

SILENCE THERAPEUTICS PLC
UNAUDITED PRELIMINARY RESULTS FOR THE YEAR ENDED 31 DECEMBER 2008

HIGHLIGHTS 2008

OPERATIONAL

- Silence announced a collaboration agreement with AstraZeneca to develop novel approaches for the delivery of short interfering RNA (siRNA) molecules.
- Silence's licensing partner Quark Pharmaceuticals, together with Pfizer, commenced Phase II clinical trials with RTP-801i-14 (PF-4523655) aimed at the acute macular degeneration (AMD) market. This siRNA therapeutic product candidate relies upon Silence's AtuRNAi technology. Silence received a \$1.9m milestone payment from Quark.
- The US Patent and Trademark Office granted Silence's core RNAi patent application (US Patent Number 7,452,987). During the year, the European Patent Office revoked in their entirety two fundamental patents held by a rival company.
- The journal, Cancer Research, published comprehensive pre-clinical data on Atu027, Silence's lead oncology drug candidate.
- Silence submitted a Clinical Trial Application for Atu027 to the Bundesinstitut für Arzneimittel und Medizinprodukte (BfArM), the German regulator for drugs and medical devices.

BOARD

- Silence strengthened its Board with the appointment of Annette Clancy and Jerry Randall as non-executive directors. Jeremy Curnock Cook was named as Senior Independent Director and Chairman Iain Ross took on the additional role of chief executive.

FINANCIAL

- Revenue generated in the year was £2.21m (2007: £4.05m)
- Administrative expenses were reduced to £3.29m (2007: £4.99m)
- Research and Development expenditure increased to £6.71m (2007: £4.84m) due to continued investment in our pipeline of novel siRNA molecules.

- The cash position at year-end was £3.35m. This was increased to £6m following the £2.65m Institutional Placing in early 2009. At the end of 2007, Silence had cash of £10.17m.

POST YEAR-END

- Silence completed a placing to raise £2.65m (net) at 18p per share. Placees included Gartmore, Fidelity and Insight.
- Quark initiated Phase I/II clinical trials with QPI-1002, another siRNA therapeutic product candidate based upon Silence's unique proprietary chemistry being developed by Quark for use in kidney transplants.
- The European Patent Office (EPO) granted a patent on protein kinase N3 (PKN3), the target gene for Silence's lead compound Atu027.
- The Technical Board of Appeal of the European Patent Office revoked in its entirety European patent EP1 214 945, which is a fundamental competitor patent owned by Alnylam Europe AG.

CHAIRMAN'S STATEMENT

In 2008, Silence Therapeutics made substantial progress across all facets of its business. In an extraordinary year for the world's financial markets, we were quick to adapt to the changing circumstances and we took decisive steps to minimise the impact. Recognising the need to conserve cash, we implemented cost savings across the business and re-focused our business to ensure that our expenditure is directed only to those initiatives that will create shareholder value in the short to medium term.

Consolidation within the pharmaceutical industry also required Silence to adapt and we adjusted our approach to ensure that we remain competitive in terms of technology and funding discussions. Currently we are engaged in negotiations with several major pharma companies and are pursuing a number of agreements to broaden our technology and RNAi delivery capabilities.

The Silence Board shares the frustration of shareholders that we have not yet been able to deliver further validating deals. However, we remain confident that we are well positioned to conclude further non-dilutive collaboration deals during 2009.

Following an institutional placing in early January that raised new funds of £2.65m net of expenses, we are confident that the £6m cash balance at that date will fund Silence well into 2010 after the steps we have taken across the business to control costs. The cash balance will be augmented by further grant and milestone income, and by the cash-generating deals that we are pursuing.

From a Research and Development perspective, 2008 was another good year with the Group successfully completing and publishing its pre-clinical data on Atu027, our lead siRNA programme, which is aimed at treating solid tumours. In December 2008 we reached a major milestone for the Group with the Clinical Trial Application (CTA) for Atu027 being submitted to the BfArM, the German regulator for drugs and medical devices. Upon receiving regulatory approval we will commence our first human clinical trial with Atu027. This trial will take the form of a dose escalation study in cancer patients and is designed to confirm the safety and tolerance of Atu027. The costs of this trial will be spread over a two year period and will be significantly less than the pre-clinical programme costs incurred over the last two years.

We made excellent progress on our RNAi intellectual property portfolio in terms of filing, issuing and granting of key patents. We saw our core RNAi chemistry patent being granted in the US and also a grant of our PKN3 target patent in Europe. Our position in the overall patent landscape was further enhanced during the year as key competitor patents in the RNAi space were revoked and/or successfully opposed.

I am pleased to report that we have made strong progress with our existing collaborations and partnerships. Quark and Pfizer announced that they have moved RTP-801i-14 into Phase II clinical trials,

and Quark's clinical development of AKLi-5 for acute kidney injury has progressed. Quark also announced that it had commenced clinical trials with QPI-1002 for use in kidney transplantation. All of these products rely upon Silence's proprietary AtuRNAi chemistry and as a consequence Silence will be entitled to milestone and royalties payments during their development and commercialisation.

During the year we have worked closely with AstraZeneca and excellent progress has been made on the target-specific collaboration programme announced in 2007. In addition, we have made significant progress on the siRNA delivery collaboration announced in March 2008 and already we have developed novel delivery concepts and structures. We hope to make further announcements on each of our existing partnership and licence agreements during 2009.

Recognising the costs of late-stage clinical development, the Company will continue to balance the risk and reward of partnering and/or licensing our product programmes. In addition, Silence remains open to the possibility of participating in mergers and acquisitions and other moves to strengthen the Company's financial position, build its critical mass and enhance its product and technology platform.

I would like to thank the Board, management, staff and shareholders alike for their support during a challenging year and look forward to ultimately delivering value for shareholders.

Iain G Ross

Chairman

FINANCIAL REVIEW

Despite the turmoil in world financial markets over the past year, the group continued to expand its research and development activities. Expenditure on R&D rose from £3.19m in 2006 to £4.84m in 2007 and then to £6.71m in 2008. The figures are skewed by the sharp movements in exchange rates between sterling and euros over the past 18 months. Stripping out the impact of those fluctuations, on a like-for-like basis the investment in our core RNAi technology rose by 26% during the year. The Group has continued to generate revenues from its existing development partnerships and gain access to grant financing. Group turnover in 2008 amounted to £2.21m from milestone and grant income, compared to £1.55m from those sources in 2007. However, the absence of new licence income in 2008 (2007: £2.5m) resulted in an overall fall in turnover to £2.21m from £4.05m.

Group administration costs were reduced during the year to £3.29m, from £4.99m in 2007. The Group reduced general administration costs by more than 10%, and the charges attributable to option expenses fell by £1.5m.

Outlook

At the start of the new financial year, the Group raised £2.65m net of expenses through a placing of 15 million new shares at 18p to a small number of existing shareholders. This increased our cash balances to £6m. Through a combination of existing partnership arrangements and new deals, the Board is confident that additional resources will become available during 2009 to enable it to enhance its technology and value. In the meantime, the Group has refocused some of its expenditure on its core technology and has instituted cost reduction measures that will result in savings of over £0.5m in a full year.

The Group will continue to add value to its portfolio of RNAi-based assets by expanding and developing its technology, either alone or with selected development partners. The Board continues its commitment to maintaining a strong cash balance relative to current cash usage, enabling a secure basis for the planning of future activities.

Melvyn Davies

Finance Director

SILENCE THERAPEUTICS PLC

UNAUDITED CONSOLIDATED INCOME STATEMENT

YEAR ENDED 31 DECEMBER 2008

	2008	2007
	£	£
Revenue	2,208,699	4,046,974
Research and development costs	(6,712,032)	(4,842,529)
Gross loss	<u>(4,503,333)</u>	<u>(795,555)</u>
Administrative expenses	(3,288,304)	(4,992,159)
Operating loss	<u>(7,791,637)</u>	<u>(5,787,714)</u>
Finance income	356,996	543,817
Loss for the year before taxation	<u>(7,434,641)</u>	<u>(5,243,897)</u>
Taxation credit for the year	-	136,019
Loss for the year after taxation	<u>(7,434,641)</u>	<u>(5,107,878)</u>
Loss per share (basic and diluted)	<u>(6.20)p</u>	<u>(4.39)p</u>

SILENCE THERAPEUTICS PLC

UNAUDITED CONSOLIDATED BALANCE SHEET

AT 31 DECEMBER 2008

	2008	2007
	£	£
Non-current assets		
Property, plant and equipment	535,909	398,764
Goodwill	8,611,087	6,653,990
Other intangible assets	812,696	779,703
	<u>9,959,692</u>	<u>7,832,457</u>
Current assets		
Trade and other receivables	998,702	1,340,860
Tax recoverable	70,000	130,000
Cash and cash equivalents	3,350,187	10,174,389
	<u>4,418,889</u>	<u>11,645,249</u>
Liabilities - current		
Trade and other payables	(934,601)	(1,801,946)
	<u>(934,601)</u>	<u>(1,801,946)</u>
Net assets	<u>13,443,980</u>	<u>17,675,760</u>
Equity		
Share capital	1,199,134	1,198,835
Capital reserves	47,010,414	46,465,165
Translation reserve	3,291,489	636,594
Retained loss	(38,057,057)	(30,624,834)
Total equity	<u>13,443,980</u>	<u>17,675,760</u>

SILENCE THERAPEUTICS PLC

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

AT 31 DECEMBER 2008

	Share capital	Capital reserves	Translation reserve	Retained loss	Total
	£	£	£	£	£
At 1 January 2007	1,130,650	40,212,619	(47,466)	(25,589,190)	15,706,613
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<i>Changes in equity for 2007</i>					
Exchange differences arising on consolidation of foreign operations	-	-	684,060	-	684,060
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Net income recognised directly in equity	-	-	684,060	-	684,060
Loss for the year ended 31 December 2007	-	-	-	(5,107,878)	(5,107,878)
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Total recognised income and expense for the year	-	-	684,060	(5,107,878)	(4,423,818)
Recognition of share-based payments	-	1,221,952	-	-	1,221,952
Transfer upon exercise of options in year	-	(72,234)	-	72,234	-
Shares issued in the year	68,185	5,102,828	-	-	5,171,013
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Movement in the year	68,185	6,252,546	684,060	(5,035,644)	1,969,147
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At 31 December 2007	1,198,835	46,465,165	636,594	(30,624,834)	17,675,760
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<i>Changes in equity for 2008</i>					
Exchange differences arising on consolidation of foreign operations	-	-	2,654,895	-	2,654,895

Net income recognised directly in equity	-	-	2,654,895	-	2,654,895
Loss for the year ended 31 December 2008	-	-	-	(7,434,641)	(7,434,641)
Total recognised income and expense for the year	-	-	2,654,895	(7,434,641)	(4,779,746)
Recognition of share-based payments	-	544,158	-	-	544,158
Transfer upon:					
- exercise of options in year	-	(1,687)	-	1,687	-
- lapse of vested options in year	-	(731)	-	731	-
Shares issued in the year	299	3,509	-	-	3,808
Movement in the year	299	545,249	2,654,895	(7,432,223)	(4,231,780)
At 31 December 2008	1,199,134	47,010,414	3,291,489	(38,057,057)	13,443,980

SILENCE THERAPEUTICS PLC

UNAUDITED CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2008

	2008	2007
	£	£
Cash flow from operating activities		
Loss before taxation	(7,434,641)	(5,243,897)
Adjustments for:		
Depreciation charges	116,489	78,069
Amortisation charges	306,916	240,021
Impairment of goodwill	-	153,915
Loss on sale of property, plant and equipment	307	39
Charge for the year in respect of		
Share-based payments	544,158	1,221,952
Foreign exchange movement	73,410	25,856
Recovery of loan provided for in previous years	(31,000)	(36,000)
Finance income	(253,634)	(507,817)
	<u>(6,677,995)</u>	<u>(4,067,862)</u>
Decrease/(increase) in trade and other receivables	668,891	(608,407)
(Decrease)/increase in trade and other payables	(1,032,708)	756,997
	<u>(7,041,812)</u>	<u>(3,919,272)</u>
Cash (absorbed) by operations		
Taxation received	60,000	86,019
Net cash (outflow) from operating activities	<u>(6,981,812)</u>	<u>(3,833,253)</u>
Cash flow from investing activities	£	£
Recovery of loan made in previous years	31,000	36,000
Finance income	253,634	507,817
Additions to property, plant and equipment	(135,584)	(306,463)

Additions to intangible assets	(135,752)	(224,769)
Net cash generated from investing activities	<u>13,298</u>	<u>12,585</u>
Cash flows from financing activities		
Proceeds from issue of share capital	<u>3,808</u>	<u>5,171,013</u>
(Decrease)/increase in cash & cash equivalents	<u>(6,964,706)</u>	<u>1,350,345</u>
Cash and cash equivalents at start of year	10,174,389	8,824,044
Net (decrease)/increase in the year	(6,964,706)	1,350,345
Effect of exchange rate fluctuations on cash held	140,504	-
Cash and cash equivalents at end of year	<u>3,350,187</u>	<u>10,174,389</u>
Cash and cash equivalents includes		
Instant access bank accounts	<u>3,350,187</u>	<u>10,174,389</u>

SILENCE THERAPEUTICS PLC
NOTES TO THE UNAUDITED PRELIMINARY ANNOUNCEMENT

YEAR ENDED 31ST DECEMBER 2008

1 GENERAL INFORMATION

1.1 Group Information

Silence Therapeutics (“Silence” 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 the Company’s registered office is: 22 Melton Street, London NW1 2EP and the principal place of business is The Royal Institution of Great Britain, 21 Albemarle Street, London W1S 4BS.

1.2 Going concern

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

The group had a net cash outflow for 2008 of £6.82m and at 31 December 2008 had cash balances of £3.35m. In early January 2009, the group raised £2.65m (net of costs) through a share placement, increasing the cash position to £6m.

The directors have reviewed the working capital requirements of the group for the next 12 months and are confident that these can be met. The directors have a reasonable expectation that further finances will become available during the course of the year through grants, milestone and licence fee payments, relating to either new or existing agreements. The directors note that there is a material uncertainty as to the exact timing and source of these funds and that the failure to receive sufficient funding from these sources would cast significant doubt on the Group’s ability to continue as a going concern. The directors have also taken a number of steps to reduce administration costs and to restrict the research and development expenditure to core areas pending the availability of additional funds.

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

1.3 The financial information set out above does not constitute the Company’s statutory accounts within the meaning of section 240 of the Companies Act 1985. The 2008 figures are based on unaudited accounts for the year ended 31 December 2008. The directors anticipate that the auditor’s report, to be issued with the Group’s statutory accounts for the year ended 31 December 2008, will be unqualified but will contain an emphasis of matter paragraph. This emphasis of matter paragraph will draw

attention to the material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern, referred to in note 1.2 above.

The unaudited preliminary announcement has been prepared on the basis of the accounting policies set out in the Group's statutory accounts for 2007.

The 2007 comparatives are derived from the statutory accounts for 2007 which have been delivered to the Registrar of Companies and received an unqualified audit report and did not contain a statement under the Companies Act 1985, s237(2) or (3).

2. LOSS PER SHARE

The calculation of the loss per share is based on the loss for the financial year after taxation of £7,434,641 (2007: loss £5,107,878) and on the weighted average of 119,885,617 (2007: 116,296,656) ordinary shares in issue during the year.

The options outstanding at 31 December 2008 and 31 December 2007 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.