the year remained unchanged at £3.4m (2011: £3.4m), and comprised the expenditure on both our clinical and preclinical development programmes.

Administrative expenses
Administrative expenses during the year also remained virtually unchanged at £2.6m (2011: £2.7m). A cost reduction programme was undertaken in London during the summer period, but due to associated one off costs the benefit of these will not be seen until 2013 and future years.

Impairment of intangible assets
The impairment charge of £20.5m (2011: £nil) related to the impairment of goodwill, write down of intangibles and trade payables.

Restructuring charge
There was no restructuring charge in the current year (2011: £0.5m).

Financial income
Financial income during the year was lower mainly due to lower average cash balances during the year.

Taxation

No corporation tax was payable in either 2012 or 2011.

Liquidity, cash, cash equivalents and money market investments

The group's cash position at year end was £8.9m. At the end of 2011, Silence had cash of £3.7m. A total of £10.3m after expenses was raised during 2012 through placings and open offers which involved the issue of 1,089,088,220 shares at 0.5p and 200,000,000 shares at 2.5p.

The net cash outflow from operating activities in 2012 was £4.9m (2011: £5.1m) against an operating loss of £26.3m (2011: £5.8m), which reflects the impairment charge.

Trade and other receivables at year end were £0.2m (2011: £0.2m) and trade and other payables were £1.0m at year end (2011: £1.3m).

Goodwill at year end was £7.3m (2011: £28.3m) following a reassessment after the closure of Intradigm in the US.

Tim Freeborn
Finance Director and Company Secretary

28 May 2013

BOARD OF DIRECTORS

1 2 3 4 5

1 Jerry Randall
2 Ali Mortazavi
3 Tim Freeborn
4 Mike Khan
5 David Mack

Jerry Randall ACA
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. Currently Mr Randall is founder and Chief Executive Officer of Venture Life Group, a private international specialty healthcare company focusing on the concerns of aging. 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 and was previously involved in two other buy ins. He acted as adviser to both private and quoted companies between 1993 and 2000, in both the capacity of nominated adviser and in practice with KPMG. During this period, he was involved in a number of flotations and transactions on the Official List, Unlisted Securities Market and the Alternative Investment Market, as well as raising private equity. Mr Randall is a qualified chartered accountant and Member of the Institute of Directors.

Ali Mortazavi
Chief Executive
Mr Mortazavi has over 17 years of experience in financial services. He started his career as a Technology Analyst at Duncan Lawrie then Credit Lyonnais Securities. In 2001, he co-founded Evolution Securities and ran the principal trading and market making arm, leaving in 2008. He has extensive experience in small companies and has significant stakes in UK listed technology/biotech ventures.

Tim Freeborn BA ACA
Finance Director and Company Secretary
Mr Freeborn joined the company in August 2012 and became full time in October. Previously he was head of research at Xcap Securities and an analyst at Evolution Securities. After qualifying as a chartered accountant he left practice to become a journalist. For twelve years he worked in the Daily Mail City Office covering biotech, electronics and real estate.

Michael Khan BSc, MBBS, PhD, FRCP
Director and Chief Medical Officer
Dr Khan is an Associate Professor of Medicine at the University of Warwick and a Consultant Physician at University Hospitals. He is a highly cited researcher and experienced clinician with a long track record in metabolic medicine and cancer biology research as well as in the running of clinical trials. He has written several books on diabetes, cholesterol problems and cancer biology and teaches postgraduates and undergraduates in medicine and biological sciences in these areas. He and co-workers have made important contributions to further the understanding of cancer cell biology and diabetes and are working on identifying novel tissue-based biomarkers for colorectal cancer and the development of novel diagnostic tools. He is a fellow of the Royal College of Physicians of London and a member of the Association of Physicians, HEART-UK and Diabetes UK and has acted as an expert adviser to numerous national and international organisations in both the public and private sectors.

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

COMPANY INFORMATION AND ADVISERS

Secretary
Tim Freeborn

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Registered number
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Huddersfield HD8 0LA

Auditor
KPMG Audit Plc
15 Canada Square
London E14 5GL

DIRECTORS' REPORT

The directors present their report and the financial statements for the year ended 31 December 2012.

Principal activities
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 Ib/2a clinical trial.

Review of the business and future developments
The Chairman's statement provides details of the group's progress during the year against all its performance targets. The Chief Executive's review describes research and development activity during the year as well as outlining future planned developments. Details of the financial performance, including comments on the cash position and research and development expenditure, are given in the financial review. The group's key performance indicators are the cash position in relation to cash flow, the expenditure on research and development activities and the development milestones reached, together with the signing of research collaborations and licences to bring in both development partners and revenues.

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

Employees
The directors are committed to continuing involvement and communication with employees on matters affecting both employees and the company. Management conducts regular meetings with all employees on site.

Subsequent events
A description of subsequent events is set out in note 25 to the financial statements.

Results and dividends
The group recorded a loss for the year before taxation of £26.3m (2011: £5.7m). Further details are given in the preceding financial review. The group is not yet in a position to pay a dividend and the loss for both periods has been added to the 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. The directors consider that the most important non-financial KPIs relate to the number of drugs in development by stage of development and the number of pharmaceutical collaborations, both of which are detailed in the Chief Executive's review.

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

	Job title	Appointed	Resigned
J Randall	Chairman		
D Mack	Non-executive		
T Christely	Chief Executive		9 February
A Clancy	Non-executive		2 August
M Herrmann	Finance		2 August
T Sedgwick	Chief Executive	9 February	2 August
A Mortazavi	Chief Executive	2 August	
T Freeborn	Finance	8 October	
M Khan	Chief Medical Officer	18 September	

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

DIRECTORS' REPORT continued

Substantial interests

At 31 December 2012 the company had been informed of the following substantial interests of over 3% in the issued share capital of the company:

	Number issued	Percentage of share capital
Robert Keith	488,325,844	26.1%
Ora Guernsey Limited	374,000,000	20.0%
Henderson Global Investors	160,000,000	8.5%
Richard Griffiths	125,746,105	6.7%
Ali Mortazavi	82,400,000	4.4%

Corporate governance

The board meets regularly and has ultimate responsibility for the management of the group and sub-committees, comprising of executive and non-executive directors, who meet as and when required to deal with remuneration and audit matters.

Committee structure

Remuneration, audit, nominations: Jerry Randall (chair), and David Mack.

Remuneration Committee

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 half year, final and price-sensitive reports and information required to be presented by statute.

The Audit Committee comprises the Chairman and one non-executive director 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.

Our auditor, KPMG Audit Plc has instigated an orderly wind down of its business. The board has decided to put KPMG LLP, the successor firm, forward to be appointed as auditors and a resolution concerning their appointment will be put to the forthcoming AGM of the company on 26 June 2013.

Shareholder communications

The company uses its corporate website (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 financial statements. 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.

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.

Risk factors

The group's principal activity is biotechnology research and development. As with any business in this sector, there are risks and uncertainties relevant to the group's business. Certain of these risk factors affect the majority of businesses, some are common to businesses in the biotechnology sector and others are more specific to the group.

Risks common to most businesses

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

Risks applicable to the biotechnology sector and the group

Clinical and regulatory risk

- the nature of pharmaceutical development is such that drug candidates may not be successful due to an inability to demonstrate in a timely manner the necessary safety and efficacy in a clinical setting to the satisfaction of appropriate regulatory bodies, such as the Food and Drug Administration (FDA) in the US and the European Medicines Agency (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 is increased competition. Competitors in the sector may have greater financial, human and other resources and more experience to develop competing products or technology
- many companies are trying to develop competing technologies and one or more of these may restrict the potential commercial success of the group's products or render them obsolete
- increasing competition may also have an adverse effect on the timing or scale of commercialisation of the group's technology

DIRECTORS' REPORT continued

Risk factors continued

Risks applicable to the biotechnology sector and the group continued

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 (including any granted in future further to those applications) are or will be valid or of sufficiently broad scope to provide commercially meaningful protection against third party competition. The group's competitors may also have, or acquire in future, substantially equivalent technologies to those on which the group does or will depend, or otherwise design around the group's intellectual property
- other companies may have or acquire intellectual property that restricts the group's freedom to operate or imposes high additional costs for the group in obtaining licences, and there can be no assurance that the group will be able to design around such intellectual property or obtain relevant licences on commercially acceptable terms, if at all
- the group may incur substantial costs in enforcing its intellectual property, and in bringing and prosecuting opposition or interference actions to seek to prevent third parties from obtaining patent or other protection. The group may incur substantial costs in defending against such actions. There can be no guarantee that such actions will be successful for the group
- the patent landscape in the field of RNAi is complex, and the group is aware of the issuance and the pendency of patents and patent applications in Europe, the US and in other jurisdictions that are owned by third parties and that purport to cover structurally-defined classes of siRNAs and their uses. This patent landscape is in flux, with ongoing oppositions, litigations, and continuing prosecution before patent offices around the world, and the directors cannot be certain that siRNA claims issued to third parties to date or in the future will not restrict the group's freedom to operate
- in addition, there are many issued and pending patents that claim various aspects of oligonucleotide chemistry that the directors may need to apply to the group's siRNA drug candidates. There are also many issued patents that claim genes or portions of genes that may be relevant for siRNA drugs we wish to develop. There are further many issued and pending patents that claim various aspects of nucleic acid delivery systems that the directors may need to licence 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 and Germany and, therefore, the group will be exposed to risks associated with foreign currency exchange rates and fluctuation therein

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

Going concern

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

The group had a net cash inflow for 2012 of £5.2m and at 31 December 2012 had cash balances of £8.9m. Following the fundraising announced on 10 April, during which a further £19.0m of cash was raised, based on current forecasts the cash on hand at the date of this report will support operations into 2016.

Political and charitable donations

The group made no political or charitable donations during 2012 (2011: £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 42 days (2011: 49 days).

On behalf of the board

Jerry Randall
Chairman

28 May 2013

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 International Financial Reporting Standards ("IFRS") as adopted by the EU ("EU-IFRS") and applicable law and have elected to prepare the parent company financial statements on the same basis.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period.

In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether they have been prepared in accordance with IFRS as adopted by the EU
- 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.

Tim Freeborn
Finance Director

28 May 2013

INDEPENDENT AUDITOR'S REPORT
to the members of Silence Therapeutics plc

We have audited the financial statements of Silence Therapeutics plc for the year ended 31 December 2012 set out on pages 18 to 48. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective responsibilities of directors and auditor
As explained more fully in the directors' responsibilities statement set out on page 16, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's 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 Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

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 2012 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRS as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with IFRS 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.

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

Richard Broadbelt
Senior Statutory Auditor

For and on behalf of KPMG Audit Plc
Statutory Auditor
Chartered Accountants
15 Canada Square, London E14 5GL

28 May 2013

CONSOLIDATED INCOME STATEMENT
year ended 31 December 2012

	Note	**Year ended 31 December 2012 £000s**	Year ended 31 December 2011 £000s
Revenue	3	**163**	694
Research and development costs		**(3,378)**	(3,361)
Gross loss		**(3,215)**	(2,667)
Restructuring charge		**—**	(472)
Impairment	5	**(20,486)**	—
Administrative expenses		**(2,613)**	(2,647)
Operating loss	5, 6	**(26,314)**	(5,786)
Finance income	7	**18**	57
Gain on sale of assets		**12**	5
Finance expense		**—**	(13)
Loss for the period before tax		**(26,284)**	(5,737)
Taxation credit for the period	8	**—**	—
Retained loss for the period after taxation attributable to equity holders transferred to reserves		**(26,284)**	(5,737)
Loss per ordinary equity share (basic and diluted)	9	**(2.7p)**	(1.2p)

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
year ended 31 December 2012

	Year ended 31 December 2012 £	Year ended 31 December 2011 £
Loss for the period after taxation	**(26,284)**	(5,737)
Other comprehensive income:		
Exchange differences arising on consolidation of foreign operations	**(714)**	5
Total comprehensive income for the period	**(26,998)**	(5,732)

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

CONSOLIDATED BALANCE SHEET
at 31 December 2012

	Note	31 December 2012 £000s	31 December 2011 £000s
Non-current assets			
Property, plant and equipment	10	**157**	225
Goodwill	11	**7,333**	28,342
Other intangible assets	12	**526**	971
		8,016	29,538
Current assets			
Trade and other receivables	14	**148**	174
Investments held for sale		**2**	37
Cash and cash equivalents	15	**8,909**	3,688
		9,059	3,899
Current liabilities			
Trade and other payables	16	**(959)**	(1,260)
Total assets less current liabilities		**16,116**	32,177
Net assets		**16,116**	32,177
Capital and reserves attributable to the company's equity holders			
Share capital	18	**1,872**	5,771
Capital reserves	20	**94,849**	81,141
Translation reserve		**2,323**	3,037
Retained loss		**(82,928)**	(57,772)
Total equity		**16,116**	32,177

The financial statements were approved by the board on 28 May 2013.

Tim Freeborn
Finance Director

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
year ended 31 December 2012

	Share capital £000s	Capital reserves £000s	Translation reserve £000s	Retained loss £000s	Total £000s
At 1 January 2011	2,799	80,269	3,032	(53,831)	32,269
Recognition of share-based payments	—	120	—	—	120
Transfer upon:					
– lapse of vested options in the year	—	(1,796)	—	1,796	—
– issued warrants in the year	—	1	—	—	1
Shares issued in period, net of expenses	2,972	2,547	—	—	5,519
Transactions with owners	2,972	872	—	1,796	5,640
Loss for the year to 31 December 2011	—	—	—	(5,737)	(5,737)
Other comprehensive income					
Exchange differences arising on consolidation of foreign operations	—	—	5	—	5
At 31 December 2011	5,771	81,141	3,037	(57,772)	32,177
Recognition of share-based payments	—	656	—	—	656
Transfer to capital redemption reserve	(5,194)	5,194	—	—	—
Transfer upon:					
– lapse of vested options in period	—	(1,128)	—	1,128	—
Shares issued in period, net of expenses	1,295	8,986	—	—	10,281
Transactions with owners	(3,899)	13,708	—	1,128	10,937
Loss for the year to 31 December 2012	—	—	—	(26,284)	(26,284)
Other comprehensive income					
Exchange differences arising on consolidation of foreign operations	—	—	(714)	—	(714)
At 31 December 2012	**1,872**	**94,849**	**2,323**	**(82,928)**	**16,116**

COMPANY BALANCE SHEET
at 31 December 2012

	Note	31 December 2012 £000s	31 December 2011 £000s
Non-current assets			
Property, plant and equipment	10	**2**	3
Investment in subsidiaries	13	**34,204**	54,218
		34,206	54,221
Current assets			
Trade and other receivables	14	**39**	79
Cash and cash equivalents	15	**8,463**	3,323
		8,502	3,402
Current liabilities			
Trade and other payables	16	**(153)**	(182)
Total assets less current liabilities		**42,555**	57,441
Net assets		**42,555**	57,441
Capital and reserves attributable to the company's equity holders			
Share capital	18	**1,872**	5,771
Capital reserves	20	**94,665**	80,957
Retained loss		**(53,982)**	(29,287)
Total equity		**42,555**	57,441

The financial statements were approved by the board on 28 May 2013.

Tim Freeborn
Finance Director

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 2012

	Share capital £000s	Capital reserves £000s	Retained loss £000s	Total £000s
At 1 January 2011	2,799	80,085	(30,189)	52,695
Recognition of share-based payments	—	120	—	120
Transfer to capital redemption reserve	—	—	—	—
– lapse of vested options in period	—	(1,796)	1,796	—
Shares and warrants issued in period, net of expenses	2,972	2,548	—	5,520
Transactions with owners	2,972	872	1,796	5,640
Loss for the year to 31 December 2011	—	—	(894)	(894)
At 31 December 2011	5,771	80,957	(29,287)	57,441
Recognition of share-based payments	—	656	—	656
Transfer to capital redemption reserve	(5,194)	5,194	—	—
– lapse of vested options in period	—	(1,128)	1,128	—
Shares and warrants issued in period, net of expenses	1,295	8,986	—	10,281
Transactions with owners	(3,899)	13,708	1,128	10,937
Loss for the year to 31 December 2012	—	—	(25,823)	(25,823)
At 31 December 2012	**1,872**	**94,665**	**(53,982)**	**42,555**

CASH FLOW STATEMENTS
for the year ended 31 December 2012

	Group		Company	
	2012 £000s	2011 £000s	**2012 £000s**	2011 £000s
Cash flow from operating activities				
Loss before tax	**(26,284)**	(5,737)	**(25,823)**	(893)
Impairment of intangibles	**20,486**	—	**—**	—
Depreciation charges	**63**	91	**1**	—
Amortisation charges	**189**	214	**—**	—
Gain on sale of property, plant and equipment	**(12)**	(6)	**—**	—
Charge for the year in respect of share-based payments	**656**	121	**579**	28
Charge for warrants	**32**	—	**32**	—
Foreign exchange charge on intragroup loan	**—**	—	**200**	—
Increase/(reduction) in impairment provision against investment in subsidiary	**—**	—	**24,135**	3
Finance income	**(18)**	(56)	**(15)**	(284)
Finance expense	**—**	13	**—**	—
	(4,888)	(5,360)	**(891)**	(1,146)
Decrease/(increase) in trade and other receivables	**17**	667	**40**	(33)
Decrease/(increase) in inventory	**—**	27	**—**	—
Increase/(decrease) in trade and other payables	**(5)**	(431)	**(29)**	(68)
Cash absorbed by operation	**(4,876)**	(5,097)	**(880)**	(1,247)
Interest paid	**—**	(13)	**—**	—
Net cash outflow from operating activities	**(4,876)**	(5,110)	**(880)**	(1,247)
Cash flow from investing activities				
Assets held for sale – proceeds (cost)	**39**	(6)	**—**	—
Proceeds from sale of property, plant and equipment	**15**	10	**—**	—
Addition to loan in subsidiaries	**—**	—	**(4,243)**	(3,513)
Interest received	**15**	27	**15**	285
Addition to property, plant and equipment	**(3)**	(27)	**—**	(4)
Addition to intangible assets	**(199)**	(248)	**—**	—
Net cash (used in)/generated from investing activities	**(133)**	(244)	**(4,228)**	(3,232)
Cash flow from financing activities				
Proceeds from issue of share capital	**10,248**	5,519	**10,248**	5,519
Increase in cash and cash equivalents	**5,240**	165	**5,140**	1,040
Cash and cash equivalent at start of year	**3,688**	3,567	**3,323**	2,283
Net increase in the year	**5,240**	165	**5,140**	1,040
Effect of exchange rate fluctuations on cash held	**(19)**	(44)	**—**	—
Cash and cash equivalent at end of year	**8,909**	3,688	**8,463**	3,323

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

NOTES TO THE FINANCIAL STATEMENTS
year ended 31 December 2012

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 3 Shortlands, London W6 8DA.

1.2 Company income statement

The company has taken advantage of Section 408 of the Companies Act 2006 and has not included its own income statement in these financial statements. The loss for the financial year dealt within the accounts of the company, including provision against the investments in subsidiary companies, were as follows:

	2012 **£000s**	2011 £000s
	25,823	894

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 thousand pounds.

The following standards or interpretations have not yet been adopted by the group. The group does not currently believe the adoptions of these standards or interpretations would have a material impact on the consolidated results or financial position of the group:

- IAS 1 (Amendment): Presentation of financial statements amends how components of other comprehensive income are presented. The amendments require the grouping of items of other comprehensive income into items that might be reclassified to the income statement in subsequent periods and items that will not be reclassified to the income statement in subsequent periods
- IFRS 7 (Amendment): Financial instruments: Disclosures amends disclosure requirements to require information about all recognised financial instruments that are set off in accordance with paragraph 42 of IAS 32
- IFRS 9: Financial instruments (not yet endorsed by the EU) the primary impact of which is to remove the multiple classification and measurement models for financial assets required by IAS 39 and introduce a model that has only two classification categories: amortised cost and fair value
- IFRS 10: Consolidated financial statements replaces the guidance of control and consolidation in IAS 27 and SIC 12: Consolidation – special purpose entities. The core principle that a consolidated entity presents a parent and its subsidiaries as if they were a single entity remains unchanged, as do the mechanics of consolidation
- IFRS 12: Disclosure of interests in other entities requires enhanced disclosures of the nature, risks and financial effects associated with the group's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities
- IAS 27 (Revised): Separate financial statements (not yet endorsed by the EU) makes revisions to the requirements for separate financial statements prepared by a parent or an investor in a joint venture or associate

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 2012. 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 will continue in operational existence for the foreseeable future.

The group had a net cash inflow for 2012 of £5.2m (after expenses) and at 31 December 2012 had cash balances of £8.9m. Since the year end the company has raised a further £18.7m (after expenses) from investors. The directors have reviewed the working capital requirements of the group for the next twelve months and are confident that these can be met.

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

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 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 4 and 5. The financial position of the group, its cash flows and liquidity position are as set out in the financial review on pages 6 and 7.

2.4 Business combinations

There were no business activities as defined by IFRS 3 (revised) during 2011 or 2012.

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

Acquisitions on or after 1 January 2010

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

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.
- when the excess is negative, a bargain purchase gain is recognised immediately in the income statement.
- 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 the income statement.

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 the income statement.

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 2012

2. Principal accounting policies continued

2.5 Goodwill and other intangible assets

Goodwill

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

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

Other intangible assets

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

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

Amortisation

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

Patents and trademarks	10-15 years

2.6 Research and development

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

2.7 Revenue recognition

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

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

- the amounts are not time related
- the amounts are not refundable
- the licensee has unrestricted rights to exploit the technology within the terms set by the licence
- 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 government grants were recognised as revenue in the year ended 31 December 2012 (2011: £nil).

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 2012 (2011: £nil).

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).

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 income statement 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 the income statement, any exchange component of that gain or loss is also recognised in the income statement.

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

In the first half of 2012 the group paid 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. UK pension contributions have now ceased. 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.

NOTES TO THE FINANCIAL STATEMENTS continued
year ended 31 December 2012

2. Principal accounting policies continued

2.12 Other intangible assets and research and development activities continued

Capitalisation of research and development costs

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

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

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

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

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

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

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

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. Investments in shares of the subsidiaries are stated at cost less provisions for impairment which recognition and subsequent measurement is at amortised cost.

2.15 Financial instruments

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

Financial assets can be divided into the following categories: loans and receivables, financial assets at fair value through profit or loss, available-for-sale financial assets and held-to-maturity investments. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the instruments were acquired. The designation of financial assets is re-evaluated at every reporting date at which a choice of classification or accounting treatment is available.

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

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 the income statement 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 the income statement.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits that are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value.

Financial liabilities and equity

Financial liabilities and equity instruments issued by the group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. A financial liability is a contractual obligation to either deliver cash or another financial asset to another entity or to exchange a financial asset or financial liability with another entity, including obligations which may be settled by the group using its equity instruments. An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Financial liabilities

At initial recognition, financial liabilities are measured at their fair value plus, if appropriate, any transaction costs that are directly attributable to the issue of the financial liability. After initial recognition, all financial liabilities are measured at amortised cost using the effective interest method.

Equity instruments

Equity instruments issued by the group are recorded at the proceeds received net of direct issue costs.

2.16 Operating leases

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

2.17 Provisions

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

NOTES TO THE FINANCIAL STATEMENTS continued
year ended 31 December 2012

2. Principal accounting policies continued

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 currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Tax receivable arises from the UK legislation regarding the treatment of certain qualifying research and development costs, allowing for the surrender of tax losses attributable to such costs in return for a tax rebate.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to the income statement, 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
- 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 2012 amounting to £3.4m (2011: £3.4m). 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 2012 is £34.2m (2011: £54.2m). 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 £7.3m (2011: £28.3m).

Other intangible assets have a carrying value at 31 December 2012 of £0.5m (2011: £1.0m) and details of the movement in the year, the capitalisation and amortisation policy and the basis of the impairment review are set out in note 12.

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

3. Revenue

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

	2012 £000s	2011 £000s
Europe	**127**	504
North America	**36**	14
Asia/Pacific	**—**	176
	163	694

NOTES TO THE FINANCIAL STATEMENTS continued
year ended 31 December 2012

4. Segment reporting

In 2012, the group operated solely in the specific technology fields of RNAi therapeutics. These activities were carried out across the group companies but operated as a single business.

Due to the nature of its licencing activities, the group's revenues in any one year often derive from a small number of customers that change year by year. During 2012, £0.07m or 43% of group revenues (2011: £0.47m or 68% of group revenues) arose from a single customer with £0.04m or 26% of group revenues (2011: £1.00m or 42% of group revenues) coming from a second customer. During 2011, the comparative figures for those two customers were £nil and £nil respectively.

Non-current assets

	US £000s	UK £000s	Germany £000s
As at 31 December 2012	**—**	**2**	**8,014**
As at 31 December 2011	21,224	3	8,310

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

Business segments

2012	**RNAi Therapeutics £000s**	**Immunotherapy £000s**	**Group unallocated £000s**	**Consolidated data £000s**
Revenue from external customers	**163**	**—**	**—**	**163**
Operating (loss)/profit	**(24,160)**	**—**	**(2,154)**	**(26,314)**
Interest income	**3**	**—**	**15**	**18**
Interest expense	**—**	**—**	**—**	**—**
Gain on sale of asset	**12**	**—**	**—**	**12**
Segment loss for the year before taxation	**(24,872)**	**—**	**(1,412)**	**(26,284)**
Segment assets	**8,570**	**—**	**8,504**	**17,074**
Segment liabilities	**806**	**—**	**153**	**959**
Costs to acquire property, plant and equipment	**3**	**—**	**—**	**3**
Costs to acquire intangible assets	**199**	**—**	**—**	**199**
Depreciation and amortisation	**251**	**—**	**1**	**252**
Charge for non-cash expenses: share-based payments charge	**77**	**—**	**579**	**656**
Segment non-current assets	**8,016**	**—**	**—**	**8,016**

2011	RNAi Therapeutics £000s	Immunotherapy £000s	Group unallocated £000s	Consolidated data £000s
Revenue from external customers	694	—	—	694
Operating (loss)/profit	(4,821)	(1)	(964)	(5,786)
Interest income	32	—	25	57
Interest expense	(13)	—	—	(13)
Gain on sale of assets	6	—	—	6
Segment loss for the year before taxation	(4,797)	(1)	(939)	(5,737)
Segment assets	30,032	—	3,406	33,438
Segment liabilities	1,078	—	182	1,260
Costs to acquire property, plant and equipment	23	—	4	27
Costs to acquire intangible assets	248	—	—	248
Depreciation and amortisation	305	—	—	305
Charge for non-cash expenses: share-based payments charge	93	—	27	120
Segment non-current assets	29,535	—	3	29,538

5. Operating loss

This is stated after charging:

	2012 £000s	2011 £000s
Depreciation of property, plant and equipment	**63**	91
Amortisation of intangibles	**189**	214
Restructuring expenses	**—**	472
Share-based payments charge	**656**	121
Auditors' remuneration:		
– Audit of these financial statements	**68**	48
– Audit of subsidiaries pursuant to legislation	**13**	17
– Taxation	**8**	11
Operating lease payments on offices	**266**	298
Gain on sale of PPE	**(12)**	(5)

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.

Impairment

	Note	2012 £000s
Goodwill impairment	12	**(20,314)**
Intangible write off	13	**(441)**
Trade payable write off		**269**
Exceptional writedown		**(20,486)**

NOTES TO THE FINANCIAL STATEMENTS continued
year ended 31 December 2012

6. Directors and staff costs

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

	2012 £000s	2011 £000s
Wages and salaries	**1,613**	2,258
Termination benefits	**295**	472
Social security costs	**378**	323
Charge in respect of share-based payments	**656**	121
Pension costs	**26**	18
	2,968	3,192

The average number of employees, including both executive and non-executive directors, during the year was 34 (2011: 37).

Apart from the directors, the average number of employees of the parent company was 2 (2011: 1).

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

	Salary and fees £000s	Termination pay £000s	**2012 Total excluding pensions £000s**	**2012 Pensions £000s**	2011 Total excluding pensions £000s	2011 Pensions £000s
P Haworth	—	—	**—**	**—**	336	—
J Randall	39	—	**39**	**—**	60	—
M Herrmann	105	31	**136**	**11**	180	18
T Christely	18	211	**229**	**—**	64	—
A Clancy	15	—	**15**	**—**	30	—
D U'Prichard	—	—	**—**	**—**	30	—
T Sedgwick	101	48	**149**	**15**	—	—
A Mortazavi	4	—	**4**	**—**	—	—
T Freeborn	30	—	**30**	**—**	—	—
M Khan	3	—	**3**	**—**	—	—
	315	290	**605**	**26**	700	18

No bonuses will be paid to directors in respect of the year ended 31 December 2012.

The directors of the group are the same as key management personnel, as defined by IAS 24: Related Party Transactions.

Details of share options granted to directors are detailed in note 19.

7. Finance income

The finance income comprises:

	2012 £000s	2011 £000s
Bank interest receivable	**18**	27
Gain on security held for resale	**—**	30
	18	57

8. Taxation

Reconciliation of income tax credit at standard rate of UK corporation tax to the current tax charge:

	2012 £000s	2011 £000s
Loss per accounts	**(26,284)**	(5,737)
Tax credit at the standard rate of UK corporation tax of 24.5% (2011: 26%)	**6,440**	1,492
Effect of overseas tax rate (Germany and US)	**239**	312
Impact of costs disallowable for tax purposes	**(4,977)**	(113)
Impact of unrelieved tax losses not recognised	**(1,702)**	(1,691)
	—	—

Estimated tax losses of £82.4m (2011: £76.4m) are available for relief against future profits.

The deferred tax asset not provided for in the accounts on the estimated losses and the treatment of the equity settled share-based payments, net of any other temporary timing differences is approximately £26.5m (£25.5m).

The 2013 Budget on 20 March 2013 announced that the UK corporation tax rate will fall to 20% by 2015. A reduction in the rate from 24% to 23% (effective from 1 April 2013) was substantively enacted on 3 July 2012. The further reduction to 21% from 1 April 2014 and to 20% from 1 April 2015 have not been substantively enacted. Minimal impact is expected from this change given the group is loss making.

9. Loss per share

The calculation of the loss per share is based on the loss for the financial year after taxation of £26.3m (2011: loss £5.7m) and on the weighted average of 984,406,050 (2011: 466,864,698) ordinary shares in issue during the year.

The options outstanding at 31 December 2012 and 31 December 2011 are considered to be non-dilutive in that their conversion into ordinary shares would not increase the net loss per share. Consequently, there is no diluted loss per share to report for either year.

10. Property, plant and equipment

Equipment and furniture

	Group £000s	Company £000s
Cost		
At 1 January 2011	3,567	—
Additions	27	4
Disposals	(156)	—
Translation adjustment	(131)	—
At 31 December 2011	3,307	4
Additions	3	—
Disposals	(320)	—
Translation adjustment	(78)	—
At 31 December 2012	**2,912**	**4**
Depreciation		
At 1 January 2011	3,280	—
Charge for the year	91	1
Eliminated on disposal	(164)	—
Translation adjustment	(125)	—
At 31 December 2011	3,082	1
Charge for the year	63	1
Eliminated on disposal	(317)	—
Translation adjustment	(73)	—
At 31 December 2012	**2,755**	**2**
Net book value		
As at 31 December 2011	225	3
As at 31 December 2012	**157**	**2**

NOTES TO THE FINANCIAL STATEMENTS continued
year ended 31 December 2012

11. Goodwill

	2012 £000s	2011 £000s
Balance at start of year	**28,342**	28,346
Impairment	**(20,314)**	—
Translation adjustment	**(695)**	(4)
Balance at end of year	**7,333**	28,342

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

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

To arrive at the value in use, the directors have performed risk adjusted discounted cash flow analyses of the RNAi therapy business area. In the prior year, the goodwill related to Silence Therapeutics AG and Intradigm Corporation was tested as a single "cash generating" unit.

Goodwill was reassessed following the closure of Intradigm in the US. This led to an impairment of the carrying value.

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:

	2012
Period on which management approved forecasts are based	**2013 – 2035**
Growth rate applied beyond approved forecast period	**n/a**
Discount rate	**16%**
Terminal valuation multiple (price/earnings)	**nil**

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 discount rate used is based on a conservative rate used by professionals to value publicly traded equities and corporate market-specific risk. Sensitivity analysis has been carried out on both the discount rate and sales assumptions used to calculate the net present value of the goodwill for Silence Therapeutics AG. A 25% reduction in sales, being the key sensitivity, still gives a net present value in excess of the carrying value.

12. Other intangible assets

	Licences £000s	Internally generated £000s	Total £000s
Cost			
At 1 January 2011	2,690	1,073	3,763
Additions	134	114	248
Translation adjustment	(73)	(35)	(108)
At 31 December 2011	2,751	1,152	3,903
Additions	47	152	199
Zamore write down	(505)	—	(505)
Translation adjustment	(59)	(30)	(89)
At 31 December 2012	**2,234**	**1,274**	**3,508**
Amortisation			
At 1 January 2011	2,357	460	2,817
Charge for the year	57	157	214
Translation adjustment	(81)	(18)	(99)
At 31 December 2011	2,333	599	2,932
Zamore write down	(64)	—	(64)
Charge for the year	23	166	189
Translation adjustment	(59)	(16)	(75)
At 31 December 2012	**2,233**	**749**	**2,982**
Net book value			
As at 31 December 2011	418	553	971
As at 31 December 2012	**1**	**525**	**526**

The licences included above have finite useful lives estimated to be of 10-14 years from the date of acquisition, over which period the licences 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 asset. The charge for amortisation is included in the research and development costs in the income statement.

The group tests for impairment of definite life 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 flows and growth of the group's operations.

Intangible assets include intellectual property relating to AtuPlex and AtuRNAi technologies which are already subject to commercial licences.

NOTES TO THE FINANCIAL STATEMENTS continued
year ended 31 December 2012

13. Investments

Company	2012 £000s	2011 £000s
Investment in subsidiary undertakings	**34,204**	54,218

The investment in subsidiary undertakings is made up as follows:

	Investment at cost £000s	Impairment provision £000s	Net total £000s
Shares and loans in subsidiary undertakings			
At 31 December 2010	73,224	(22,609)	50,615
Additions	3,606	(3)	3,603
At 31 December 2011	76,830	(22,612)	54,218
Additions	4,121	(24,135)	(20,014)
At 31 December 2012	**80,951**	**(46,747)**	**34,204**

At 31 December 2012, a non-interest bearing unsecured loan of £22.4m (2011: £22.4m) was outstanding from Silence Therapeutics plc to Stanford Rook Ltd. This has been fully provided for in both 2011 and 2012. A subordinated 5% interest bearing loan from Silence Therapeutics plc to Silence Therapeutics AG of £10.9m (2011: £6.9m) was outstanding.

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.

14. Trade and other receivables

	2012		2011	
	Group £000s	**Company £000s**	Group £000s	Company £000s
Trade receivables	**2**	**—**	36	—
Other receivables	**70**	**20**	29	33
Prepayments	**76**	**19**	109	46
Total trade and other receivables	**148**	**39**	174	79

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.

No interest is charged on outstanding receivables.

15. Cash and cash equivalents

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.

	2012		2011	
	Group £000s	**Company £000s**	Group £000s	Company £000s
Cash and cash equivalents	**8,909**	**8,463**	3,688	3,323

16. Trade and other payables

	2012		2011	
	Group £000s	**Company £000s**	Group £000s	Company £000s
Trade payables	**105**	**40**	450	85
Social security and other taxes	**275**	**15**	392	20
Deferred revenues	**343**	**—**	418	—
Accruals and other payables	**236**	**98**	—	77
	959	**153**	1,260	182

Trade payables and accruals principally comprise amounts outstanding for trade purchases and continuing costs. The directors consider that the carrying amount of trade and other payables approximates to their fair value.

17. Deferred tax

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

	2012 £000s	2011 £000s
Deferred tax liability:		
– in respect of intangible assets	**155**	327
Less: offset of deferred tax asset below	**(155)**	(327)
Liability	**—**	—
Deferred tax asset:		
– in respect of available tax losses	**27,278**	24,390
– in respect of share-based payments	**276**	1,136
Less: offset against deferred tax liability	**(155)**	(327)
	27,399	25,199
– provision against asset	**(27,399)**	(25,199)
Asset	**—**	—

Due to the uncertainty of future profits, a deferred tax asset was not recognised at 31 December 2012 (2011: £nil).

NOTES TO THE FINANCIAL STATEMENTS continued
year ended 31 December 2012

18. Share capital

	2012 £000s	2011 £000s
Allotted, called up and fully paid		
1,871,552,737 (2011: 577,114,517) ordinary shares par value 0.1p	**1,872**	5,771

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

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 2011	279,891,452
Shares issued during 2011:	
– issue of shares for cash at 2p per share	296,693,065
– issue of shares at 1p per share	530,000
Total issued in year	297,223,065
Number of shares in issue at 31 December 2011	**577,114,517**
Shares issued during 2012:	
– issue of shares for cash at 0.5p	1,089,088,220
– exercise of warrants at 1p	4,000,000
– issue of shares for cash at 2.5p	200,000,000
Options at 2.07p	1,350,000
Total issued in year	1,294,438,220
Number of shares in issue at 31 December 2012	**1,871,552,737**

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 and by individual contract.

At 31 December 2012 there were options outstanding over 164,129,490 (2011: 41,762,447) unissued ordinary shares and 6,830,000 (2011: 462,963) warrants outstanding over unissued ordinary shares.

Details of the options outstanding are as follows:

Exercisable from	Exercisable until	Number	Exercise price
Any time until	24 July 2015	1,000,000	23.00
Any time until	26 July 2016	532,272	12.75
Any time until	24 November 2016	400,000	43.00
Any time until	24 July 2015	10,000	109.00
Any time until	14 December 2017	10,000	109.00
Any time until	5 December 2018	10,000	109.00
Any time until	26 July 2017	500,000	127.00
Any time until	14 December 2017	55,000	67.75
Any time until	7 May 2018	19,999	41.50
Any time until	25 September 2018	215,000	29.50
Any time until	5 December 2018	1,722,588	20.00
Any time until	5 January 2020	500,000	21.23
Any time until	13 October 2021	2,433,334	1.80
13 October 2013	13 October 2021	2,541,665	1.80
13 October 2014	13 October 2021	2,433,334	1.80
27 July 2014	27 July 2024	9,500,000	0.50
In 24 equal monthly tranches ending 1 August 2014	31 July 2024	50,000,000	0.50
1 August 2014	31 July 2024	88,246,298	0.50
1 January 2015	31 December 2024	4,000,000	2.50
Total options outstanding		**164,129,490**	

NOTES TO THE FINANCIAL STATEMENTS continued
year ended 31 December 2012

18. Share capital continued

The options held by directors at the beginning and the end of the year are as follows:

Director	1 January 2012	Exercised	Awarded	Lapsed	**31 December 2012**	p	Latest date of exercise
A Clancy							
– Unapproved Scheme	200,000	—	—	(200,000)	**—**	29.50p	—
J A P Randall							
– Unapproved Scheme	200,000	—	—	—	**200,000**	29.50p	25 Sep 18
– Unapproved Scheme	—	—	51,842,399	—	**51,842,399**	0.50p	31 Jul 24
T Christely							
– Unapproved Scheme	1,300,000	—	—	(1,300,000)	**—**	23.00p	—
– Unapproved Scheme	200,000	—	—	(200,000)	**—**	43.00p	—
– Unapproved Scheme	500,000	—	—	(500,000)	**—**	127.00p	—
– Unapproved Scheme	750,000	—	—	(750,000)	**—**	20.00p	—
– Unapproved Scheme	300,000	—	—	(300,000)	**—**	21.25p	—
– Unapproved Scheme	9,100,000	—	—	(9,100,000)	**—**	1.85p	—
M Herrmann							
– Unapproved Scheme	1,700,000	(1,133,333)	—	(566,667)	**—**	2.07p	—
– Approved Scheme	1,666,666	—	—	(1,666,666)	**—**	1.80p	—
– Unapproved Scheme	1,633,334	—	—	(1,633,334)	**—**	1.80p	—
A Mortazavi							
– Unapproved Scheme	—	—	86,403,899	—	**86,403,899**	0.50p	31 Jul 24
T Freeborn							
– Unapproved Scheme	—	—	9,500,000	—	**9,500,000**	0.50p	27 Jul 24
M Khan							
– Unapproved Scheme	—	—	4,000,000	—	**4,000,000**	2.50p	31 Dec 24
Total	17,550,000	(1,133,333)	151,746,298	(16,216,667)	**151,946,298**		

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 board 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 4.4p (2011: 2.1p). During the year the minimum and maximum prices were 0.7p and 4.9p.

At 31 December 2012 the group had net outstanding warrants over 3,500,000 shares at 1.0p, which have been exercised since year end, and 3,330,000 at 1.5p which are exercisable until 11 July 2015.

19. 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 also lapse after six months following the employee leaving the group, or twelve months in the case of options granted in 2012.

	2012		2011	
	Number	**Weighted average exercise price p**	Number	Weighted average exercise price p
Options				
Outstanding at the beginning of the year	**41,762,447**	**10.57**	24,674,843	28.40
Granted during the year	**151,746,298**	**0.55**	29,725,000	1.87
Lapsed during the year	**(28,029,255)**	**19.70**	(12,637,396)	24.87
Exercised during the year	**(1,350,000)**	**2.07**	—	—
Outstanding at the year end	**164,129,490**	**1.64**	41,762,447	10.57
Exercisable at the year end	**22,799,859**	**8.34**	11,853,069	31.18
Warrants				
Outstanding at the beginning of the year	**462,963**	**27.00**	—	—
Granted during the year	**10,830,000**	**1.15**	462,963	27.00
Lapsed during the year	**(462,963)**	**27.00**	—	—
Exercised during the year	**(4,000,000)**	**1.00**	—	—
Outstanding at the year end	**6,830,000**	**1.24**	462,963	27.00
Exercisable at the year end	**6,866,000**	**1.24**	462,963	27.00

The options outstanding at the year end have a weighted average remaining contractual life of 11.2 years (2011: 8.7 years).

The group granted 151,746,298 options during the year. The fair value of options granted were calculated using a binomial model and inputs into the model were as follows:

	2012	2011
Fair value at grant	**1.39p**	1.41p
Weighted average share price	**1.48p**	1.92p
Weighted average exercise price	**0.55p**	1.87p
Expected volatility	**115%**	100%
Risk-free rate	**1.61-1.87%**	1.49-1.53%
Expected dividend yield	**nil**	nil

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 £0.7m (2011: £0.1m) related to equity-settled share-based payment transactions during the year.

NOTES TO THE FINANCIAL STATEMENTS continued
year ended 31 December 2012

20. Capital reserves

Group	Share premium account £000s	Merger reserve £000s	Share-based payment reserve £000s	Warrant reserve £000s	Capital redemption reserve £000s	Total £000s
At 1 January 2011	54,189	22,248	3,832	—	—	80,269
On shares issued in the year:	2,974	—	—	—	—	2,974
– less cost of shares issued	(427)	—	—	—	—	(427)
On options in issue during the year	—	—	120	—	—	120
On vested options lapsed during the year	—	—	(1,796)	—	—	(1,796)
On issued warrants during the year	—	—	—	1	—	1
Movement in the year	2,547	—	(1,676)	1	—	872
At 31 December 2011	56,736	22,248	2,156	1	—	81,141
On shares issued in the year:	9,219	—	—	—	—	9,219
– less cost of shares issued	(265)	—	—	—	—	(265)
On transfer to capital redemption reserve	—	—	—	—	5,194	5,194
On options in issue during the year	—	—	656	—	—	656
On vested options lapsed during the year	—	—	(1,128)	—	—	(1,128)
On options exercised during the year	24	—	(24)	—	—	—
On issued warrants during the year	—	—	—	32	—	32
Movement in the year	8,978	—	(496)	32	5,194	13,708
At 31 December 2012	**65,714**	**22,248**	**1,660**	**33**	**5,194**	**94,849**

Company	Share premium account £000s	Merger reserve £000s	Share-based payment reserve £000s	Warrant reserve £000s	Capital redemption reserve £000s	Total £000s
At 1 January 2011	54,189	22,064	3,832	—	—	80,085
On shares issued in the year:	2,974	—	—	—	—	2,974
– less cost of shares issued	(427)	—	—	—	—	(427)
On options in issue during the year	—	—	120	—	—	120
On vested options lapsed during the year	—	—	(1,796)	—	—	(1,796)
On issued warrants during the year	—	—	—	1	—	1
Movement in the year	2,547	—	(1,676)	1	—	872
At 31 December 2011	56,736	22,064	2,156	1	—	80,957
On shares issued in the year:	9,219	—	—	—	—	9,219
– less cost of shares issued	(265)	—	—	—	—	(265)
On transfer to capital redemption reserve	—	—	—	—	5,194	5,194
On options in issue during the year	—	—	656	—	—	656
On vested options lapsed during the year	—	—	(1,128)	—	—	(1,128)
On options exercised during the year	24	—	(24)	—	—	—
On issued warrants during the year	—	—	—	32	—	32
Movement in the year	8,978	—	(496)	32	5,194	13,708
At 31 December 2012	**65,714**	**22,064**	**1,660**	**33**	**5,194**	**94,665**

The capital redemption reserve was created last year following the reduction of nominal share capital to 0.1p per share. It is required under Section 733 of the Companies Act 2006, held to maintain the capital of the company when shares are bought back and subsequently cancelled without court approval.

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 related to the issue.

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

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

21. Capital commitments and contingent liabilities

There were no capital commitments or contingent liabilities at 31 December 2012 (2011: £nil).

22. Commitments under operating leases

At 31 December the group and company had a three month commitment on its serviced office in Mayfair, London, equal to £0.01m (2011: £0.01m).

No amounts are payable between one to five or greater than five years.

NOTES TO THE FINANCIAL STATEMENTS continued
year ended 31 December 2012

23. Financial instruments and risk management

The group's financial instruments comprise primarily cash and various items such as trade debtors and trade creditors which arise directly from its operations. The main purpose of these financial instruments is to provide working capital for the group's operations. The group does not utilise complex financial instruments or hedging mechanisms in respect of its non-sterling operations. The group assesses counterparty risk on a regular basis. Board approval is required for adoption of any new financial instrument or counterparty. The primary focus of the treasury function is preservation of capital.

Financial assets by category

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

	2012		2011	
	Group £000s	**Company £000s**	Group £000s	Company £000s
Current assets				
Trade and other receivables	**148**	**39**	64	33
Cash and cash equivalents	**8,909**	**8,463**	3,688	3,323
Categorised as loans and receivables	**9,057**	**8,502**	3,752	3,356

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

	2012		2011	
	Group £000s	**Company £000s**	Group £000s	Company £000s
Current liabilities				
Trade and other payables	**959**	**153**	1,260	182

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

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

	2012		2011 (restated)	
	Group £000s	**Company £000s**	Group £000s	Company £000s
Loans and receivables	**72**	**20**	65	33

Capital management

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

Interest rate risk

The nature of the group's activities and the basis of funding are such that the group has significant liquid resources. The group uses these resources to meet the cost of future research and development activities. Consequently, it seeks to minimise risk in the holding of its bank deposits while maintaining a reasonable rate of interest. The group is not financially dependent on the income earned on these resources and therefore the risk of interest rate fluctuations is not significant to the business. Nonetheless, the directors take steps to secure rates of interest which generate a return for the group by depositing sums which are not required to meet the immediate needs of the group in interest-bearing deposits. Other balances are held in interest-bearing, instant access accounts. All deposits are placed with main clearing banks to restrict both credit risk and liquidity risk. The deposits are placed for the short term, between one and three months, to provide flexibility and access to the funds and to avoid locking into potentially unattractive interest rates.

Liquidity risk

The group's liquid resources are invested having regard to the timing of payments to be made in the ordinary course of the group's activities. All financial liabilities are payable in the short term (between zero and three months) and the group maintains adequate bank balances in either instant access or short-term deposits to meet those liabilities as they fall due.

Currency risk

The group operates in a global market with income possibly arising in a number of different currencies, principally in sterling or euros. The majority of the operating costs are incurred in euros with the rest predominantly in sterling. The group does not hedge potential future income since the existence, quantum and timing of such income cannot be accurately predicted.

Financial assets and liabilities denominated in euros and translated into sterling at the closing rate were:

	2012		2011	
	Group £000s	**Company £000s**	Group £000s	Company £000s
Financial assets	**554**	**—**	403	—
Financial liabilities	**(373)**	**—**	(308)	—
Net financial assets	**181**	**—**	95	—

Financial assets and liabilities denominated in US dollars and translated into sterling at the closing rate were:

	2012		2011	
	Group £000s	**Company £000s**	Group £000s	Company £000s
Financial assets	**4**	**—**	298	—
Financial liabilities	**(136)**	**—**	(769)	—
Net financial assets	**(132)**	**—**	(471)	—

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 the year sterling appreciated by 5% versus the euro. The table shows the impact of a further strengthening or fall of sterling against the euro by 20%.

2012	**As reported £**	**If sterling rose 20% £**	**If sterling fell 20% £**
Group result for the year	**(26,284)**	**(25,579)**	**(26,989)**
Euro denominated net financial assets	**181**	**151**	**217**
Total equity at 31 December 2012	**16,116**	**14,750**	**18,189**

2011	As reported £	If sterling rose 20% £	If sterling fell 20% £
Group result for the year	(5,737)	(5,095)	(6,698)
Euro denominated net financial assets	95	79	119
Total equity at 31 December 2011	32,177	32,017	32,418

The group no longer has a material operating exposure to the US dollar.

NOTES TO THE FINANCIAL STATEMENTS continued
year ended 31 December 2012

24. Related party transactions

During the year the company charged a fee to its subsidiary company Silence Therapeutics AG amounting to £0.2m (2011: £0.2m).

During the year the company paid £0.1m to Fast Web Media for supporting the website. Fast Web Media is controlled by Robert Keith, a major shareholder.

The company issued 3.33m warrants exercisable at 1.5p to Darwin Strategic Limited ("Darwin") in consideration for an equity funding facility. Darwin is 37% owned by Ali Mortazavi, Chief Executive of Silence Therapeutics plc.

In the summer 2012 refinancing, Robert Keith, a major shareholder, bought a £1.0m loan note at nil yield convertible into shares at 0.5p from the company. The loan note was converted in December 2012.

25. Subsequent events

During April 2013, Silence Therapeutics raised £18.7m after expenses with an issue of 475.6m shares at 4p per share.

In addition, during April 2013 the company consolidated its shares from 50 into 1.