

ANNUAL REPORT AND FINANCIAL STATEMENTS

2007

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CHAIRMAN'S STATEMENT

In June this year we opened Wellcome Collection, a transformation of the Wellcome Building, 183 Euston Road. This brings to life Sir Henry Wellcome's vision of a place where people could learn more about the development of medicine through the ages and across cultures. This new public space for London provides a unique mix of galleries, events, meeting, reading and eating places, as well as housing the Wellcome Library. It has been incredibly popular to date, with over 100,000 visitors in the first five months. There are two permanent galleries, *Medicine Man* and *Medicine Now*. *Medicine Man* has opened up a selection of extraordinary objects from Sir Henry Wellcome's collection to the public. *Medicine Now* explores the themes of the body, genomes, malaria, obesity and living with medical science through a range of exhibits from science and everyday life, as well as presenting artistic responses to these issues. Temporary exhibitions, such as *The Heart* and *Sleeping & Dreaming*, have also proved popular. Wellcome Collection provides a space to explore the big ideas around medicine, health and wellbeing and its opening has been a memorable highlight of the year.

Investments

The Wellcome Trust's investment team, led by Danny Truell, has created a robust investment portfolio. Since flotation of Wellcome plc in 1986, the investment portfolio has delivered an annualised return of 16.2% and returns of 17.0% this year will allow us to increase our planned expenditure significantly. Anticipating downturns in the financial and economic markets, the Trust has sold over £3 billion of equities, principally in the UK, has largely avoided credit-based and highly leveraged strategies and now holds 53% of its portfolio in 'alternative' assets (hedge funds, buy-out funds, venture, property and emerging market equities). It remains well diversified with over 600 funds and managers. The net value of the Trust's investment asset base was £15.1 billion at 30 September 2007.

Governance

This year has seen a number of changes to the Board of Governors of the Wellcome Trust. Professor Martin Bobrow came to the end of his term as Deputy Chairman and member of the Board of Governors. Professor Adrian Bird, a Board member since 2000, was appointed as his successor as Deputy Chairman. Professor Dame Jean Thomas's term as a Governor also came to an end in September.

Professor Sir Leszek Borysiewicz resigned his membership of the Board to take up the role of Chief Executive of the UK's Medical Research Council and Professor Ronald Plasterk resigned his membership of the Board to fulfill his new appointment as Minister of Education, Culture and Science in the Dutch Cabinet.

I would like to thank Martin, Jean, Borys and Ronald for the valuable contributions they have made to the Trust.

We have also made a number of new appointments to the Board. Professor Richard Hynes, Daniel K Ludwig Professor for Cancer Research at the Massachusetts Institute of Technology (MIT) and a Howard Hughes Medical Institute Investigator, was appointed in January 2007. Joining the Board in January 2008 are Professor Kay Davies and Professor Chris Fairburn from the University of Oxford, and Professor Peter Rigby, Chief Executive of The Institute of Cancer Research, London. Rod Kent, Chairman of Bradford & Bingley plc, will join the Board in February 2008.

I am pleased to welcome these new Governors to the Board.

Grant making

By far the largest fraction of our funding is preserved for the support of investigator-led advancement of science to underpin future discovery and the application of knowledge. Much of this expenditure is through traditional project, programme and fellowship schemes. However, in recent years we have recognised that research funders have an increasing role to play in the choreography needed to bring the best teams together to work on the best ideas. To allow us to play a larger role in grant making we have made a number of new senior appointments, from academia, industry and the public sector, who will help in our grant making choreography and further encourage applications from the brightest researchers with the best ideas. Flexibility is key to ensuring the ideas of the research community are not constrained by the funding vehicles we provide. This year we have again used our Strategic Awards to provide the variable geometry that innovative projects often require.

Highlights of these awards include:

- A team led by Professor Linda Partridge was awarded a £5.9 million Strategic Award to examine the genomic and biochemical mechanisms of ageing and age-related disease.
- A £10.7 million Clinical Veterinary Research initiative to support training in clinical veterinary sciences to stimulate the uptake of research careers.
- The £7.7 million funding of the second phase of the Wellcome Trust Case Control Consortium, a large-scale whole genome study that aims to investigate the genetic contribution to common disease.

Future challenges

When you look at the challenges facing the world today, encapsulated in the word 'sustainability', there is no doubt that man will be looking for increasingly technological solutions to sustain his future alongside the world's biodiversity. Sir Henry Wellcome demonstrated the importance of the power of scientific excellence combined with the capacity of industry to translate new discoveries for health benefit. The challenge of unmet clinical need on a global basis remains as great today as at any time since the establishment of the Wellcome Trust in 1936 on Sir Henry Wellcome's death. Today extensive programmes of biomedical science around the world are providing enormous opportunities to capitalise on new discoveries through translation to new products, treatments and devices. We need to evolve an improved culture for translation activities and provide the right environments that facilitate successful translation within our institutions. There is much to be done if we are to improve the lives of the newly born in Africa, the prevention of tropical diseases and HIV, and finally enhancing our ability to meet the global challenges presented by chronic disease. Through bringing scientific excellence and outstanding technology we can meet these future challenges as we partner the knowledge-based society with the world's industrial capacity.

Finally and most importantly I should like to thank Mark Walport and team for their focus on excellence, which continues to upgrade the contribution of the endowment.



Sir William Castell
19 December 2007

TRUSTEE'S REPORT

for the year ended 30 September 2007

Objects

The objects of the Wellcome Trust (the "Trust"), as set out in its Constitution, are as follows:

- to protect, preserve and advance all or any aspects of the health and welfare of humankind and to advance and promote knowledge and education by engaging in, encouraging and supporting:
 - (a) research into any of the biosciences; and
 - (b) the discovery, invention, improvement, development and application of treatments, cures, diagnostics, and other medicinal agents, methods and processes that may in any way relieve illness, disease, disability or disorders of whatever nature in human beings or animal or plant life; and
- to advance and promote knowledge and education by engaging in, encouraging and supporting:
 - (a) research into the history of any of the biosciences; and
 - (b) the study and understanding of any of the biosciences or the history of any of the biosciences.

Mission and Aims

The Trust's Strategic Plan for 2005–2010, *Making a Difference*, sets out the context and direction for the Wellcome Trust to achieve its overall mission to "foster and promote research with the aim of improving human and animal health" during this period. The Trust has six aims:

- **Advancing knowledge:** To support research to increase understanding of health and disease, and its societal context.
- **Using knowledge:** To support the development and use of knowledge to create health benefit.
- **Engaging society:** To engage with society to foster an informed climate within which biomedical research can flourish.
- **Developing people:** To foster a research community and individual researchers who can contribute to the advancement and use of knowledge.
- **Facilitating research:** To promote the best conditions for research and the use of knowledge.
- **Developing our organisation:** To use our resources efficiently and effectively.

The Strategic Plan and the *Wellcome Trust Annual Review 1 October 2006–30 September 2007*, which gives more detail of the achievements in the year, are available on request from the address on the inside back cover.

Review of Activities

During the year the Trust delivered a wide range of activities to further its mission as it has continued to support the brightest scientists with the best ideas.

This review sets out major areas of funding during the year within the context of the Trust's aims. Impacts are often only seen some time after the expenditure is committed – and the direct link to health outcomes may be seen generations later. Where achievements are reported, they often reflect only the final result of many years of research from previous funding.

The charitable activities of the Trust, as detailed in note 6 to the Financial Statements, often cover more than one of the Trust's aims. More detail on all the Trust's activities and achievements, including those mentioned below, can be found in the Trust's *Annual Review*.

Understanding health and disease, and societal context

A significant proportion of the funding to achieve this aim is supported by the Science Funding activity. The continuing support for excellent basic research also provides a platform from which to develop clinical research and use of knowledge to create health benefit. The Trust also supports research that addresses the wider societal and historical context of the biomedical sciences, to help understand the present and learn from the past.

The Trust continued to award substantial funds to research institutions, primarily UK universities, through its established project, programme and other ad hoc award schemes. Support was awarded through Science Funding activity for 50 programme grants (2006: 45) and 241 project grants (2006: 218).

Another indicator of success in meeting this aim was the publication of over 3,400 scientific papers that acknowledge funding by the Wellcome Trust in journals featuring in the PubMed database.

During the year the Trust announced a number of new targeted calls for proposals to encourage applications in strategic highlight areas which emerged from a series of Frontiers meetings held during the year.

In the area of history of medicine, which falls within the Medicine, Society and History activity, 12 project grants (2006: nine) and nine fellowships (2006: six) were awarded. History of medicine awards cover a wide range of topics and periods and during the year awards totalling £5.6 million (2006: £4.8 million) were made. New studentships and fellowships build on the history of medicine community's strong academic foundations, and much work is now disseminated to public audiences. During the year the Biomedical Ethics Programme was reviewed and relaunched, with £1.7 million of awards already made in 2007.

Creation of health benefit

Significant health impacts can result from basic research funded by the Trust. In addition the Trust also supports research specifically aimed at driving forward the application of research to create health benefits.

To help bridge the gap between basic research and commercial application, £20 million (2006: £13 million) of awards were made through the Technology Transfer activity.

During the year the Trust awarded the first eight Strategic Translation Awards to support early stage drug discovery projects via the £91 million Seeding Drug Discovery initiative. Awards ranged from antibacterial compounds to combat MRSA to the development of new drugs for the treatment of obesity.

Several other Strategic Translation Awards were also made in the year. Dr Helen Lee and colleagues were awarded £7.6 million to develop rapid point-of-care diagnostics for a range of infectious diseases, suitable for use in developing countries.

Lord Ara Darzi of Imperial College London received £2.1 million to develop a novel, bio-inspired robotic surgical tool which would deliver a revolutionary approach to assisted minimally invasive surgery.

Dr Geraint Morgan, of the Open University, and Dr Liz Corbett, London School of Hygiene and Tropical Medicine, were awarded £1.3 million to produce a robust and rapid, field-deployable tuberculosis diagnostic to help halt the TB pandemic in the developing world.

Global health

International awards continue to contribute to global health. During the year the Trust once again provided major funding support for research and capacity building activities in developing and restructuring countries. For example, the Trust has worked with the UK Department for International Development and the International Development Research Centre, Canada, to develop capacity building programmes in Kenya and Malawi through the £20 million Health Research Capacity Strengthening initiative. Awards under this initiative are expected to be made in the coming year.

Funding to the South African University of KwaZulu-Natal for the Africa Centre was renewed during the year, with an award of £16.8 million. The Centre brings together basic, clinical and translational researchers across a range of immunology, infectious disease and other disciplines.

Other Major Overseas Programmes in Africa and South East Asia also received additional funding during the year to continue to support the valuable research being performed.

Partnerships

The Trust works in innovative funding partnerships where added benefit can be gained and sees this as a strategically important way to achieve its mission.

During the year a second phase of funding was awarded to the Structural Genomics Consortium, an international collaboration aiming to unravel the structures of proteins of medical relevance and place them in the public domain without restriction, with the ultimate aim of providing structural information to stimulate the development of new and improved drugs and other healthcare products. Two new industrial funding partners also joined the Consortium, which exceeded its phase 1 milestones.

Phase 1 construction of the Diamond synchrotron, funded by the Trust and the UK Government, was completed during the year and it became operational in January. The Diamond synchrotron produces pinpoint ultra-violet and X-ray beams of exceptional brightness. These highly focused light beams enable scientists and engineers to probe deep into the basic structure of matter and materials, answering fundamental questions about everything from the building blocks of life to the origin of our planet.

TRUSTEE'S REPORT

for the year ended 30 September 2007 (continued)

The joint Wellcome Trust and Howard Hughes Medical Institute (HHMI) Exchange Programme was launched, which enables Trust-funded postdoctoral researchers to carry out collaborative research by joining the laboratory of an HHMI investigator.

In addition a new four-year PhD scheme in partnership with the US National Institutes for Health was launched, which provides opportunities for the most promising postgraduate students to undertake international collaborative training.

Engaging society

The Trust continues to engage society to foster an informed climate within which biomedical research can flourish. The Trust's approach to engaging the public with biomedical sciences draws on its unique resources, history and expertise to place biomedical science within a societal, historical and cultural context. This work takes place within the Medicine, Society and History activity.

Wellcome Collection, housed in the Wellcome Building, opened its doors to the public in June. Its three new galleries hold two permanent exhibitions, *Medicine Man* and *Medicine Now*, and one temporary exhibition. The exhibitions and other events form part of the Trust's aim to engage the public with science-related issues affecting their lives. In its first five months Wellcome Collection attracted over 100,000 visits from the public and received much positive media attention.

In addition to these direct activities, the Trust also awarded over £3.3 million (2006: £2.9 million) in grant funding for public engagement projects via the Engaging Science programme and as part of this launched a new Arts Awards scheme. A number of notable Strategic Awards were also made including £600,000 to Professor Francis Balkwell for the 'Centre of the Cell' – an interactive exhibition for young people in East London.

Contributing to a long-term and vibrant research environment

In meeting the Trust's aims of advancing and using knowledge, whilst engaging with society, the Trust appreciates the absolute importance of both the people it supports and the research environment in which they work.

The most prestigious of the Trust's career support schemes are the Principal Research Fellowships (PRFs) which provide long-term support for basic and clinical researchers of international standing. During the year awards totalling £30 million were made (2006: £23 million) covering four new PRF awards, three renewal PRF awards and two PRF programme renewal awards. The Trust also awarded £39 million for Senior Research Fellowships (2006: £27 million).

Expanding its current PhD programme, the Trust has awarded funding for 31 PhD programmes at UK universities including 22 new or renewed programmes for basic scientists, seven for clinicians and two joint basic-clinical.

In addition the Trust announced the first 20 recipients of Sir Henry Wellcome Postdoctoral Fellowships, which enable the brightest and best newly qualified scientists to embark on independent research careers. £5 million was awarded in the year.

The Trust's Strategic Award scheme, launched in 2006, continued to support research and training programmes in areas of strategic importance. 14 major awards were made during the year and a total of £55.4 million was awarded through this scheme.

A team led by Professor Linda Partridge was awarded a £5.9 million Strategic Award to examine the biological mechanisms of ageing.

The Trust also announced a £10.7 million Clinical Veterinary Research initiative to support training in clinical veterinary sciences to stimulate the uptake of research careers. £3.7 million of this was awarded as a Strategic Award during the year.

The Trust has relaunched and expanded its fellowship schemes for researchers from developing countries. The Fellowships in Public Health and Tropical Medicine provide a career path for high-calibre researchers in developing countries, from an early stage in the development of their research careers through to establishing themselves as leading investigators at academic institutions in developing countries. The fellowships aim to build sustainable capacity in areas of research that have the potential for increasing health benefits for people and their livestock in developing countries.

The Trust awarded funding for the second phase of the Wellcome Trust Case Control Consortium, a large-scale whole genome study led by Peter Donnelly at the Wellcome Trust Centre for Human Genetics in Oxford, which aims to investigate the genetic contribution to common diseases. This work also included collaboration with the Wellcome Trust Sanger Institute. Major results from the first phase were published in *Science* and *Nature* during the year and gained considerable media attention.

The Trust continues its support of centres and infrastructure within the research environment. During 2006/07 the Trust also introduced a biennial competition to support major Capital Awards for science-based activities as well as an annual competition for projects in public engagement and medical history.

The Wellcome Library was also re-opened as part of Wellcome Collection and continued to take forward activities to preserve and make available key historical resources.

In the area of influencing policy, the Trust has worked with the Health and Safety Executive, the research community and other funders, to highlight the threat of the EU Physical Agents (Electromagnetic Fields) Directive to research and clinical practice conducted using magnetic resonance imaging. The Trust welcomed the European Commission's decision to postpone its implementation to allow time for 'substantive amendments'.

Wellcome Trust Sanger Institute and Wellcome Trust Genome Campus, Hinxton

The aims of the Trust are furthered by the outstanding work undertaken at the Wellcome Trust Sanger Institute, in Hinxton. The Sanger Institute's principal activity is a programme of biomedical research based on large scale studies of gene function.

During the year the construction of an extension to accommodate the European Bioinformatics Institute (EBI) was completed on time and within budget. The informatics teams at the Sanger Institute have worked in partnership with the EBI, making a significant contribution to the publication of the pilot phase of the international ENCODE collaboration, which used cutting edge methods to define accurately the functional elements in 1% of the human genome.

A series of landmark papers have been published during the year in major scientific journals, which demonstrate how the Institute has matured from a sequencing centre to a world-leading genome centre with a focus on the genetics of natural and induced variation.

The Trust also funds a programme of Conferences, Retreats and Advanced Courses at the Wellcome Trust Conference Centre, Hinxton. A wide range of international events were also held during the year, including workshops in Latin America and Africa.

Examples include the large scale conferences on 'Molecular Biology of Hearing and Deafness' and 'Genomics of Common Diseases', a Hinxton Retreat on 'Malaria Parasite Diversity' and the Advanced Course on 'Functional Genomics and Systems Biology'.

Future Plans

As indicated last year, most of the Trust's funding over the next few years will be to support a range of research from the fundamental to the translational. The Trust will continue to focus its support on the best and the brightest medical researchers at all career stages. Other priorities are to increase support for clinical research and training, and to continue promoting the use of knowledge arising from biomedical research to improve human and animal health in the UK and globally.

The Trust aims to strengthen its support for public health research in the UK, including as a partner in the UK Clinical Research Collaboration Centres of Excellence for Public Health initiative.

Through the Technology Transfer activity the Trust aims to deliver targeted calls for proposals in the current highlight areas of medical technologies and antibiotic resistance.

In partnership with the Department of Health, the Trust will take forward the new £100 million Health Innovation Challenge Fund to accelerate the development of innovative technologies, devices and clinical procedures of relevance to the National Health Service. The Trust has committed £50 million over five years towards this initiative.

TRUSTEE'S REPORT

for the year ended 30 September 2007 (continued)

The Trust aims to continue to increase its international activities in line with its International Strategy. Alongside this the Trust continues to look for opportunities to work within partnerships to continue to take forward existing projects or explore new opportunities. One such opportunity to do both is the Health Research Capacity Strengthening initiative in Africa. A new initiative was launched during the year to develop North-South partnerships for strengthening research in African institutions, which will be taken forward over the coming year.

The Trust also plans to continue to support UK centres and Major Overseas Programmes as major centres of research excellence.

The new International Public Engagement programme will be taken forward, supporting a range of activities to engage relevant stakeholder groups with biomedical science in developing countries.

As part of the Trust strategy to engage society a broad and challenging programme of exhibitions and other activities at Wellcome Collection is planned. A new science education strategy will also be implemented with the aim of supporting the professional development of teachers and developing a programme of research. A strategy to help scientists to work more effectively with the broadcast media is also underway.

To increase access to Wellcome Library collections a major programme of systematic digitisation is planned over the next four years.

The new grants management system will go live in 2008, providing a modern approach to the grant-making process right from the initial enquiry through to payment and submission of end of grant reports.

The Trust will continue to work with the Medical Research Council, Cancer Research UK and University College London to progress the development of a new world-leading centre for medical research at a site near St Pancras.

Financial Review

Figure 1: Summary financial information

	2007 £m	2006 £m
Statement of financial activities		
Investment activities		
Total return from investment activities	2,246	1,586
Costs of investment activities		
Management fees and other costs	(47)	(51)
Interest payable on bond liability	(26)	(5)
Interest payable on finance leases	(2)	(2)
Net return on investments	2,171	1,528
Charitable activities		
Charitable income	11	7
Other income	6	9
Charitable resources expended		
Grants	(359)	(325)
Direct	(114)	(119)
Allocated support	(47)	(40)
Net charitable activities	(503)	(468)
Other activities		
Governance	(2)	(2)
Actuarial gain/(loss) on pension schemes	16	(9)
Net other activities	14	(11)
Net movement in fund	1,682	1,049
Summary of net assets		
Investment		
Investment assets	15,666	13,941
Bond liability	(544)	(544)
Net investment assets	15,122	13,397
Charitable		
Tangible fixed assets	432	458
Other assets	21	18
	453	476
Grant liability	(1,040)	(1,017)
Finance lease creditor	(87)	(87)
Other charitable liabilities	(43)	(35)
	(1,170)	(1,139)
Net charitable liabilities	(717)	(663)
Defined benefit pension scheme deficit		
	(40)	(51)
Net assets representing unrestricted funds including pension deficit	14,365	12,683

Investment activities

2006/07 was a year in which global economic growth remained strong, but excessive leverage and insufficient regard for risk created a crisis in credit markets, which caused major disruption in the final quarter. Over the year the US Dollar weakened by almost 9% against Sterling.

It was satisfying, therefore, that at the end of September 2007, the net value of the Trust's investment assets grew to £15,122 million. The total return from investment activities in the year was £2,171 million.

Investment performance

Over each of the past five years, investment returns have exceeded £1 billion; cumulative gains exceeded £8 billion.

The independently calculated nominal performance return was 17.0% for the year to September 2007. At the year end, the one year 95% Value at Risk (VAR) was 9.4% compared with the Trust's targeted maximum of 15%, that is, there is a one in twenty year chance that the value of the portfolio would decline by £1.4 billion. VAR has been reduced by continuing diversification of the portfolio.

Positive Sterling returns were recorded in each quarter of the year, including the final quarter. Annual real returns (after inflation) have exceeded the Trust's 6% target over 3, 5 and 10 years. Since the flotation of Wellcome plc in 1986, annualised nominal returns have been 16.2%, exceeding both the global equity index (MSCI World) and the Trust's targeted return (6% real) by over 6% annualised (see figures 2 and 3).

Figure 2: Total portfolio returns (Sterling)

Period to 30 September 2007

	Nominal return %	Consumer price index %	Real return %
Time weighted return			
1 year	17.0	1.8	15.2
3 year	17.6	2.2	15.4
5 year	15.7	1.8	13.9
10 year	7.9	1.5	6.4
Since Wellcome plc flotation	16.2	2.8	13.4

Especially strong returns were recorded in the Trust's Asian and emerging market equity strategies, in its equity long/short funds, in its buy-out funds and in its UK residential property assets. Positive Sterling returns were recorded in all asset classes except for Japanese long-only equity strategies.

The Trust continues to sell down its holdings in UK equities, especially its mid-cap and smaller stocks. At the end of September 2007, UK equities constituted 15.1% of total investment assets compared with 23.6% in September 2006 and 31.9% in September 2005.

Since March 2006, the Trust has sold over £3 billion of equities across its portfolio, reducing its long-only equity exposure to 51.1%.

Exposure to UK private equity buy-outs and to UK commercial property was also reduced, reflecting continued concern about high valuations and excess levels of leverage in these markets. The Trust continues to avoid investment in funds dependent on leverage, credit and infrastructure.

Weightings were increased in Asian and emerging market equities, equity long/short hedge funds, multi-strategy hedge funds, active currency funds, healthcare investments, venture capital funds and residential property. The Trust increased its commitment to distressed debt funds and added to its portfolio of directly held investments. After consideration, it chose not to make a firm offer as part of a consortium for Alliance Boots plc as a potential investment asset.

The Trust continues to focus on finding and securing capacity with the best managers across asset classes as well as extending its directly held investments so as to achieve its demanding return targets.

International performance comparisons are hampered by currency distortions and by the passive currency overlay employed by the Trust. In US Dollar terms, total investment returns were 27.6% in 2006/07 and have been 18.2% per annum since the flotation of Wellcome plc in 1986. Net investment assets were \$31.0 billion at the end of September 2007. The exchange rate applied to Euro, US Dollar and Japanese Yen denominated stocks were €1.43, \$2.04 and JP¥234.34 (2006: €1.47, \$1.87 and JP¥220.54).

TRUSTEE'S REPORT

for the year ended 30 September 2007 (continued)

Figure 3: Total portfolio cumulative returns (Sterling)

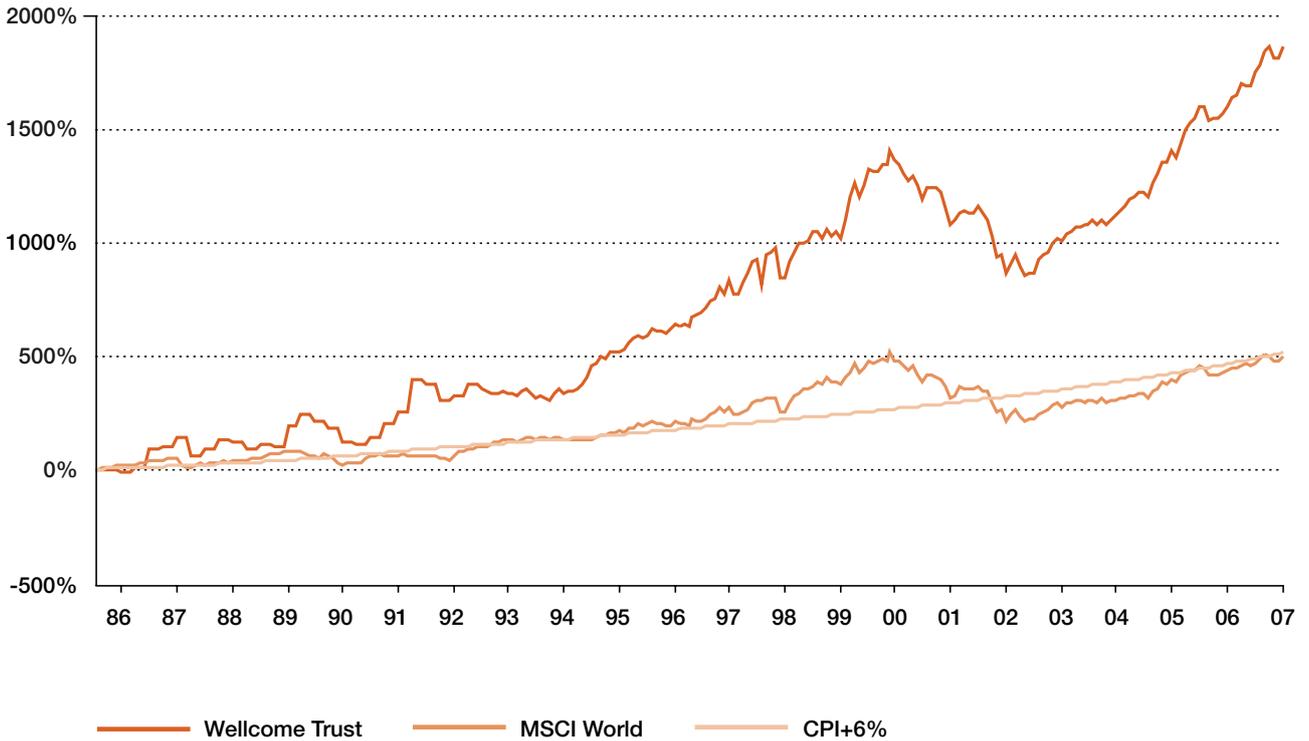


Figure 4: Volatility of returns exponentially weighted moving average (Sterling)



Investment risk management

The volatility of the portfolio, as computed using an exponentially weighted moving average method with a decay factor of 0.97, has shown a significant decrease over the years, from a maximum of 52% in 1987 to about 9.2% in 2007 (see figure 4). Risk is an integral part of the portfolio management process and over the last 12 months the Trust has developed sophisticated risk tools to monitor and manage the risk in the portfolio. The impact of new investments is integrated into the risk model and evaluated in order to assess the impact on the portfolio.

Investment assets

A number of investment beliefs drive the Trust's asset allocation in the deliberate absence of any pre-determined strategic benchmark:

- 1) Despite concerns about the use of excessive leverage and the mispricing of risk in some areas of the economic and financial markets, the Trust remains committed to investment in reawl assets.
- 2) In order to maximise investment returns from global economic activity, the portfolio should be very broadly diversified with no innate geographical bias.
- 3) The Trust seeks to utilise the advantages of its long-term investment horizon, its ability to tolerate high levels of short-term volatility, its AAA balance sheet and its real-time governance structure in its investment portfolio.
- 4) The best returns will be driven by investing through a principally outsourced structure in which the Trust aligns with the strongest partners.
- 5) The Trust is generally flexible as to the nature of the vehicles in which it invests, whether public companies or private partnerships.

Figure 5: Asset allocation

	Market value* £m	As at 30 Sept 2007 %	As at 30 Sept 2006 %	Change
Equity and equity long/short	9,047	59.8	67.9	(8.1)
Long only equities	7,724	51.1	61.7	(10.6)
UK	2,285	15.1	23.6	(8.5)
Europe	1,201	8.0	9.9	(1.9)
Global	948	6.3	6.3	(0.0)
US	1,125	7.4	8.6	(1.2)
Japan	442	2.9	3.9	(1.0)
Asia Pacific ex Japan	850	5.6	4.1	1.5
Emerging markets	873	5.8	5.3	0.5
Equity long/short hedge funds	1,323	8.7	6.2	2.5
Bonds and cash	817	5.4	5.8	(0.4)
Absolute return and buy-outs	3,072	20.4	16.4	4.0
Buy-out funds	1,201	8.0	7.7	0.3
Distressed – buy-out funds	193	1.3	0.7	0.6
Multi strategy hedge funds	1,070	7.1	5.3	1.8
Distressed – MS hedge funds	212	1.4	0.9	0.5
Active currency	396	2.6	1.8	0.8
Healthcare and venture	980	6.4	5.1	1.3
Healthcare equity	139	0.9	0.8	0.1
Venture capital funds	612	4.0	3.5	0.5
Healthcare hedge funds	138	0.9	0.4	0.5
Direct investments	91	0.6	0.4	0.2
Property and infrastructure	1,791	11.9	8.7	3.2
Commercial and other	527	3.5	4.4	(0.9)
Residential	1,264	8.4	4.3	4.1
Currency overlay	(42)	(0.3)	0.3	(0.6)
Programme related investments	1	0.0	0.0	0.0
Wellcome Trust Bond	(544)	(3.6)	(4.2)	0.6
Total	15,122	100.0	100.0	

* The Wellcome Trust Bond is stated at book value not market value.

TRUSTEE'S REPORT

for the year ended 30 September 2007 (continued)

Equities

The public equity element of the portfolio enjoyed another strong year, although, especially in £ terms, returns from different elements were very mixed, with losses in Japanese equities and small gains in US equities being overshadowed by gains in excess of 40% in Asian and emerging market equities. The decision to focus selling activity almost exclusively on UK and European equities permitted the Trust to continue to benefit from investors' enthusiasm for Asian assets.

Figure 6: Public equity annual returns (Sterling)

Period to 30 September 2007

	Time weighted return public equities %
1 year	15.5
3 year	17.0
5 year	16.0
10 year	6.6
Since Wellcome plc flotation	9.6

Figure 7: Equity allocation by manager strategies

	2007		2006	
	£m	Number of managers	£m	Number of managers
Total UK equity active	1,214	3	1,399	4
Total UK equity passive	1,071	2	1,649	2
Europe equity active	1,201	2	1,032	2
Europe equity passive	0	0	285	1
Global equity	948	3	971	3
US equity active	1,125	4	1,152	5
US equity passive	0	0	30	1
Japanese equity	442	4	521	4
Asia Pacific ex Japan	850	3	546	3
Emerging markets equity	873	4	634	4
Healthcare equity	139	2	107	1
Total long only equities	7,863	27	8,326	30

Progress continued to be made in reshaping the portfolio to allocate monies to talented managers. The amount of money managed passively declined from £2.0 billion in September 2006 to £1.1 billion in September 2007. Passive exposure to European stocks was sold. In the UK, the remaining passive exposure was shifted exclusively to FTSE100 stocks to reflect a view on the relative undervaluation of larger companies.

In 2007/08, it is expected that the UK bias will be eliminated, that the European manager structure will be significantly altered and that further attention will be paid to creating the best structure to maximise returns from Asia and emerging markets.

Hedge funds

The Trust's commitment to hedge funds continued to grow over the year, rising to £3.1 billion, largely reflecting the commitment of new monies to existing managers, most of whom are generally closed to new investors, and who have a record of strong performance. The average investment in each individual fund rose from £39 million to £56 million.

The Trust's portfolio of hedge funds performed well in 2006/07; each part of the portfolio delivered double digit (net of fees) returns over the year.

Equity long/short funds performed most powerfully with almost half of the Trust's managers recording gains in excess of 20%. The portfolio remains well diversified with the average fund position being £41 million such that overall volatility is less than 5%. Emphasis is put on managers with strong skills in selling stock short.

Absolute return hedge funds also recorded gains in each of the four quarters, including the challenging final three months. The Trust continues to avoid funds that are highly dependent on leverage, that seek most of their returns from fixed-income markets and that are too dependent on quantitative strategies. Overall volatility was barely 3%.

The injection of new monies into distressed debt funds in the final quarter of 2006/07 reflected the Trust's confidence in the ability of its managers to benefit from the dislocation of credit markets and the re-pricing of risk. Historic volatility of less than 5% is expected to rise as opportunities become more widespread and performance of these funds remains strong.

The Trust's active currency programme, inaugurated in 2006, had a positive first full year; although individual manager results were mixed, overall volatility was less than 11%. The healthcare hedge fund programme also performed well with volatility of around 7%.

In October 2006, the Trust announced that it would be seeding up to \$550 million in funds, principally hedge funds, managed by New Smith Capital Partners and would take a financial interest in the group.

Figure 8: Hedge fund (net of fees) annual returns (US Dollars)

Period to 30 September 2007			
	1 year %	3 year %	5 year %
Distressed debt	12.2	12.3	17.3
Absolute return	14.8	12.2	10.8
Equity long/short	21.3	14.2	11.8
Healthcare	16.8	n/a	n/a
Active currency (£)	10.2	n/a	n/a

Figure 9: Hedge fund allocation by funds

	2007		2006	
	£m	Number of managers	£m	Number of managers
Distressed debt	212	7	119	6
Absolute return	1,070	10	605	10
Equity long/short	1,323	32	861	30
Healthcare	138	4	56	3
Active currency (£)	396	3	239	2
Total	3,139	56	1,880	51

Private equity

The Trust remains a major investor in private equity, with investments in over 500 partnerships. The net asset value of drawn funds exceeded £2 billion for the first time, with outstanding commitments of £1.8 billion. Total (net of fee) annual returns have been in excess of 21%.

Figure 10: Private equity performance

Period to 30 September 2007

	Local currency %	Sterling %
Net IRRs (from 1994)*		
Buy-outs	14.3	12.5
Venture	66.5	66.3
Total private equity	21.5	19.4

* The internal rate of return (IRR) is the annualised compounded rate of return on invested capital and is the most widely used measure of performance for private equity.

As indicated in last year's Report, the Trust had become concerned about the levels of debt and increasing prices for acquisitions in parts of the buy-out market. As a result, new commitments became more concentrated with the best managers. The majority of the increase in the number of funds is due to the absorption of a historic fund of funds relationship, which appeared as a single fund in previous years.

As credit market pricing becomes more realistic and weaker economic conditions offer more attractive acquisition opportunities, these concerns are likely to abate. Although the very strong returns of the past three years are likely to fall, the Trust is confident that its portfolio of buy-out funds can continue to deliver long-term returns at least in line with the annual 14% recorded since inception of the private equity portfolio in 1994.

TRUSTEE'S REPORT

for the year ended 30 September 2007 (continued)

Figure 11: Private equity investments by funds

	2007		2006	
	£m	Number of funds	£m	Number of funds
Buy-outs	1,394	262	1,144	167
Venture	612	230	465	160
Direct	91	23	40	20
Total	2,097	515	1,649	347

In venture, realisations remained more subdued in 2006/07. However, since 1994, annual returns of 66% have justified the volatility of outcomes in individual funds. The Trust continues to have strong access to the best managers and increased its commitments in the period.

As investor demand has strengthened, as has been the case in buyouts for some time, the number and size of new venture funds has increased. The predictability and timing of future returns remains uncertain, but the Trust is comfortable with its commitment to this part of its portfolio, because of the potential for a higher level of expected return.

As the Trust's expertise grows, it continues to increase its portfolio of directly held long-term investments, especially in the area of healthcare. Its allocation remains driven by the appearance of attractive opportunities in which it can partner with other parties.

Property and infrastructure

The Trust's property portfolio continued to produce strong returns over the year. Demand for property in South Kensington, London, the largest part of the property portfolio, remained extremely strong. The 36% gain in the value of the direct residential portfolio also reflects the added value created by active management of the portfolio.

Figure 12: Property annual returns (Sterling)

	Since inception				
	1 year	3 year	5 year	10 year	(1994)
Total property	16.4	18.5	17.4	15.3	14.1
Commercial property	3.9	14.0	15.8	12.3	11.4
Residential property	36.0	23.7	20.3	18.5	19.8
Indirect property funds					13.1*

* IRR since 2000.

Figure 13: Property allocation (Sterling)

	2007	2006
	£m	£m
Residential property	1,264	697
Commercial property	309	299
Indirect property funds	217	155
Total	1,791	1,151

Significant gains were also made by the Trust's German residential property fund manager. The Trust's long time horizon, low long-term cost of borrowing and high tolerance for short-term price volatility make it a natural holder of residential property despite weaker short-term capital values. A significant investment was made in a Manhattan, New York, residential property fund and the Trust completed one of the largest ever UK residential property acquisitions towards the end of the year, adding principally to its holdings in London and the South-East.

As outlined in last year's Report, the Trust continued to take advantage of strong buyer demand and unsustainably low yields to reduce further its exposure to UK commercial property. It was not able to find infrastructure investments which offered to produce acceptable returns without using undue levels of leverage.

The sharp downturn in credit markets is likely to provide opportunities for the Trust to acquire further property assets at discounted prices in the coming year.

Financial risk management

The Group is exposed to market price risk, credit risk, liquidity risk, currency risk and cash flow and interest rate risk arising from the financial instruments it holds. These risks are summarised in note 23 of the Financial Statements.

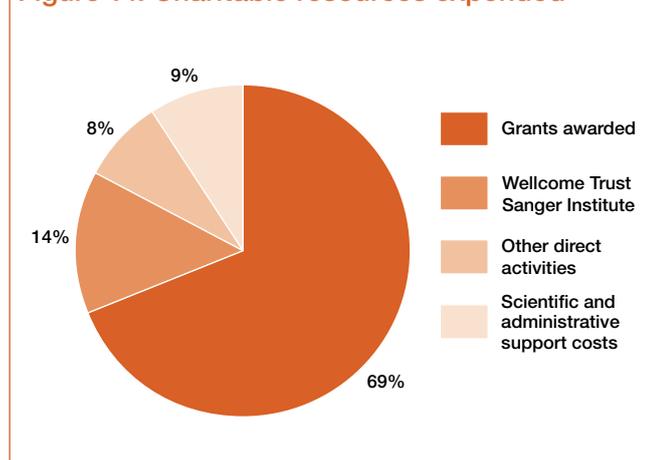
Charitable outgoing resources

Total charitable expenditure for the year was £520 million (2006: £484 million), an increase of £36 million. This increase was accounted for by additional Science Funding and Technology Transfer grants awarded.

Figure 14 below analyses the Trust's charitable expenditure as a percentage of total charitable resources expended.

Key activities have been discussed in the Review of Activities on pages 4 to 8.

Figure 14: Charitable resources expended



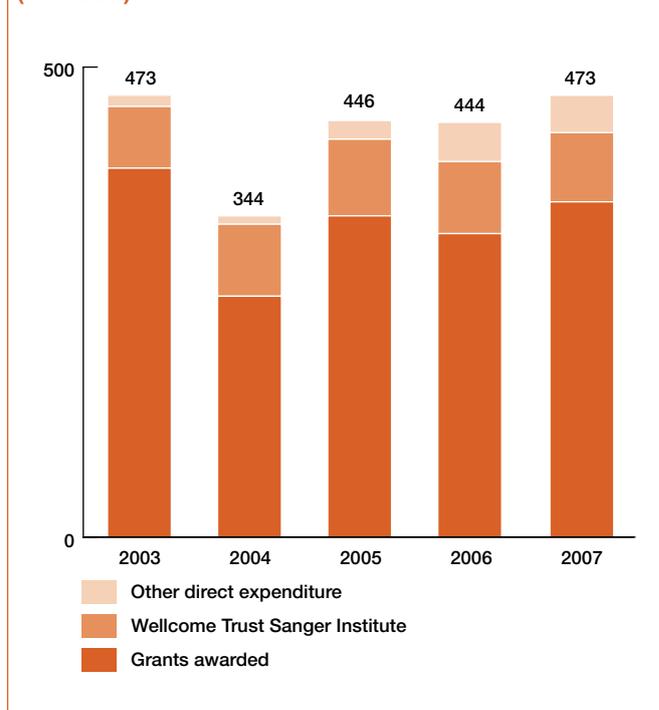
Grant expenditure

In the year to 30 September 2007, grants totalling £359 million were awarded by the Group (2006: £325 million) (figure 15). This was an increase of £34 million (10%). Awards to recipients in the United Kingdom totalled £315 million (88%) (2006: £298 million (92%)).

The increase of £34 million was mainly due to the increase in the assessed quality of applications resulting in an increase in funding rates and grants awarded as outlined below.

The number of grants awarded during the year was 893 (2006: 790), an increase of 103 (13%). The number of applications received was 2,603 (2006: 2,664), a decrease of 61 (2%).

Figure 15: Grants and other direct expenditure (£million)



Further information regarding the main grant recipients is shown in note 7 to the Financial Statements.

Direct expenditure

Expenditure on the activities managed directly by the Trust in 2007 was £114 million (2006: £119 million), a decrease of £5 million. The decrease was mainly due to there having been a one-off depreciation charge of £10 million in the prior year, offset by an increase of £4 million in operational costs primarily due to the Wellcome Collection opening in June 2007.

Of the £114 million, £82 million (2006: £84 million) related to the expenditure at the Wellcome Trust Genome Campus, mainly by the Wellcome Trust Sanger Institute. Staff levels at the Wellcome Trust Sanger Institute decreased from 847 to 816 at the balance sheet date. This is a temporary reduction following the implementation of a new five year strategic plan and staff levels are expected to increase in the coming year.

Expenditure of £18 million (2006: £22 million) was attributable to direct activities undertaken by the Medicine, Society and History division, primarily in its Public Engagement and Wellcome Collection activities.

TRUSTEE'S REPORT

for the year ended 30 September 2007 (continued)

Support and governance expenditure

Support and governance expenditure of £52 million (2006: £44 million) increased by £8 million over the year mainly as a result of expenditure on the development of the new grants management system planned for launch in 2008 and the associated restructuring costs. The average number of support staff increased marginally from 368 to 375 at the balance sheet date as underlying costs remained under tight control.

Defined benefit pension schemes

The FRS 17 'Retirement benefit' accounting deficit of the two Group pension schemes was £40.4 million at 30 September 2007 (2006: £51.4 million). Full independent actuarial valuations were last performed on 1 January 2005 for the Wellcome Trust Pension Plan, and 1 January 2007 for the Genome Research Limited Pension Plan. Approximate funding assessments are provided to report to each Trustees meeting an estimate of the funding positions for the pension schemes. The latest report indicates that the funding deficits were eliminated as at 30 September 2007, on a basis consistent with that adopted at the latest valuation. The Trustee of the Wellcome Trust has provided a commitment to the Wellcome Trust Pension Plan that it will make good any deficits which may arise on an ongoing basis, identified at either the regular or any special valuations, over a period of five years or less. A deed of guarantee has been entered into by The Wellcome Trust Limited, as Trustee of the Wellcome Trust with Genome Research Limited and the Genome Research Limited Pension Plan, to make good any deficit which may arise from the regular or any special valuations over a period of five years or less.

Cash flow payments

Charitable activities and governance

Figure 16: Charitable activities and governance payments

	2007 £m	2006 £m
Grants paid	336	330
Wellcome Trust Genome Campus	74	77
Other direct, support and governance	44	34
Programme related investments	13	13
Purchases of tangible fixed assets	25	35
Charitable activities and governance payments	492	489

These payments were funded by investment income and realisation of £480 million, and charitable income of £12 million.

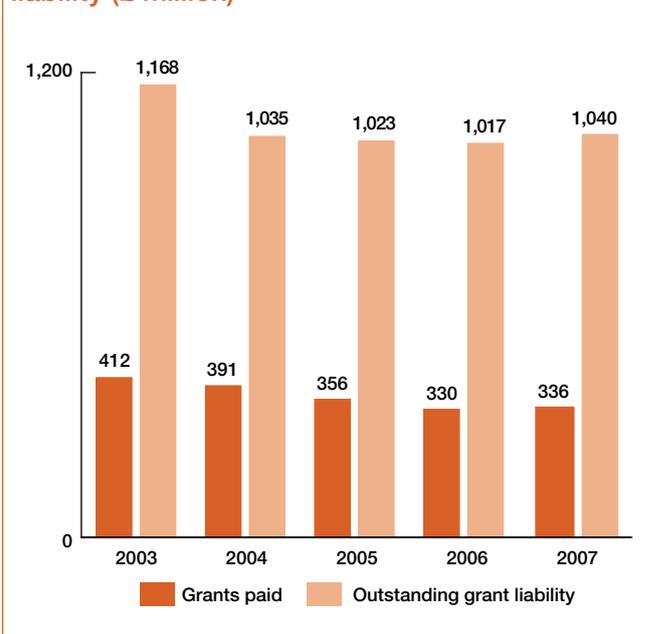
Grant and Wellcome Trust Genome Campus cash expenditure

Total grant cash expenditure was £336 million (2006: £330 million), an increase of £6 million.

There are normally significant timing differences between when grants are awarded, research is undertaken and subsequent claims are made for the funds by the recipients. During 2008 the payments process will be revised and there will be a shorter period between research being undertaken and the Trust making a cash payment.

Wellcome Trust Genome Campus cash expenditure was £74 million (2006: £77 million), a decrease of £3 million.

Figure 17: Grants paid and outstanding grant liability (£ million)



Cash payments on other direct activities, support and governance

These cash payments increased by £10 million to £44 million in 2007 (2006: £34 million). The increase is as a result of the opening of Wellcome Collection and the expenditure on the development of the new grants management system.

Capital expenditure

There were two main areas of capital cash expenditure:

Buildings: £9 million was spent during the year (2006: £25 million). The expenditure this year relates mainly to the completion of 183 Euston Road and has decreased compared to the prior year due to the completion of this building, in which Wellcome Collection opened in June 2007.

Research facilities: Capital expenditure at the Wellcome Trust Sanger Institute amounted to £9 million (2006: £6 million) as the Trust continues to ensure that high-quality IT and research facilities and capital resources are available at this important research institute.

Policy

Grant-making policy

The Trust supports high-quality research across both the breadth of the biomedical sciences and the spectrum of proposals from “blue skies” to clinical to applied research, and encourages the translation of research findings into medical benefits.

Although the majority of grants are awarded to United Kingdom recipients, there are also a number of schemes designed specifically for overseas applicants.

For the most part grant funding is channelled through a university or similar institution in response to proposals submitted by individual academic researchers. Applications are peer reviewed using referees selected by Trust staff from the United Kingdom and international research communities. Expert committees, which also include members from outside the United Kingdom, make most funding decisions, with external experts also brought into Strategic Award Committee meetings to assist in the decision-making process.

Grant awards are made to the employing institution, which is then required to take responsibility for administering a grant in accordance with its purpose and with the terms and conditions attached to the award. Only a limited number of small-scale awards are made directly to individuals. Grant funding is available via a range of schemes including:

- short-term awards for between a few months and three years, and longer-term project and programme grants for research, usually for up to five years.
- awards for research training and career development where support is provided for individuals at all stages of their careers.
- Strategic Awards to provide outstanding research groups with significant levels of support.

The Trust is aware of the profound impact biomedical research has on society and in its grant making also seeks to raise awareness of the medical, ethical and social implications of research and to promote dialogue between scientists, the public and policy makers.

The Trust also undertakes activities in and funds research into the history of medicine. The Wellcome Library, which forms part of Wellcome Collection, provides access to resources that support its activities, and the Trust also provides grant funding for improved access to and preservation of other medical history collections in the United Kingdom.

In addition to the above, the Trust funds its own research institute, the Wellcome Trust Sanger Institute, channelling support through a wholly-owned subsidiary, Genome Research Limited. Led by Allan Bradley, the Director of the Sanger Institute, its researchers are engaged in research programmes using large-scale sequencing, informatics and analysis of genetic variation to further understanding of gene function in health and disease and to generate data and resources of lasting value to biomedical research.

Reserves policy

The Trust's spending policies are set at a level intended to maximise sustainable spend through time and preserve, at least, the real purchasing power of the investment base through time.

TRUSTEE'S REPORT

for the year ended 30 September 2007 (continued)

Expenditure policy

For planning purposes the annual expenditure target is set by reference to a three-year weighted average of the value of the investment assets in order to smooth the effect of short-term volatility in investment values. Future investment values are projected forward using realistic medium-term targets and are used to indicate expenditure levels in the future.

Expenditure targets may be over- or under-spent in any individual year in a controlled manner reflecting anticipated demand from the larger long-term commitments. However, the Board of Governors plans to match these targets cumulatively over the medium term.

Investment Policy

The Trust's assets are invested in accordance with the wide investment powers set out in its Constitution and within its Investment Policy. The Investment Policy was amended in February 2006 to adopt a risk-based approach to investment rather than to make use of strategic asset allocation targets. The Trust's overall investment objective is to seek total return in inflation-adjusted terms over the long term of at least 6% per annum. The objective is to provide for real increases in annual expenditure while preserving at least the Trust's capital base in real terms.

Diversification is a key factor in managing the inherent risk of investments. The Trust invests globally and across a very broad range of assets and strategies.

Securities management has been largely outsourced to external managers whose performance is measured against agreed absolute or index benchmarks. The Trust currently allows its discretionary long-only managers to use derivatives under certain prescribed conditions, which are specified in the investment management agreement. In line with the Constitution, the Trust and selected managers are permitted to use options, futures (including future foreign exchange contracts), swaps and contracts for differences, for portfolio management. They are also used for risk management purposes when transitioning assets from one manager or asset class to another. The Trust adopts a policy of hedging up to 70% of its currency exposure to US Dollar, Euro and Japanese Yen assets using a passive currency overlay.

It is currently the policy of the Trust not to allow investment in companies that derive material turnover or profit from tobacco or tobacco-related products. The Trust has a policy of actively fulfilling its responsibilities for UK long-only equity investments as a shareholder through exercising its voting rights.

Structure, governance and management

The Trust is a charitable trust created in 1936 by the Will of the late Sir Henry Wellcome and now governed by its Constitution, which was established in February 2001 by a scheme of the Charity Commission. The Trust is a charity registered in England under the Charities Act 1993 (registration number 210183).

The Wellcome Trust "Group" comprises the Trust and its subsidiary undertakings, as detailed in note 20(a) to the Financial Statements.

The Trustee and the Board of Governors

The sole trustee (the "Trustee") of the Wellcome Trust is The Wellcome Trust Limited, a company limited by guarantee (registration number 2711000), whose registered office is 215 Euston Road, London NW1 2BE. The Trustee is governed by its memorandum and articles of association. The directors of the Trustee (known as Governors), the Company Secretary of the Trustee, the Executive Board and other administrative details are shown on pages 64 to 66.

The incumbent Governors make appointments to the Board of Governors, after advertisement and consultation. The Board of Governors sets strategy, decides priorities, establishes funding policies and allocates budgets. The Board of Governors draws on the advice and help of decision-making and advisory committees of experts in various fields. The Trust undertakes a comprehensive induction programme for all new Governors, which includes a detailed induction notebook and meetings with members of senior management. In addition, training is available to all Governors.

The members of the Board of Governors are distinguished in the fields of medicine, science, law, business and policy. The Board considers each of the Governors to be independent in character and judgement and that there are no relationships or circumstances which are likely to affect, or could appear to affect, the Governors' judgement. Governors are appointed for terms of four years, with a further extension of three years on mutual agreement, and a further three-year term in exceptional circumstances. The Board considers this more appropriate than appointment to a three-year term followed by a second three-year term.

The Chairman of the Board is Sir William Castell, a leading businessman who has other significant current appointments. He is a non-executive director of the General Electric Company of the USA, a non-executive director of BP plc and a trustee of the Natural History Museum.

The Board is responsible for ensuring that the Trust's charitable objects are being met. It develops and agrees the overall scientific strategy and policies related to biomedical science grant activities. It monitors and reviews progress and policies, and takes funding decisions on initiatives falling outside the remit of the decision-making committees. The Board of Governors also develops and agrees the overall strategy and policies for this area.

During the year there have been several changes to the Board of Governors. Professor Adrian Bird, who has been a Governor since October 2000, succeeded Professor Martin Bobrow as Deputy Chairman, when he retired as a Governor in April 2007. Professor Ronald Plasterk resigned from being a Governor in February 2007 and Professor Sir Leszek Borysiewicz also resigned at the end of the financial year, at the same time as Professor Dame Jean Thomas, whose term as Governor came to an end. Professor Richard Hynes joined the Board in January 2007. He is Daniel K Ludwig Professor for Cancer Research at the Center for Cancer Research (CCR) at the Massachusetts Institute of Technology (MIT) in the US and a Howard Hughes Medical Institute Investigator. Professor Kay Davies, Professor Christopher Fairburn and Professor Peter Rigby will join the Board in January 2008, with Mr Rod Kent joining in February 2008.

During 2006/07 the Board of Governors met eight times, including a two-day residential strategic review meeting and a private meeting and two Governors were absent at one meeting and two Governors were absent at one meeting each.

The Executive Board, chaired by the Director of the Trust, reports directly to the Board of Governors and is responsible for the day-to-day management of the Trust's operations and activities.

Statement of Trustee's responsibilities

The Trustee is responsible for keeping proper accounting records which disclose with reasonable accuracy, at any time, the financial position of the Trust and enable the Trustee to ensure that the Financial Statements comply in all material respects with the Charities Act 1993 and applicable regulations. The Trustee is also responsible for safeguarding the assets of the Trust and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Trustee prepares Financial Statements for each financial year to give a true and fair view of the state of affairs at the end of the financial year, and of the incoming resources and application of resources during the year, both of the Trust and of the Group, and the cash flow of the Group.

The Trustee:

- selects suitable accounting policies and applies them consistently.
- makes judgements and estimates that are reasonable and prudent.
- states whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the Financial Statements.
- prepares the Financial Statements on a going concern basis, unless it is inappropriate to do so.

TRUSTEE'S REPORT

for the year ended 30 September 2007 (continued)

Committees of the Board of Governors

The Board of Governors is assisted in its duties by a number of corporate committees that report directly to it, on which at least two Governors are members:

- **Audit Committee:** for matters of internal control, compliance with financial reporting requirements and liaison with the internal and external auditors.
- **Investment Committee:** for matters relating to the Trust's investments.
- **Nominations Committee:** for identifying potential candidates to fill Board and Committee vacancies.
- **Remuneration Committee:** for remuneration issues.

The Strategic Awards Committee, of which all Governors and four senior executives are members, makes funding decisions on proposals or initiatives that fall outside of established review, decision-making or funding mechanisms and delegations, and that require strategic, scientific or academic appraisal. The Committee brings in external experts to debate with the applicants and the Committee members the scientific, medical history, ethical or public engagement arguments about the merits of an initiative or proposal. The Committee then makes the funding decisions. The Committee meets four times a year.

Details of the membership of these committees are given on page 65. During the year, there were changes to the membership of the Audit Committee, the Investment Committee, the Remuneration Committee and the Nominations Committee.

The Audit Committee met three times during the year and all members were present. The Investment Committee met four times during the year for regular meetings and one of the members missed one meeting and attended part of one other meeting. There were two additional meetings, which were called at short notice and all members were present. The Nominations Committee met four times during the year and two of the members missed one meeting each. All members attended the remaining two meetings.

The Remuneration Committee held one meeting during the year and all members were present.

During the year the Nominations Committee used external search consultancies and open advertising to identify candidates for Board appointment. One new Governor was appointed in January 2007 and later in the year two shortlists were drawn up for science and lay Governor vacancies, the appointments being completed after the end of the financial year.

In its grant-funding and direct charitable activities, the Board of Governors is also assisted by a number of decision-making or advisory committees, on some of which Governors also sit. The committees assess, review and decide which grant applications to fund and also advise on policy issues in various fields. The Board of Governors is also assisted by a number of Strategy Committees, each of which has Governor representation, and which advise on strategy for the Trust's various charitable activities. These committees make recommendations to the Board of Governors. Most of these committees have an external chairman; all include experts from relevant fields.

Details of the membership of these committees are published on the Trust's website.

Principles of governance

The Combined Code on Corporate Governance ("Combined Code"), revised in June 2006, contains principles of good governance and a code of best practice for companies whose shares are listed on the London Stock Exchange. The "Good Governance" code ("Voluntary Sector Code"), published in June 2005, contains principles of good governance for the voluntary and community sector and has been endorsed by the Charity Commission as a framework for registered charities.

Whilst there is no statutory or other requirement for the Trust to comply with either Code, the Board of Governors has conducted a review of compliance during 2006/07 with the Combined Code and with the Voluntary Sector Code and has concluded that the Trust complied during the year with the main provisions of the Codes relevant to it.

Performance

A lengthy review of the performance of the Board and of individual Governors was carried out in 2005/06, as previously reported. This process will be repeated from time to time with a shorter review in intervening years. Accordingly, the performance of the Board and the Trust was considered at a private meeting of the Board and the Director in March 2007. The Director withdrew from the part of the meeting during which his own performance was discussed. The Chairman's performance was considered in December 2007.

The Audit Committee, Investment Committee, Nominations Committee and Remuneration Committee were also reviewed during the year.

In the case of the Audit Committee it was decided that from January 2008 the Chair should be a Governor, to strengthen the links between the Committee and the Board.

The Investment Committee's terms of reference were reviewed and its membership was augmented to include a wider range of experience, reflecting the development of the Trust's investment portfolio.

The Remuneration and Nominations Committees also reviewed their operation. The former decided to meet more frequently to enable it to contribute in more depth to the development of the Trust's policies. The latter streamlined its process for dealing with senior appointments, including Board and Board Committee positions.

Internal control including risk management

Whilst no system of internal control can provide absolute assurance against material misstatement or loss, the Trust's system is designed to provide the Board of Governors with reasonable assurance that there are proper procedures in place and that the procedures are operating effectively. The Executive Board reviews key internal operational and financial controls annually and confirms the operating effectiveness of those controls to the Board of Governors, which in turn also reviews key controls.

The key elements of the system of internal control are:

- **Delegation:** there is a clear organisational structure with documented lines of authority and responsibility for control; and documented procedures for reporting decisions, actions and issues.
- **Reporting:** the Board of Governors approves and reviews annual budgets and expenditure targets and monitors actual and forecast budgets and investment reports on a regular basis.
- **Risk management:** there are processes in place for identifying, evaluating and managing significant risks faced by the Trust. The major risks to which the Trust is exposed, as identified by the Executive Board and the Board of Governors, are reviewed quarterly, and systems are established to mitigate those risks. A risk management policy is in place, which states the Trust's approach to risk and documents the systems of internal control.
- **Internal audit:** an internal audit function reviews controls and the risk management process within the Trust.
- **Review:** the Audit Committee, which comprises three external members and two Governor members, reviews the Trust's position on internal control and its compliance with relevant statutory and finance regulations and advises the Board of Governors of any relevant matters.

Conflicts of interest

The Trust has a policy on conflicts of interest, which applies to Governors, employees and members of the Trust's corporate and decision-making committees.

When a Governor has a material interest in any grant, investment or other matter being considered by the Trust, that Governor does not participate in the Trust's decision on that grant or other matter. In particular, where a Governor is a member of a university to which a specific grant would be made, this is considered to be a matter of material interest. The same principle applies to staff and to members of corporate and decision-making committees.

Where Governors also have paid appointments with institutions that are in receipt of grants from the Trust, these are detailed in note 7 to the Financial Statements.

TRUSTEE'S REPORT

for the year ended 30 September 2007 (continued)

Health and safety

The Trust takes seriously its responsibilities for health and safety at its sites. The staff induction programme includes a health and safety session given by the Health, Safety, Security and Environment (HSSE) Manager to all new employees, ideally in the first two days of their employment, and the Trust's intranet is used to provide staff with the latest information and support on relevant health and safety issues. Health and Safety Committees for each building meet quarterly; their members include two staff representatives, and the Executive Board considers their minutes and annual reports. Occupational health support is provided to staff, and regular risk assessments are conducted to meet UK legislation in such areas as manual handling and display screen equipment. The Trust's Health and Safety Policy was last reviewed and updated in November 2007, and will be disseminated to all staff via the intranet site.

An independent body, such as the British Safety Council, conducts a full health and safety audit biannually, and the Trust has been assessed as having a good record. The Trust's accident rate is exceptionally low, partly as a result of its stance on making good health and safety management a fundamental requirement for all of its activities, and those of its contractors and suppliers. The HSSE Manager is undertaking a comprehensive review of safety management on site, and a number of significant improvements are being made as a result.

Employment

The Trust is committed to being an Equal Opportunities employer and aims to ensure that no job applicant or employee receives less favourable treatment on the grounds of gender, marital status, sexual orientation, race, colour, ethnic origin or nationality, religion or belief, disability or age. Staff recruitment, appointment and related processes are monitored, and a report presented annually to the Executive Board and the Board of Governors.

A comprehensive training and personal development programme is developed and offered each year by the Human Resources department, comprising over thirty internal training courses, ranging from senior management development to report writing. These courses are supplemented by a wide range of other training events, such as seminars, briefings, team building support, and induction programmes. Appropriate external training courses are also available when required.

The Trust has an active Staff Association (established in 2005) covering all employees. The Association aims to complement existing communication methods and provide an opportunity to consult on key issues of direct relevance to the staff.

Environment

The Trust recognises that pollution can be a trigger for those susceptible to certain illnesses and, just as the research it funds aims to improve human health and wellbeing, the Trust also seeks to conduct its activities so as to minimise their environmental impact.

The Wellcome Trust Sanger Institute

Health and Safety, Employment and Environment policies for the Sanger Institute are managed and monitored by its Board of Management, which reports to the Board of Directors of Genome Research Limited. The Institute implements the same high standards in these areas as the Trust, but adapted to its own different circumstances and needs.

Auditors

Our auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office. The Board of Governors confirmed their reappointment on 19 December 2007.

The *Annual Report* was approved by The Wellcome Trust Limited, as Trustee, on 19 December 2007 and signed on its behalf by



Sir William Castell
Chairman

INDEPENDENT AUDITORS' REPORT

to the Trustee of the Wellcome Trust

We have audited the Financial Statements of the Wellcome Trust for the year ended 30 September 2007, which comprise the Statement of Financial Activities and the Balance Sheet of the Trust and the Group, the Cash Flow Statement of the Group and the related notes. These Financial Statements have been prepared under the accounting policies set out therein.

Respective responsibilities of the Trustee and auditors

As set out in the Statement of Trustee's Responsibilities, the charity's Trustee is responsible for the preparation of the Financial Statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

We have been appointed auditors under section 43 of the Charities Act 1993 and report in accordance with regulations made under section 44 of that Act. Our responsibility is to audit the Financial Statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the charity's Trustee in accordance with paragraph 7(2) of the 2005 Regulations made under Part VI, Charities Act 1993 and for no other purpose. We do not, in giving this opinion, accept or assume any responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the Financial Statements give a true and fair view and are properly prepared in accordance with the Charities Act 1993. We also report to you if, in our opinion, the Trustee's Report is not consistent with the Financial Statements, if the charity has not kept proper accounting records or if we have not received all the information and explanations we require for our audit.

We read the other information contained in the Annual Report, and consider whether it is consistent with the audited Financial Statements. This other information comprises the Trustee's Report and the Chairman's Statement. We consider the implications for our report

if we become aware of any apparent misstatements or material inconsistencies with the Financial Statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Financial Statements. It also includes an assessment of the significant estimates and judgments made by the Trustee in the preparation of the Financial Statements, and of whether the accounting policies are appropriate to the charity's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Financial Statements.

Opinion

- In our opinion the Financial Statements:
- Give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the affairs of the Trust and the Group at 30 September 2007 and of the net outgoing resources for the Trust and the Group and cash flows of the Group for the year then ended; and
- Have been properly prepared in accordance with the Charities Act 1993.



PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors London
19 December 2007

CONSOLIDATED STATEMENT OF FINANCIAL ACTIVITIES

for the year ended 30 September 2007

	Note	2007 £m	2006 £m
INCOMING RESOURCES			
Investment income			
Dividends and interest	2	272.6	281.4
Rental income	3	29.3	27.1
		301.9	308.5
Other incoming resources			
Grants receivable	4(a)	10.5	6.5
Gains on disposal of fixed assets		0.1	–
Other income	4(b)	5.8	9.4
Total incoming resources		318.3	324.4
RESOURCES EXPENDED			
Cost of generating funds			
Management fees and other costs	5	47.5	50.6
Interest payable on bond liability		25.6	4.8
Interest payable on finance leases	22	2.2	1.8
Charitable activities	6	519.8	484.1
Governance costs	10	1.9	1.9
Total resources expended		597.0	543.2
Net outgoing resources before gains/(losses) on investments		(278.7)	(218.8)
Realised and unrealised gains/(losses) on investments			
Quoted investments	15(a)	1,148.2	749.2
Unquoted investments	15(a)	410.7	236.2
Investment properties	15(a)	176.9	129.8
Derivative financial instruments	15(b)	212.5	161.9
Foreign exchange	15(e)	(3.8)	0.4
		1,944.5	1,277.5
Actuarial gains/(losses) on defined benefit pension schemes	11(d)	15.9	(9.2)
Net movement in fund		1,681.7	1,049.5
Fund at start of year		12,683.1	11,633.6
Fund at end of year		14,364.8	12,683.1

There are no other gains or losses apart from those recognised above. All income is derived from continuing activities. All material funds are unrestricted.

CONSOLIDATED BALANCE SHEET

as at 30 September 2007

	Note	2007 £m	2006 £m
Tangible fixed assets	14(a)	431.8	458.0
Investment assets			
Quoted investments	15(a)	9,039.7	9,143.5
Unquoted investments	15(a)	3,962.9	2,794.2
Investment properties	15(a)	973.0	892.6
Derivative financial instruments	15(b)	(10.2)	51.9
Other investment balances	15(c)	1,698.6	1,057.7
Programme related investments	15(d)	1.5	0.8
		15,665.5	13,940.7
Current assets			
Debtors	16	12.5	12.4
Term deposits and cash		8.5	5.4
		21.0	17.8
Creditors falling due within one year	17	(503.3)	(506.5)
Net current liabilities		(482.3)	(488.7)
Total assets less current liabilities		15,615.0	13,910.0
Creditors falling due after one year	17	(1,201.1)	(1,167.4)
Provision for liabilities and charges	18	(8.7)	(8.1)
Net assets representing unrestricted funds excluding pension deficit		14,405.2	12,734.5
Defined benefit pension scheme deficit	11(d)	(40.4)	(51.4)
Net assets representing unrestricted funds including pension deficit		14,364.8	12,683.1

The Consolidated Financial Statements were approved by The Wellcome Trust Limited, as Trustee, on 19 December 2007 and signed on its behalf by

Sir William Castell

Professor Adrian Bird

STATEMENT OF FINANCIAL ACTIVITIES OF THE TRUST

(excluding subsidiary undertakings) for the year ended 30 September 2007

	Note	2007 £m	2006 £m
INCOMING RESOURCES			
Investment income			
Dividends and interest	2	246.6	261.9
Rental income	3	29.3	27.1
		275.9	289.0
Other incoming resources			
Gains on disposal of fixed assets		0.1	–
Other income	4(b)	17.7	12.2
Total incoming resources		293.7	301.2
RESOURCES EXPENDED			
Costs of generating funds			
Management fees and other costs	5	44.5	48.6
Interest payable on finance leases	22	2.2	1.8
Charitable activities	6	511.3	479.1
Governance costs	10	1.8	1.8
Total resources expended		559.8	531.3
Net outgoing resources before gains/(losses) on investments		(266.1)	(230.1)
Realised and unrealised gains/(losses) on investments			
Quoted investments	15(a)	1,103.6	728.9
Unquoted investments	15(a)	390.6	249.7
Investment properties	15(a)	177.0	129.8
Derivative financial instruments	15(b)	214.3	161.9
Subsidiary undertakings	20(b)	46.7	11.1
Foreign exchange	15(e)	(3.5)	(0.1)
		1,928.7	1,281.3
Actuarial gains/(losses) on defined benefit pension schemes	11(d)	9.4	(4.8)
Net movement in fund		1,672.0	1,046.4
Fund at start of year		12,571.5	11,525.1
Fund at end of year		14,243.5	12,571.5

There are no other gains or losses apart from those recognised above. All income is derived from continuing activities. All material funds are unrestricted.

BALANCE SHEET OF THE TRUST

(excluding subsidiary undertakings) as at 30 September 2007

	Note	2007 £m	2006 £m
Tangible fixed assets	14(b)	296.0	328.6
Investment assets			
Quoted investments	15(a)	8,205.4	8,403.3
Unquoted investments	15(a)	3,512.5	2,764.6
Investment properties	15(a)	958.7	892.6
Derivative financial instruments	15(b)	(10.2)	51.9
Other investment balances	15(c)	1,645.3	872.9
Subsidiary and other undertakings	20(b)	817.5	420.9
Programme related investments	15(d)	1.5	0.8
		15,130.7	13,407.0
Current assets			
Debtors	16	11.0	6.1
Term deposits and cash		2.2	3.8
		13.2	9.9
Creditors falling due within one year	17	(499.1)	(503.7)
Net current liabilities		(485.9)	(493.8)
Total assets less current liabilities		14,940.8	13,241.8
Creditors falling due after one year	17	(662.0)	(628.5)
Provision for liabilities and charges	18	(8.7)	(8.1)
Net assets representing unrestricted funds excluding pension deficit		14,270.1	12,605.2
Defined benefit pension scheme deficit	11(d)	(26.6)	(33.7)
Net assets representing unrestricted funds including pension deficit		14,243.5	12,571.5

The Trust Financial Statements were approved by The Wellcome Trust Limited, as Trustee, on 19 December 2007 and signed on its behalf by

Sir William Castell

Professor Adrian Bird

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 30 September 2007

	Note	2007 £m	2006 £m
Net cash outflow from operating activities	21(a)	(210.2)	(169.1)
Capital expenditure and financial investment			
Sales of investment assets	21(b)	10,953.8	6,247.6
Purchases of investment assets	21(b)	(10,457.4)	(6,864.5)
Proceeds from derivative financial instruments	21(b)	274.5	110.0
Purchases of tangible fixed assets		(24.5)	(34.8)
Sale of tangible fixed assets		0.2	–
Net cash inflow/(outflow) from capital expenditure and investing activities		746.6	(541.7)
Financing			
Issue of corporate bonds	21(c)	–	538.9
Management of liquid resources			
(Increase)/decrease in deposits held by fund managers	21(d)	(533.3)	170.8
Increase in term deposits	21(d)	(0.1)	–
Net cash (outflow)/inflow from management of liquid resources		(533.4)	709.7
Increase/(decrease) in cash for the year	21(d)	3.0	(1.1)

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 September 2007

1. ACCOUNTING POLICIES

(a) Basis of preparation and scope of the Financial Statements

The Financial Statements of the Wellcome Trust (the "Trust") and the consolidated Financial Statements of the Trust and its subsidiary undertakings (the "Group") have been prepared in accordance with applicable UK accounting standards. In particular they comply with the Charities Act 1993, The Charities (Accounts and Reports) Regulations 2005 and the Statement of Recommended Practice 'Accounting and Reporting by Charities' published in 2005 (the "SORP") in all material respects.

The Trust's subsidiary undertakings are considered to be wholly-owned by virtue of control by the Trust, and their assets, liabilities and results have therefore been consolidated with those of the Trust, in accordance with Financial Reporting Standard 2 'Subsidiary undertakings' (FRS 2) and the SORP.

The financial year ends of the subsidiary undertakings coincide with that of the Trust with the exception of one investment holding company, which, for commercial considerations, has a different year end. The results of this subsidiary undertaking have been consolidated on the basis of unaudited interim accounts.

The Financial Statements of the Group include:

- Consolidated Statement of Financial Activities
- Consolidated Balance Sheet
- Statement of Financial Activities of the Trust
- Balance Sheet of the Trust
- Consolidated Cash Flow Statement
- Notes to the Financial Statements.

(b) Accounting policies

Accounting policies have been reviewed in accordance with FRS 18 'Accounting policies'. The retirement benefits policy has been updated following the adoption of the amendment to FRS 17 'Retirement benefits'. The main change in FRS 17 is that for quoted securities, the current bid price, rather than the mid-market value, is taken as fair value. The implementation of this standard has not had a material impact on the Trust's and the Group's results or assets and liabilities.

(c) Subsidiary undertakings

The Trust consolidates four types of subsidiary undertaking: (i) charitable subsidiary undertakings formed to pursue charitable objects closely allied to those of the Trust; (ii) non-charitable subsidiary undertakings formed to hold investments and freehold property on behalf of the Trust; (iii) a non-charitable subsidiary undertaking formed to issue listed debt to finance Group activities; and (iv) trading subsidiary undertakings to conduct non-primary purpose trading. Further detail on the Trust's subsidiary undertakings is provided in note 20.

Subsidiary undertakings formed to hold investments are included in the Trust's Balance Sheet at the fair value of their net assets. Investments in all other subsidiary undertakings are held at cost less any impairment.

(d) Historical cost convention

Except where otherwise stated, these Financial Statements have been prepared using the historical cost convention.

(e) Income

Income is recognised on an accruals basis. Dividends, including any tax recoverable, are credited to income from the ex-dividend date when they become receivable.

(f) Grants

Grants awarded to institutions outside the Group are recognised as expenditure in the year in which the grant is formally approved by the Trust and has been communicated in writing to the recipient, except to the extent that it is subject to conditions that enable the Trust to revoke the award. Grants awarded to Group companies are recognised as and when the expenditure to which they relate is incurred, in accordance with the terms of the grant.

Grants receivable are credited to the Statement of Financial Activities when conditions for receipt have been met or when they become receivable.

(g) Retirement benefits

The Trust and its subsidiary undertaking Genome Research Limited each operate a pension scheme with benefits based on final pensionable pay. The assets of the schemes are held in funds separate from those of the Group and administered by their own trustees.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 September 2007 (continued)

The current and past service costs, and the net of interest cost and expected return on assets (Net return), are charged to Resources Expended on the Statement of Financial Activities based on the activity to which the staff relate. Actuarial gains or losses are also separately charged to the Statement of Financial Activities as unrealised gains or losses. All calculations are made on an annual basis by an independent qualified actuary.

The net pension scheme surplus or deficit as at the balance sheet date is shown on the Balance Sheet.

(h) Fund accounting

All the funds of the Group are unrestricted funds with the exception of certain grants receivable that are not considered material to the Financial Statements of the Trust and the Group.

(i) Tangible fixed assets

Land and buildings in use by the Group are included in the Balance Sheet at cost less accumulated depreciation. Freehold buildings are depreciated at the rate of 2% per annum. The costs of leasehold property are depreciated over the term of the right of use, not exceeding 50 years.

All other classes of fixed assets are also stated at cost less accumulated depreciation. Depreciation is calculated to write off the cost of the assets in equal instalments over their estimated useful lives.

Assets for use in the Gibbs Building and the Wellcome Building are depreciated as follows: plant and equipment 15 to 30 years and furniture 10 years. Other plant and equipment, furniture, fixtures and fittings are depreciated over 5 to 15 years. Computer equipment and motor vehicles are depreciated over 3 to 5 years.

Specialist equipment owned by Genome Research Limited is depreciated over 10 years, laboratory equipment over 5 years and sequencing machines over 3 years.

Heritage assets acquired prior to 2005, comprising substantial collections of books, artefacts of scientific and historical interest and other museum pieces, are not capitalised as, in the view of the Trustee, the cost of valuing the entire collection would be onerous compared with the benefit derived by users of the Financial Statements in assessing the Trustee's stewardship of the assets. Significant purchases of heritage assets since 2005 are capitalised.

No depreciation is charged during the year on assets in the course of construction.

(j) Leased assets

Where assets are financed by leasing agreements that give rights to the lessee approximating to ownership, the assets are treated as if they had been purchased outright by the lessee. The amount capitalised is the present value of the minimum lease payments payable during the lease term. The corresponding lease commitments are shown as obligations to the lessor. Interest is charged over the duration of the lease in proportion to the balance outstanding. Depreciation on the relevant assets and interest is charged to the Statement of Financial Activities.

All other leases are operating leases and the annual rentals are charged to the Statement of Financial Activities on a straight-line basis over the lease term.

(k) Quoted investments

Quoted investments are stated at fair value at the balance sheet date. The basis of fair value for quoted investments is equivalent to the market value, using bid-price. Realised and unrealised gains less losses are credited to the Statement of Financial Activities. Asset sales and purchases are recognised at date of trade.

(l) Unquoted investments

Investments are valued at the Trustee's best estimate of market or fair value. The principal unquoted valuations are performed as follows:

Unquoted hedge funds

Unquoted hedge funds are valued by reference to the market value of their underlying quoted securities. These valuations are provided by the third party hedge fund administrators.

Unquoted active currency funds

Unquoted active currency funds are valued by reference to the market value of their underlying over-the-counter derivatives. These valuations are provided by the currency fund managers.

Private equity funds

The vast majority of private equity investments are held through funds managed by private equity groups. No readily identifiable market price is available for private equity funds. These funds are included at the most recent valuations from their respective private equity groups. The private equity groups provide a fair value valuation of the partner's share. However some groups still state its value at cost including some early stage investments where the private equity groups have yet to provide a formal valuation report. The significant criteria that guide the private equity groups as to whether they provide a fair value for their fund or state it at cost and that impact the Trust's portfolio are as follows:

- i. Private equity groups that comply with the International Private Equity and Venture Capital Valuation Guidelines provide a fair value of the partner's share.
- ii. Private equity groups that comply with International Financial Reporting Standards provide a fair value of the partner's share. Where locally generally accepted accounting principles applicable to private equity vehicles are applied instead, the treatment varies by country.
- iii. Other private equity groups comply with the provisions of the investments funds' Limited Partnership Agreements or Private Placing Memorandums, which may provide a fair value or cost.

Where private equity groups do not provide a fair value, the Trust is unable to obtain a reliable fair value, and therefore these investments are held at cost.

The majority of valuations are at the balance sheet date. In a limited number of cases where information is not available as at 30 September, the most recent valuations from private equity managers are adjusted for cash flows and foreign exchange movements between the most recent valuation and the balance sheet date.

Direct and Programme Related Investments

Direct investments under the Healthcare and Venture Capital strategy and Programme Related Investments are held at cost, less any provision for diminution in value. A fair value is not obtained for these investments as, in the view of the Trustee, the cost of valuing these assets would be onerous compared with the additional benefit of such a valuation to users of the Financial Statements.

Gains and losses for all unquoted investments are accounted for in the Statement of Financial Activities.

(m) Investment properties

Investment properties are included in the Balance Sheet at fair value, which is usually equivalent to open market value. The valuations are estimated by professional advisers; however, where properties are acquired close to the balance sheet date, valuations are not obtained because they are recorded at fair value upon initial recognition, which the Trustee considers to be a reasonable estimate of market value at that time. Property transactions are recognised on date of completion. Realised and unrealised gains less losses are credited to the Statement of Financial Activities.

(n) Derivative financial instruments

The use of directly held derivative financial instruments comprises:

- as part of the Trust's portfolio risk management, the use of forward currency contracts to reduce currency exposure; and
- as part of the Trust's portfolio management and investment return strategy, the use of financial futures, swaps and options.

The fair value of open contract positions is recognised in the Balance Sheet and gains and losses on the contracts recognised in the Statement of Financial Activities.

(o) Other investment balances

Cash balances, debtors and creditors arising as part of the investment portfolio are classified as other investment balances and grouped together as part of investment assets and are stated at their fair value. Realised and unrealised gains less losses are credited to the Statement of Financial Activities.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 September 2007 (continued)

(p) Bond liability

The Bond liability relates to the 30-year corporate bonds issued in 2006 by Wellcome Trust Finance plc, listed on the London Stock Exchange. The initial measurement of the liability is equal to the proceeds of issue less all transaction costs directly attributable to the issue. After initial recognition the liability is measured at amortised cost using the effective interest rate method. The fair value of the Bond liability disclosed within the notes to the Financial Statements is the market value of the Bonds at the year end date. The Group is not required to, and therefore does not, recognise any adjustment to fair value in the Balance Sheet and the Statement of Financial Activities.

(q) Profits and losses on foreign exchange

Transactions denominated in foreign currency are translated at the exchange rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated into pounds sterling at the rate ruling at the balance sheet date. All gains and losses on exchange, realised and unrealised, are reflected in the Statement of Financial Activities. Exchange gains and losses are allocated to the appropriate income or expenditure category.

(r) Resources expended

The costs of generating funds and charitable expenditure are charged to the relevant category or activity, according to the area to which the expenditure relates, on an accruals basis. Where possible, expenditure incurred that relates to more than one cost category is apportioned. The method of apportionment uses the most appropriate basis for each cost type, the most common being by direct analysis of the expenditure incurred.

The cost of functions which support more than one activity has been allocated using the most appropriate method, as disclosed in note 9. Costs which relate to the general running of the charity as opposed to those costs associated with investments or charitable activity have been allocated to Governance costs as detailed in note 10.

(s) Irrecoverable VAT

Irrecoverable Value Added Tax (VAT) is included in the Statement of Financial Activities within the expenditure to which it relates.

(t) Securities lending programme

The Group undertakes securities lending arrangements whereby securities are loaned to external counterparties for a set period of time ("the loan period"). The Group receives collateral assets of greater value than the securities loaned from each counterparty for the duration of the loan period and the Group receives interest on the collateral assets held. Under the terms of the securities lending agreements, the Group retains substantially all the risks and rewards of ownership of the loaned securities, and also retains contractual rights to any cashflows relating to the securities. Therefore the loaned securities are not derecognised from the Group's balance sheet and the collateral assets held are not recognised on the Group's balance sheet.

2. DIVIDENDS AND INTEREST

	Group		Trust	
	2007 £m	2006 £m	2007 £m	2006 £m
Dividends from quoted UK equities	77.1	108.1	77.1	108.1
Dividends from quoted overseas equities	90.7	80.4	81.6	78.6
Interest from UK fixed interest securities	43.8	40.0	43.5	27.7
Interest from overseas fixed interest securities	11.0	2.1	7.9	2.1
Income from unquoted investments	32.6	35.0	27.7	33.5
Interest on cash and cash deposits	15.7	15.8	7.1	11.9
Securities lending income	1.7	–	1.7	–
	272.6	281.4	246.6	261.9

3. RENTAL INCOME

Group and Trust

	2007 £m	2006 £m
Rental income	29.3	27.1

4. OTHER INCOMING RESOURCES

(a) Grants receivable

Grants receivable represents grants receivable by the Trust's subsidiary undertaking Genome Research Limited from other funders, notably the European Union, the US National Institutes of Health and the UK Medical Research Council. These are subject to specific conditions imposed by the donors and, as such, are restricted in their use.

	Group		Trust	
	2007 £m	2006 £m	2007 £m	2006 £m
Grants receivable	10.5	6.5	–	–

(b) Other income

	Group		Trust	
	2007 £m	2006 £m	2007 £m	2006 £m
Other income	5.8	9.4	17.7	12.2

Included in other income above for the Trust are Gift Aid donations from Trust subsidiary undertakings of W.T. Construction Limited £36,000 (2006: £24,000), Wellcome Trust Trading Limited £282,000 (2006: £219,000), WT European Investments Limited £4.5 million (2006: £7.5 million), Wellcome Trust GP Limited £1,000 (2006: £nil), Wellcome Trust Finance plc £6.5 million (2006: £1.3 million), Wellcome Trust Residential 1 Unlimited £2.7 million (2006: £nil) and Wellcome Trust Residential 2 Unlimited £22,000 (2006: £nil).

In the prior year, other income for the Group included a gift in kind of £5.3 million relating to the surrender to Genome Research Limited of a lease on a building by the previous occupant, the Medical Research Council (MRC), as part of the funding package agreed for the new building for the European Bioinformatics Institute.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 September 2007 (continued)

5. MANAGEMENT FEES AND OTHER COSTS

Management fees and other costs primarily represent costs incurred, both internally and externally, in managing the Trust's investment portfolio.

	Group		Trust	
	2007 £m	2006 £m	2007 £m	2006 £m
External investment management fees	38.2	41.7	35.3	39.5
Internal investment administration costs	5.4	5.5	5.3	5.5
Other investment costs	1.2	1.2	1.2	1.4
Investment support cost allocation	2.7	2.2	2.7	2.2
	47.5	50.6	44.5	48.6

6. CHARITABLE ACTIVITIES

Group

	Grant funding £m	Direct £m	Allocated support £m	Total 2007 £m	Total 2006 £m
Science Funding	327.1	6.6	22.9	356.6	324.1
Medicine, Society and History	12.0	18.0	12.8	42.8	47.6
Technology Transfer	20.1	6.8	3.2	30.1	19.7
Wellcome Trust Genome Campus	–	82.1	8.2	90.3	92.7
	359.2	113.5	47.1	519.8	484.1

Trust

	Grant funding £m	Direct £m	Allocated support £m	Total 2007 £m	Total 2006 £m
Science Funding	327.1	6.6	22.9	356.6	324.1
Medicine, Society and History	12.0	17.9	12.8	42.7	47.8
Technology Transfer	20.1	6.8	3.2	30.1	19.7
Wellcome Trust Genome Campus	74.1	6.1	1.7	81.9	87.5
	433.3	37.4	40.6	511.3	479.1

7. GRANTS AWARDED

Grants are generally awarded in support of biomedical research to particular individuals, although the award is normally made to the host institution. Small grants may be awarded directly to individuals for the purpose of travel and for the public engagement with science.

Grants awarded during the year are analysed by recipient as follows. The grants included within 'Grants to other institutions' totalled less than £3.0 million in value for each institution.

	Science Funding £m	Medicine, Society and History £m	Technology Transfer £m	Wellcome Trust Genome Campus £m	Total 2007 £m	Total 2006 £m
University of Oxford	63.9	0.5	1.0		65.4	40.3
University of Cambridge	37.2	0.6	2.9		40.7	40.0
University College London	33.3	0.7	0.9		34.9	27.4
Imperial College London	18.0	–	3.1		21.1	17.4
University of Dundee	19.0	–	0.3		19.3	8.6
University of Edinburgh	18.6	0.4	–		19.0	22.0
University of KwaZulu-Natal, South Africa	16.9	–	–		16.9	1.8
University of Manchester	13.0	0.8	–		13.8	8.2
King's College London	11.5	0.3	–		11.8	11.5
University of Liverpool	8.1	–	–		8.1	4.6
London School of Hygiene and Tropical Medicine	7.0	0.2	–		7.2	9.9
University of Bristol	4.9	0.1	1.6		6.6	4.9
University of Glasgow	5.1	0.2	–		5.3	6.3
University of Birmingham	5.0	0.3	–		5.3	3.4
Diagnostics for the Real World Limited, USA	–	–	4.8		4.8	–
University of Leicester	4.6	–	–		4.6	3.4
Queen Mary, University of London	3.5	0.9	–		4.4	0.7
University of Newcastle upon Tyne	4.0	0.4	–		4.4	3.1
University of York	4.0	0.1	–		4.1	3.4
Cardiff University	4.0	–	–		4.0	5.4
University of Sheffield	3.4	–	–		3.4	1.8
Kenya Medical Research Institute, Kenya	3.3	–	–		3.3	3.5
University of Leeds	3.1	–	–		3.1	2.5
University of St Andrews	3.1	–	–		3.1	3.0
Grants to other institutions	43.5	6.5	5.5		55.5	100.8
Total grants (excluding supplementations, grants no longer required and grants to subsidiary undertakings)	338.0	12.0	20.1	–	370.1	333.9
Grant supplementations	11.5	–	–	–	11.5	13.9
Less: grants awarded in previous years no longer required	(22.4)	–	–	–	(22.4)	(23.1)
Grants to subsidiaries	–	–	–	74.1	74.1	77.3
Grants awarded by the Trust	327.1	12.0	20.1	74.1	433.3	402.0
Less: grants to subsidiaries	–	–	–	(74.1)	(74.1)	(77.3)
Grants awarded by the Group of which	327.1	12.0	20.1	–	359.2	324.7
United Kingdom	290.3	11.5	13.3	–	315.1	298.4
Directly funded international	36.8	0.5	6.8	–	44.1	26.3
Grants awarded by the Group	327.1	12.0	20.1	–	359.2	324.7

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 September 2007 (continued)

7. GRANTS AWARDED (continued)

Further details of grants awarded by the Trust are published on the Trust's website, at the address given on the last page.

The following Governors had paid appointments during the year with institutions which were in receipt of grants:

Professor Adrian Bird – *University of Edinburgh*

Professor Martin Bobrow – *University of Cambridge (retired 31 March 2007)*

Professor Sir Leszek Borysiewicz – *Imperial College London (resigned 30 September 2007)*

Dame Patricia Hodgson – *University of Cambridge*

Professor Peter Smith – *London School of Hygiene and Tropical Medicine*

Professor Dame Jean Thomas – *University of Cambridge (retired 30 September 2007)*

8. GRANTS AWARDED BUT NOT YET PAID

	Group		Trust	
	2007 £m	2006 £m	2007 £m	2006 £m
Liability at 1 October	1,017.4	1,023.0	1,017.4	1,023.0
Grants awarded during the year	359.2	324.7	433.3	402.0
Grants paid during the year	(336.4)	(330.2)	(410.5)	(407.6)
Liability as at 30 September	1,040.2	1,017.4	1,040.2	1,017.4

Of which

Falling due within one year (note 17)	468.2	478.7	468.2	478.7
Falling due after one year (note 17)	572.0	538.7	572.0	538.7
Liability as at 30 September	1,040.2	1,017.4	1,040.2	1,017.4

9. SUPPORT COSTS

Support costs are those costs that, whilst necessary to deliver an activity, do not themselves produce or constitute the output of the charitable activity. Support costs have been apportioned using the allocation methods indicated.

Group

	Costs of generating funds £m	Science Funding £m	Medicine, Society and History £m	Technology Transfer £m	Wellcome Trust		Total 2007 £m	Total 2006 £m	Allocation method used
					Genome Campus £m	Total 2006 £m			
Funding administration	–	7.4	0.9	1.5	0.1	9.9	9.1	Directly attributed	
Support of scientific research	–	–	–	–	6.5	6.5	7.3	Directly attributed	
Resources	2.1	11.0	11.5	1.3	0.5	26.4	19.9	Headcount/ building usage	
Other	0.6	4.5	0.4	0.4	1.1	7.0	6.0	Expenditure	
	2.7	22.9	12.8	3.2	8.2	49.8	42.3		

Trust

	Costs of generating funds £m	Science Funding £m	Medicine, Society and History £m	Technology Transfer £m	Wellcome Trust		Total 2007 £m	Total 2006 £m	Allocation method used
					Genome Campus £m	Total 2006 £m			
Funding administration	–	7.4	0.9	1.5	0.1	9.9	9.1	Directly attributed	
Resources	2.1	11.0	11.5	1.3	0.5	26.4	19.9	Headcount/ building usage	
Other	0.6	4.5	0.4	0.4	1.1	7.0	6.0	Expenditure	
	2.7	22.9	12.8	3.2	1.7	43.3	35.0		

Resources comprise building costs and costs associated with the human resources department and information technology.

10. GOVERNANCE COSTS

Governance costs are the costs associated with the governance arrangements of the charity that relate to the general running of the charity as opposed to those costs associated with investments or charitable activities.

	Group		Trust	
	2007 £m	2006 £m	2007 £m	2006 £m
Trustee fees and expenses	0.8	0.8	0.8	0.8
Auditors' remuneration	0.3	0.2	0.2	0.2
Internal audit	0.3	0.5	0.3	0.4
Other costs	0.5	0.4	0.5	0.4
	1.9	1.9	1.8	1.8

The total audit fee, excluding VAT, for the Group for the year was £243,000 (2006: £226,000).

In addition to the above, in 2007 total fees of £81,000 (2006: £95,000) excluding VAT were payable to the Group's auditors PricewaterhouseCoopers LLP or associated firms in respect of taxation services.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 September 2007 (continued)

11. EMPLOYEE INFORMATION

(a) Staff costs

	Group		Trust	
	2007 £m	2006 £m	2007 £m	2006 £m
Salaries and benefits in kind	46.0	41.0	22.9	19.3
Social Security costs	3.6	3.5	1.9	1.8
Pension costs and other benefits	15.1	11.7	7.8	6.0
	64.7	56.2	32.6	27.1

(b) Employee numbers

	Average		As at 30 September	
	2007	2006	2007	2006
Trust	505	474	498	489
Subsidiary undertakings	797	803	816	847
Total for the Group	1,302	1,277	1,314	1,336
Analysed by				
Investments	24	21	25	23
Direct activities	902	886	919	934
Support	375	368	369	378
Governance	1	2	1	1
Total for the Group	1,302	1,277	1,314	1,336

(c) Emoluments of employees

The numbers of employees of the Trust and its subsidiary undertakings whose emoluments (salaries, benefits in kind, bonuses and compensation for loss of office, but excluding pension contributions) fell within the following bands were:

		Group	
		2007	2006
£60,000	– £69,999	24	15
£70,000	– £79,999	13	11
£80,000	– £89,999	5	10
£90,000	– £99,999	10	3
£100,000	– £109,999	7	6
£110,000	– £119,999	4	2
£120,000	– £129,999	2	1
£130,000	– £139,999	2	3
£140,000	– £149,999	–	2
£150,000	– £159,999	1	–
£160,000	– £169,999	1	2
£170,000	– £179,999	4	–
£180,000	– £189,999	–	1
£190,000	– £199,999	1	1
£240,000	– £249,999	–	1
£260,000	– £269,999	2	–
£280,000	– £289,999	1	2
£300,000	– £309,999	1	–
£340,000	– £349,999	–	1

The highest paid employee in the current year was the Director and in the prior year was a member of the Investment Division. The remuneration of the Director included in the table above totalled £305,905 (2006: £289,205). Pension benefits have been accruing under defined benefit schemes for all of the Group's employees included in the above bandings. Certain members of the Investment Division participate in a Long Term Incentive Plan. First payments under this arrangement may become due in 2008/09 based on 3-year performance to 30 September 2008.

The remuneration of Governors is excluded from the table above and is disclosed in note 12.

(d) Retirement benefits

The Group sponsors two funded defined benefit schemes, the Wellcome Trust Pension Plan and the Genome Research Limited Pension Plan. In addition, the Trust provides unfunded defined benefit pension to 19 (2006: 18) employees and former employees as well as post retirement medical benefits to 41 former employees (2006: 42). Together these are the Total Group Benefits.

The Group has adopted the amendment to FRS 17 'Retirement benefits' in the current financial year and as in the previous year the pension fund deficit is now included on the face of the Balance Sheet. The unfunded defined benefit pension and the post retirement medical benefits are included in provisions for liabilities and charges (refer to note 18). Operating and finance charges are split across the charitable activities within the Statement of Financial Activities, with actuarial loss for the year separately identified. To produce these statements, the most recent actuarial valuation has been updated by an independent qualified actuary, with assumptions disclosed below.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 September 2007 (continued)

11. EMPLOYEE INFORMATION (continued)

The Director has an accrued pension of £45,644 as at 30 September 2007 (2006: £32,778). The transfer value of his pension benefits was £761,000 (2006: £523,000). The increase in transfer value net of the Trust's contributions made in the year was £192,000.

Pension funds

The Wellcome Trust Pension Plan was last assessed by independent consulting actuaries as at 1 January 2005 using the projected unit credit method. On the basis of the actuarial report, the funding rate from 1 October 2005 was increased to 22.4% of pensionable pay (from 20.5%) for members who joined prior to 1 April 2005 or for those joining after that date who elect to accrue benefits on 1/80ths. For members who joined on or after 1 April 2005 and elect to accrue benefits on 1/60ths the funding rate is 22.4% less 5% normal employee contributions. In addition, insurance premiums for death-in-service benefits are also paid. The next actuarial assessment is due as at 1 January 2008.

The Genome Research Limited Pension Plan was last assessed by independent consulting actuaries as at 1 January 2007 using the projected unit credit method. On the basis of the actuarial report, the funding rate is 20% of pensionable pay (less ordinary employee contributions for those members that joined the Plan after 1 April 2005 and elect to accrue benefits on 1/60ths) plus insurance premiums for death-in-service benefits and the expenses of running the scheme.

The contributions made by the employer over the financial year into the Wellcome Trust Pension Plan were £4.4 million (2006: £4.2 million) and into the Genome Research Limited Pension Plan £4.3 million (2006: £4.3 million).

Other retirement benefits

Post retirement medical benefits and the unfunded pension arrangement provisions are also calculated by an independent actuary.

The unfunded arrangement provides pension benefits for those employees as if they were not affected by the earnings cap. This is provided by enhancing benefits through the Wellcome Trust Pension Plan and through additional unapproved pension payments. The assumptions used for the unfunded pension are the same as for the pension funds.

The assets of the schemes are stated at bid price. The liabilities and the provision for post retirement medical benefits have been calculated using the following actuarial assumptions:

	30 September 2007	30 September 2006
Inflation	3.4% p.a.	3.0% p.a.
Salary increases	5.4% p.a.	5.0% p.a.
Rate of discount	5.9% p.a.	5.0% p.a.
Allowance for pension in payment increases of RPI or 5% p.a. if less	3.4% p.a.	3.0% p.a.
Allowance for revaluation of deferred pensions of RPI or 5% p.a. if less	3.4% p.a.	3.0% p.a.
Allowance for commutation of pension for cash retirement	Nil	Nil
Rate of increase of healthcare costs	5.5% p.a.	5.0% p.a.

The mortality assumptions adopted at 30 September imply the following life expectancies at age 60:

	2007	2006
Male currently age 40	27.9 years	24.4 years
Female currently age 40	30.7 years	27.4 years
Male currently age 60	26.7 years	24.4 years
Female currently age 60	29.6 years	27.4 years

(i) Charge to the Statement of Financial Activities

	Total Group benefits		Trust Pension Fund		Other Trust retirement benefits	
	2007 £m	2006 £m	2007 £m	2006 £m	2007 £m	2006 £m
Operating charge						
Current service cost	14.5	11.4	6.7	5.5	0.5	0.3
Past service cost	0.1	–	0.1	–	–	–
	14.6	11.4	6.8	5.5	0.5	0.3
Other finance income						
Expected return on pension schemes' assets	(7.6)	(6.3)	(4.8)	(4.2)	–	0.1
Interest on pension schemes' liabilities	8.2	6.5	5.1	4.4	0.3	0.1
	0.6	0.2	0.3	0.2	0.3	0.2
Actuarial (gains)/losses	(15.9)	9.2	(9.7)	4.2	0.3	0.6
Total charge to the Statement of Financial Activities	(0.7)	20.8	(2.6)	9.9	1.1	1.1

The cumulative amount of actuarial gains and losses recognised in the statement of total recognised gains and losses since 1 October 2002 is a loss of £7.7 million.

(ii) Present values of scheme liabilities, fair value of assets and deficit

	Assets		Liabilities		Deficit	
	2007 £m	2006 £m	2007 £m	2006 £m	2007 £m	2006 £m
Wellcome Trust Pension Plan	76.5	66.4	103.1	100.1	(26.6)	(33.7)
Genome Research Limited Pension Plan	42.1	33.9	55.9	51.6	(13.8)	(17.7)
Total pension funds	118.6	100.3	159.0	151.7	(40.4)	(51.4)
Unfunded liabilities	–	–	4.2	3.6	(4.2)	(3.6)
Post retirement medical benefits	–	–	1.5	1.2	(1.5)	(1.2)
Total other retirement benefits	–	–	5.7	4.8	(5.7)	(4.8)
Total group benefits	118.6	100.3	164.7	156.5	(46.1)	(56.2)

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 September 2007 (continued)

11 EMPLOYEE INFORMATION (continued)

(iii) Reconciliation of opening and closing balances of the present value of the scheme liabilities as at 30 September

	Group		Trust	
	2007 £m	2006 £m	2007 £m	2006 £m
Scheme liabilities at start of period	156.5	127.9	104.9	89.2
Current service cost	14.5	11.4	7.2	5.8
Interest cost	8.2	6.6	5.4	4.6
Contributions by scheme participants	0.3	0.2	0.2	0.1
Actuarial (gains)/losses	(12.7)	12.5	(7.0)	6.8
Net benefits paid, death in service insurance premiums and expenses	(2.2)	(2.1)	(2.0)	(1.6)
Past service costs	0.1	–	0.1	–
Scheme liabilities at end of period	164.7	156.5	108.8	104.9

(iv) Reconciliation of opening and closing balances of the fair value of scheme assets as at 30 September

	Group		Trust	
	2007 £m	2006 £m	2007 £m	2006 £m
Fair value of scheme assets at start of period	100.3	83.8	66.4	57.3
Expected return on scheme assets	7.6	6.4	4.8	4.2
Actuarial gains	3.2	3.3	2.4	2.0
Contributions by employer	9.4	8.7	4.7	4.4
Contributions by scheme participants	0.3	0.2	0.2	0.1
Net benefits paid, death in service insurance premiums and expenses	(2.2)	(2.1)	(2.0)	(1.6)
Fair value of scheme assets at end of year	118.6	100.3	76.5	66.4

None of the fair values of the assets shown above include any of the Group's own financial instruments or any property occupied by, or other assets used by, the Group.

The actual return on the schemes' assets over the period ending 30 September 2007 for the Group was £11.1 million.

(v) Amounts for the current and previous four periods as at 30 September**Group**

	2007 £m	2006 £m	2005 £m	2004 £m	2003 £m
Fair value of assets	118.6	100.3	83.8	36.0	27.0
Present value of scheme liabilities	(164.7)	(156.5)	(127.9)	(57.6)	(40.4)
Deficit in scheme	(46.1)	(56.2)	(44.1)	(21.6)	(13.4)
Experience adjustment on scheme liabilities	(1.0)	(0.9)	(3.3)	(0.1)	(0.8)
Experience adjustment on scheme assets	3.2	3.3	9.3	1.5	3.1
Effects of changes in the demographic and financial assumptions underlying the present value of the scheme liabilities	13.7	(11.6)	(8.9)	(9.9)	(5.3)

Trust

	2007 £m	2006 £m	2005 £m	2004 £m	2003 £m
Fair value of assets	76.5	66.4	57.3	18.0	13.5
Present value of scheme liabilities	(108.8)	(104.9)	(89.2)	(28.8)	(20.2)
Deficit in scheme	(32.3)	(38.5)	(31.9)	(10.8)	(6.7)
Experience adjustment on scheme liabilities	(1.0)	(0.9)	(2.8)	–	(0.6)
Experience adjustment on scheme assets	2.4	2.0	6.1	1.3	2.2
Effects of changes in the demographic and financial assumptions underlying the present value of the scheme liabilities	8.0	(5.9)	(6.0)	(6.1)	(2.7)

(vi) Estimate of contributions to be paid to scheme

The best estimate of contributions to be paid by the employer to the Wellcome Trust scheme for the period beginning after 30 September 2007 is £4.3 million.

The best estimate of contributions to be paid by the employer to the Genome Research Limited scheme for the period beginning after 30 September 2007 is £3.8 million.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 September 2007 (continued)

12. REMUNERATION OF GOVERNORS

The Governors are the directors of The Wellcome Trust Limited (the "Trustee"). They receive remuneration from that company, which has been charged to the Trust, as follows:

	2007 £	2006 £
Current Governors (in office during the year)		
Sir William Castell (<i>Chairman</i>)	132,175	91,765
Professor Adrian Bird (<i>Deputy Chairman from 1 April 2007</i>)	82,690	65,099
Professor Martin Bobrow (<i>previous Deputy Chairman retired 31 March 2007</i>)	49,319	97,649
Professor Sir Leszek Borysiewicz (<i>resigned 30 September 2007</i>)	66,088	48,989
Dame Patricia Hodgson	66,088	65,099
Professor Richard Hynes (<i>from 1 January 2007</i>)	49,647	–
Professor Ronald Plasterk (<i>resigned 15 February 2007</i>)	24,702	65,099
Mr Alastair Ross Goobey	66,088	65,099
Professor Peter Smith	66,088	65,099
Professor Dame Jean Thomas (<i>retired 30 September 2007</i>)	66,088	65,099
Mr Edward Walker-Arnott	66,088	65,099
Former Governors		
Sir Dominic Cadbury (<i>previous Chairman</i>) (<i>retired 30 April 2006</i>)	–	92,819
Total remuneration	735,061	768,915

In addition to the above, in his first full year, the Chairman received estimated benefits-in-kind relating to travel costs of £36,340. In 2006, the current and the previous Chairman received estimated benefits-in-kind relating to travel costs of £15,376 and £16,920, respectively. No other benefits or pension contributions are paid in respect of the other Governors.

During the year expenses in respect of travel, subsistence, telephone and other expenses in the course of their duties were incurred by the Governors which amounted to £95,393 (2006: £24,659), of which £85,805 (2006: £22,123) was paid directly by the Trust and £9,588 (2006: £2,536) was paid by the Governors and directly reimbursed to them.

The Governors were included in the Directors' and Officers' liability insurance in the year to 30 September 2007, which cost in total £44,625 (2006: £45,905).

All costs incurred by the Trustee are reimbursed by the Trust and are included in the Trustee fees and expenses included in Governance costs (note 10).

Under the Constitution of the Trust, the Governors were entitled to receive remuneration from the Trustee at the rate of £57,100 per annum from 1 April 2000, adjusted with effect from 1 April each year by an amount equal to the percentage increase recommended by the Review Body on Senior Salaries in respect of the minima and maxima of the salary pay bands of the Senior Civil Service. The recommended percentage increase for the twelve months beginning 1 April 2007 was 1.00% (2006: 2.05%).

By an Order of the Charity Commission in March 2006, the remuneration of the Chairman was set at two times the level of a Governor. By Orders of the Charity Commission in March 2001 and June 2007, the remuneration of the previous and current Deputy Chairman was set at 1.5 times the level of a Governor.

The following table summarises the remuneration, excluding estimated benefits-in-kind, for the periods covered by these Financial Statements.

	12 months beginning 1 April 2007 £	12 months beginning 1 April 2006 £	12 months beginning 1 April 2005 £
Chairman	132,832	131,518	128,878
Deputy Chairman	99,624	98,638	96,659
Governor	66,416	65,759	64,439

13. TAXATION

The Trust, Genome Research Limited and Hinxton Hall Limited are all charities registered under the Charities Act 1993. Their income and gains are applied for charitable purposes and are mainly exempt from direct UK tax.

W.T. Construction Limited, Wellcome Trust Trading Limited, WT European Investments Limited, Wellcome Trust GP Limited, Wellcome Trust Finance plc, Wellcome Trust Residential 1 Unlimited and Wellcome Trust Residential 2 Unlimited are non-charitable subsidiaries and subject to UK corporation tax, but as a result of Gift Aid donations to the Trust no corporation tax arises. See note 4(b).

The estimated cost of irrecoverable Value Added Tax suffered by the Group in the year was £9.0 million (2006: £8.9 million).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 September 2007 (continued)

14. TANGIBLE FIXED ASSETS

(a) Group

	Freehold land and buildings £m	Long leasehold land and buildings £m	Finance leased buildings £m	Finance leased plant and equipment £m	Plant, equipment, fixtures and fittings £m	Assets in course of construction £m	Total £m
Cost as at 1 October 2006	366.2	1.5	20.8	64.0	105.3	31.4	589.2
Additions	9.0	–	–	–	11.6	4.9	25.5
Transfers to investment properties	(39.8)	–	–	–	–	–	(39.8)
Transfers from assets in course of construction	8.5	–	–	–	26.9	(35.4)	–
Disposals	–	–	–	–	(4.0)	–	(4.0)
Cost as at 30 September 2007	343.9	1.5	20.8	64.0	139.8	0.9	570.9
Depreciation as at 1 October 2006	46.9	1.5	0.8	5.6	76.4	–	131.2
Net charge for the year	6.6	–	0.4	3.1	11.3	–	21.4
Transfers to investment properties	(10.0)	–	–	–	–	–	(10.0)
Disposals	–	–	–	–	(3.5)	–	(3.5)
Depreciation as at 30 September 2007	43.5	1.5	1.2	8.7	84.2	–	139.1
Net Book Value as at 30 September 2007	300.4	–	19.6	55.3	55.6	0.9	431.8
Net Book Value as at 30 September 2006	319.3	–	20.0	58.4	28.9	31.4	458.0

(b) Trust

	Freehold land and buildings £m	Long leasehold land and buildings £m	Finance leased buildings £m	Finance leased plant and equipment £m	Plant, equipment, fixtures and fittings £m	Assets in course of construction £m	Total £m
Cost as at 1 October 2006	241.9	1.5	20.8	64.0	14.0	30.1	372.3
Additions	0.2	–	–	–	2.2	4.9	7.3
Transfers to investment properties	(39.8)	–	–	–	–	–	(39.8)
Transfers from assets in course of construction	8.1	–	–	–	26.9	(35.0)	–
Disposals	–	–	–	–	(1.1)	–	(1.1)
Cost as at 30 September 2007	210.4	1.5	20.8	64.0	42.0	–	338.7
Depreciation as at 1 October 2006	27.1	1.5	0.8	5.6	8.7	–	43.7
Net charge for the year	4.0	–	0.4	3.1	2.6	–	10.1
Transfers to investment properties	(10.0)	–	–	–	–	–	(10.0)
Disposals	–	–	–	–	(1.1)	–	(1.1)
Depreciation as at 30 September 2007	21.1	1.5	1.2	8.7	10.2	–	42.7
Net Book Value as at 30 September 2007	189.3	–	19.6	55.3	31.8	–	296.0
Net Book Value as at 30 September 2006	214.8	–	20.0	58.4	5.3	30.1	328.6

On 1 September 2007, the Trust fully vacated freehold buildings at 200 and 210 Euston Road. These were then transferred to the investment property portfolio at a net book value. The net book value at date of transfer was £6.6 million for 200 Euston Road (cost £8.9 million less depreciation of £2.3 million) and £23.1 million for 210 Euston Road (cost £30.8 million less depreciation £7.7 million).

15. INVESTMENTS

(a) Investment assets

Group

(i) Fair value

	Fair value 1 October 2006 £m	Purchases £m	Sales proceeds £m	Total gains £m	Fair value 30 September 2007 £m
UK	3,135.8	2,125.3	3,676.6	253.7	1,838.2
Overseas	6,007.7	6,531.5	6,232.2	894.5	7,201.5
Total quoted	9,143.5	8,656.8	9,908.8	1,148.2	9,039.7
UK	500.8	152.3	246.1	79.7	486.7
Overseas	2,293.4	1,453.0	601.2	331.0	3,476.2
Total unquoted	2,794.2	1,605.3	847.3	410.7	3,962.9
UK	892.6	50.1	146.6	176.9	973.0
Total property	892.6	50.1	146.6	176.9	973.0
Total	12,830.3	10,312.2	10,902.7	1,735.8	13,975.6

(ii) Reconciliation to book cost

	1 October 2006 £m	Purchases £m	Sales proceeds £m	Total gains £m	30 September 2007 £m
Book cost and realised gains					
Quoted investments	7,576.8	8,656.8	9,908.8	1,346.9	7,671.7
Unquoted investments	3,038.3	1,605.3	847.3	299.9	4,096.2
Investment properties	404.8	50.1	146.6	108.4	416.7
Market value adjustment					
Unrealised gains/(losses)	1,810.4	–	–	(19.4)	1,791.0
Total	12,830.3	10,312.2	10,902.7	1,735.8	13,975.6

The investments at fair value in the Trust and the Group include securities on loan at year end with fair value of £130.6 million (2006: £nil), the Trust held £137.2 million (2006: £nil) as collateral in respect of these securities. During the year the maximum aggregate fair value of securities on loan was £385.5 million (2006: £nil) and the Trust held £404.7 million (2006: £nil) as collateral in respect of these securities. The income receivable due to securities lending activities is disclosed in note 2.

On 1 September 2007, freehold buildings at 200 and 210 Euston Road were transferred from tangible fixed assets to the investment property portfolio. The purchase costs are included in investment properties purchases in the Trust and the Group and were equal to the net book value of the buildings at date of transfer (see note 14).

Investment properties in the Trust and the Group have been valued at open market value in accordance with the Valuation and Appraisal Manual of the Royal Institute of Chartered Surveyors, subject to the restrictions detailed below. The valuations were carried out by Gerald Eve, FPD Savills and CB Richard Ellis.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 September 2007 (continued)

15. INVESTMENTS (continued)

(a) Investment assets (continued)

Trust

(i) Fair value

	Fair value 1 October 2006 £m	Purchases £m	Sales proceeds £m	Total gains £m	Fair value 30 September 2007 £m
UK	2,705.7	2,103.2	3,661.2	251.1	1,398.8
Overseas	5,697.6	5,146.2	4,889.7	852.5	6,806.6
Total quoted	8,403.3	7,249.4	8,550.9	1,103.6	8,205.4
UK	500.8	152.3	246.1	79.7	486.7
Overseas	2,263.8	1,074.1	623.0	310.9	3,025.8
Total unquoted	2,764.6	1,226.4	869.1	390.6	3,512.5
UK	892.6	35.7	146.6	177.0	958.7
Total property	892.6	35.7	146.6	177.0	958.7
Total	12,060.5	8,511.5	9,566.6	1,671.2	12,676.6

(ii) Reconciliation to book cost

	1 October 2006 £m	Purchases £m	Sales proceeds £m	Total gains £m	30 September 2007 £m
Book cost and realised gains					
Quoted investments	6,856.0	7,249.4	8,550.9	1,320.1	6,874.6
Unquoted investments	3,011.7	1,226.4	869.1	307.4	3,676.4
Investment properties	404.8	35.7	146.6	108.4	402.3
Market value adjustment					
Unrealised gains/(losses)	1,788.0	–	–	(64.7)	1,723.3
Total	12,060.5	8,511.5	9,566.6	1,671.2	12,676.6

The unquoted valuation in the Trust and the Group above includes private equity funds of £584.7 million (2006: £78.1 million) and direct investments of £61.5 million (2006: £39.7 million) for which the valuation used is equal to cost. For these investments the fair value cannot be reliably measured and therefore they are held at cost.

(b) Derivative financial instruments

(i) Fair value

	Group		Trust	
	2007 £m	2006 £m	2007 £m	2006 £m
Derivative financial instrument asset positions	34.6	51.9	34.6	51.9
Derivative financial instrument liability positions	(44.8)	–	(44.8)	–
	(10.2)	51.9	(10.2)	51.9

(ii) Gains

	Group		Trust	
	2007 £m	2006 £m	2007 £m	2006 £m
Net gains on derivative financial instruments	212.5	161.9	214.3	161.9

The Trust's use of derivative financial instruments comprises:

Forward currency contracts

Forward currency contracts are used to hedge investment assets denominated in foreign currency into pounds sterling. As at 30 September 2007 the notional value of open forward contracts amounted to £3,055.7 million (2006: £2,557.5 million).

Financial futures

The use of index futures constitutes part of the Trust's portfolio management. The use of futures includes:

- A substitution for trading of physical assets, and
- Adjusting asset exposures within the parameters set in the Trust's Investment Policy.

As at 30 September 2007 the notional value of open futures positions, held by the Trust's discretionary managers, amounted to £1,134.2 million (2006: £586.4 million). Open futures positions are covered by cash as reflected in note 15(c).

Options and swaps

The use of options and swaps constitutes part of the Trust's long term investment return strategy. These derivative financial instruments are entered into with the expectation of realising gains. As at 30 September 2007 the notional value of open options positions amounted to £64.8 million (2006: £nil). As at 30 September 2007 the notional value of open swaps positions was £nil (2006: £nil).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 September 2007 (continued)

15. INVESTMENTS (continued)

(c) Other investment balances

	Group		Trust	
	2007 £m	2006 £m	2007 £m	2006 £m
Investment cash balances and certificates of deposit	1,590.9	1,057.5	1,569.5	887.9
Accrued income from investments	19.2	25.1	13.8	18.6
Proceeds receivable on sale of investments	151.5	202.6	118.3	199.2
Other investment debtor balances	15.4	10.0	13.8	0.4
Amounts payable on acquisition of investments	(51.8)	(214.2)	(45.8)	(210.2)
Deferred income from investments	(6.4)	(5.9)	(6.4)	(5.9)
Other investment creditor balances	(20.2)	(17.4)	(17.9)	(17.1)
Total other investment balances	1,698.6	1,057.7	1,645.3	872.9

(d) Programme related investments

Group and Trust

(i) Fair value

	Fair value 1 October 2006 £m	Purchases £m	Total losses £m	Fair value 30 September 2007 £m
	Loans			0.6
Equities	0.2	5.9	(5.9)	0.2
Total	0.8	12.6	(11.9)	1.5

(ii) Reconciliation to book cost

	1 October 2006 £m	Purchases £m	Total realised losses £m	30 September 2007 £m
	Loans			7.2
Equities	1.5	5.9	(5.7)	1.7
Total	8.7	12.6	(6.0)	15.3

The Trust has provided funding to 16 (2006: 13) early stage companies to carry out biomedical research projects with potential to deliver health benefits. Together these investments form a portfolio managed separately from the Trust's other investments. These investments are not intended to be held for the longer term. Consequently, these investments are, as permitted by FRS 9, held at cost less provision for impairment rather than treated as associated companies. In view of the immateriality of the value of these investments at 30 September 2007, further details of individual companies have not been disclosed. All losses arising on programme related investments are allocated to the costs of direct charitable activities (see note 6).

The Trust has a 14% equity interest in Diamond Light Source Limited, a company established to construct and operate a synchrotron. Under the share holding agreement there is no intrinsic value in the equity and the cost has therefore been fully written down and reflected within Science Funding direct expenditure in note 6. Outstanding commitments are disclosed in note 19(a).

(e) Foreign exchange

In the financial year to 30 September 2007 there were foreign exchange losses on monetary transactions of £3.5 million in the Trust (2006: £0.1 million) and foreign exchange losses on monetary transactions of £3.8 million in the Group (2006: gains of £0.4 million).

(f) Reconciliation to Trustee's Report

The presentation of investment movements in note 15(a) is in accordance with the SORP. However, the investment portfolio is structured differently for strategic management and management reporting. The distinct classes of assets used and reported on within the Trustee's Report are: equity; hedge funds; private equity; and property and infrastructure.

This note reconciles the investment asset fair value at the balance sheet date as presented within the Trustee's Report to the presentation within the Financial Statements.

	Note 15(a)	Note 15(b)	Note 15(c)	Note 15(d)	Fair value 30 September 2007
	£m	£m	£m	£m	£m
Equity	6,675.0	12.6	1,175.3	–	7,862.9
Hedge funds	3,098.4	4.1	36.7	–	3,139.2
Private equity	2,078.5	14.6	3.7	–	2,096.8
Property and infrastructure	1,782.8	–	7.7	–	1,790.5
Bonds and cash	340.9	0.5	475.4	–	816.8
Currency overlay	–	(42.0)	(0.2)	–	(42.2)
Programme related investments	–	–	–	1.5	1.5
Total investment assets	13,975.6	(10.2)	1,698.6	1.5	15,665.5

16. DEBTORS

	Group		Trust	
	2007 £m	2006 £m	2007 £m	2006 £m
Amounts due from subsidiary undertakings	–	–	7.8	2.6
Accrued income	–	0.3	–	0.3
Other debtors	6.5	7.4	0.6	2.1
Prepayments	6.0	4.7	2.6	1.1
	12.5	12.4	11.0	6.1

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 September 2007 (continued)

17. CREDITORS

	Group		Trust	
	2007 £m	2006 £m	2007 £m	2006 £m
Falling due within one year				
Amounts due to subsidiary undertakings	0.1	–	21.9	16.6
Grant liability (note 8)	468.2	478.7	468.2	478.7
Bond liability	4.7	4.7	–	–
Finance lease creditor	0.9	0.6	0.9	0.6
Trade creditors	4.8	8.2	1.2	3.7
Other creditors	5.8	2.7	1.7	0.7
Accruals and deferred income	18.8	11.6	5.2	3.4
Total falling due within one year	503.3	506.5	499.1	503.7
Falling due between one and five years				
Grant liability (note 8)	550.7	515.9	550.7	515.9
Finance lease creditor	1.0	1.0	1.0	1.0
Other creditors	2.1	0.8	2.1	0.8
	553.8	517.7	553.8	517.7
Falling due after five years				
Grant liability (note 8)	21.2	22.8	21.2	22.8
Bond liability	539.1	538.9	–	–
Finance lease creditor	84.6	84.9	84.6	84.9
Other creditors	2.4	3.1	2.4	3.1
	647.3	649.7	108.2	110.8
Total falling due after one year	1,201.1	1,167.4	662.0	628.5

Grant commitments are split pro rata according to the terms of the grant at the point of award.

The Bond liability is the amortised cost, using the effective interest method, of the £550 million 4.625 per cent, Guaranteed Bonds due 2036, issued by Wellcome Trust Finance plc (a subsidiary of the Wellcome Trust) on 25 July 2006. The liability is guaranteed by the Wellcome Trust. The Bond liability falling due within one year is the unpaid coupon interest accrued for the period to 30 September 2007. The interest payment to the Bondholders is at a fixed rate of 4.625% per annum and is paid in arrears on 25 July each year until repayment of the Bond principal. In the table above, no amounts fall due between one and five years because the remainder of the Bond liability at the balance sheet date is the amortised cost of the amount due to be repaid upon expiry of the 30-year term on 25 July 2036 and therefore falling due after five years. The fair value of the liability as at 30 September 2007 was £491.5 million (2006: £555.9 million).

The Trust has a finance arrangement with Assetfinance December (P) Limited, a subsidiary of HSBC Bank plc, which involves the lease and leaseback of the office building at 215 Euston Road, London. The total related finance lease creditor outstanding is £48.7 million. The financing period outstanding at 30 September 2007 is 22 years and 1 month.

In addition, the Trust has a finance arrangement with Assetfinance December (P) Limited, which involves a lease and leaseback of part of the research facility at the Wellcome Trust Genome Campus in Hinxton, Cambridgeshire. The total related finance lease creditor outstanding is £37.8 million. The financing period outstanding at 30 September 2007 is 22 years and 10 months.

18. PROVISIONS FOR LIABILITIES AND CHARGES

Group and Trust

	Employment related provisions £m	Other provisions £m	Total £m
As at 1 October 2006	4.8	3.3	8.1
Charge for the year	2.0	–	2.0
Utilised in year	(0.2)	(1.2)	(1.4)
As at 30 September 2007	6.6	2.1	8.7

Employment provisions relate to unfunded defined benefit pension benefits, post retirement medical benefits and a provision in the year of £1.0 million (2006: £nil) for expected payments due to the planned restructuring of the Trust's funding and grants management divisions. Other liabilities include onerous leases on Group properties which are expected to be utilised within one year.

19. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Investments

The Trust has entered into commitments to invest in private equity funds. At the balance sheet date, outstanding commitments amounted to £1,767.1 million (2006: £1,494.5 million). The Trust models its expected cash flows based on the year of the original commitment and historic trends. In any given year, in a normal economic environment, the Trust would expect to invest around 30% of its outstanding commitments or approximately £500 million.

The Trust has an outstanding commitment of £12.5 million as part of the first two construction phases of the Diamond Light Source Limited synchrotron project (2006: £16.6 million). It is estimated that £2.5 million of this will fall due within one year. This project began operations in January 2007 and the Trust has agreed to fund up 14% of the 2007/08 annual budget of £29.9 million. Of this £0.7 million is still outstanding. See note 15(d).

(b) Grant funding activities

Programme related convertible loans have been made, of which £3.7 million remains yet to be drawn down and is contingent upon specific milestones being achieved. It is estimated that approximately £2.7 million of this will fall due within one year.

The Trust has made commitments of up to £23.5 million for the Clinical Research Infrastructure Initiative to various UK based institutions. The final funding amounts to be awarded to each institution are currently being negotiated and have therefore not been included within grant commitments. The awards are expected to be finalised during the next financial year.

During the year Seeding Drug Discovery awards have been made of which £15.9 million is contingent upon specific funding related milestones being met and therefore, has not been included within grant commitments. If achieved, it is expected that £9.3 million of funding will fall due within one year.

In prior years, the Trust has made commitments with respect to the National Science Learning Centre which opened in October 2005. £5.6 million is contingent upon specific funding related milestones and, therefore, has not been included within grant commitments. The current funding is for a three year duration and therefore it is not anticipated that the contingent amount will fall due within one year.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 September 2007 (continued)

19. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

(c) Direct activities

As at 30 September, Genome Research Limited has a capital commitment of £3.0 million (2006: £0.5 million) which relates to the purchase of scientific equipment as a one-off investment in new sequencing technologies.

20. GROUP UNDERTAKINGS

(a) Summary of activities of subsidiary undertakings

Company	Country of incorporation	Activities	Legal relationship
Genome Research Limited	England	Medical research, primarily in the field of genomics	The Wellcome Trust Limited and Wellcome Trust Nominees Limited are equal members
Hinxton Hall Limited	England	Provision of conference facilities and site services at the Wellcome Trust Genome Campus, Hinxton	The Wellcome Trust Limited and Genome Research Limited are equal members
Wellcome Trust Trading Limited	England	Trading company	The Wellcome Trust Limited is the sole shareholder
Catalyst BioMedica Limited	England	Holding programme related investments	The Wellcome Trust Limited is the sole shareholder
W.T. Construction Limited	England	Property construction company	The Wellcome Trust Limited is the sole shareholder
Wellcome Trust Director Limited	England	Corporate directorships	The Wellcome Trust Limited is the sole shareholder
Mkono Ya Bahari Limited	Kenya	Property holding company	The Wellcome Trust Limited and Wellcome Trust Nominees Limited are equal shareholders
WT European Investments Limited	England	Investment holding company	The Wellcome Trust Limited is the sole shareholder
Wellcome Trust GP Limited	England	Acts as a general partner to Wellcome Trust Investment Limited Partnership	The Wellcome Trust Limited is the sole shareholder
Wellcome Trust Finance plc	England	To issue and invest in financial instruments	The Wellcome Trust Limited and Wellcome Trust Nominees Limited are the shareholders
Wellcome Trust Residential 1 Unlimited	England	Investment holding company	The Wellcome Trust Limited and Wellcome Trust Nominees Limited are the shareholders
Wellcome Trust Residential 2 Unlimited	England	Investment holding company	The Wellcome Trust Limited and Wellcome Trust Nominees Limited are the shareholders
Trident Holdings Limited	Cayman Islands	Investment holding company	The Wellcome Trust Limited is the sole shareholder
Wellcome Trust Investment Limited Partnership	England ¹	Investment holding partnership	The Wellcome Trust Limited is the limited partner and Wellcome Trust GP Limited is the general partner
Wellcome Trust Scottish Limited Partnership	Scotland ¹	Investment holding partnership	The Wellcome Trust Limited is the limited partner and Wellcome Trust GP Limited is the general partner

¹ Country of registration

The shares or memberships of these subsidiary undertakings are held by The Wellcome Trust Limited, as trustee of the Wellcome Trust, and, in the cases indicated, also by Wellcome Trust Nominees Limited, a nominee company for the Wellcome Trust. The companies are considered to be wholly-owned subsidiary undertakings of the Wellcome Trust for accounting purposes, and their assets, liabilities and results are consolidated with those of the Wellcome Trust as required under FRS 2.

Summarised financial information is provided below, with the exception of Mkono Ya Bahari Limited and Wellcome Trust Director Limited, which are not considered material for this additional disclosure.

Both Genome Research Limited and Hinxton Hall Limited are charities registered under the Charities Act and are companies limited by guarantee. The Wellcome Trust Investment Limited Partnership's liability is limited to the amount of its capital commitment. All other subsidiary undertakings are non-charitable and limited by shares.

Trident Holdings Limited has a financial year end of 31 December and unaudited interim accounts have been drawn up to 30 September 2007 for consolidation purposes. NCI Holdings Limited, which was struck off prior to the balance sheet date, has been excluded from the table above.

Subsidiary undertakings which are dormant have been excluded from the table above.

(b) Summary financial information

i) Charitable subsidiary undertakings

	Genome Research Limited		Hinxton Hall Limited	
	2007 £m	2006 £m	2007 £m	2006 £m
Incoming resources	83.9	88.3	13.4	11.3
Resources expended	(79.6)	(80.8)	(14.1)	(11.3)
Net movements in funds	4.3	7.5	(0.7)	-
Assets	126.9	114.5	26.7	26.7
Liabilities	(14.2)	(8.8)	(2.7)	(2.1)
Net assets	112.7	105.7	24.0	24.6

ii) Non-charitable operating subsidiary undertakings

	W.T. Construction Limited		Catalyst BioMedica Limited		Wellcome Trust Trading Limited	
	2007 £m	2006 £m	2007 £m	2006 £m	2007 £m	2006 £m
Turnover	7.4	7.1	-	-	0.8	0.5
Expenditure	(7.4)	(7.1)	-	-	(0.8)	(0.5)
	-	-	-	-	-	-
Tangible fixed assets	-	-	-	-	0.1	-
Current assets	3.9	4.1	0.8	0.8	0.5	0.3
Total assets	3.9	4.1	0.8	0.8	0.6	0.3
Liabilities	(3.9)	(4.1)	-	-	(0.4)	(0.3)
Net assets	-	-	0.8	0.8	0.2	-

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 September 2007 (continued)

20. GROUP UNDERTAKINGS (continued)

(b) Summary financial information (continued)

iii) Non-charitable investment subsidiary undertakings

	Investing in quoted investments		Investing in unquoted investments	
	2007 £m	2006 £m	2007 £m	2006 £m
Turnover	20.8	17.6	5.3	1.9
Expenditure	(34.7)	(6.7)	(7.4)	(9.0)
Gains	42.6	20.5	20.4	(5.5)
	28.7	31.4	18.3	(12.6)
Investment assets	901.4	740.1	397.5	29.7
Current assets	52.5	184.7	15.3	10.4
Total assets	953.9	924.8	412.8	40.1
Liabilities	(681.0)	(682.2)	(6.7)	(0.1)
Net assets	272.9	242.6	406.1	40.0

iv) Non-charitable financing subsidiary undertakings

	Wellcome Trust Finance plc	
	2007 £m	2006 £m
Turnover	32.2	4.8
Expenditure	(32.2)	(4.8)
	-	-
Current assets	681.5	681.1
Total assets	681.5	681.1
Liabilities	544.0	543.6
Net assets	137.5	137.5

The fair value of shares in subsidiary and other undertakings of £817.5 million (2006: £420.9 million) is equal to the sum of the net assets of the entities shown in tables (ii)–(iv). The net gain in subsidiary undertakings including foreign exchange gains and losses on translation amounts to £46.7 million (2006: £11.1 million).

21. CONSOLIDATED CASH FLOW

(a) Reconciliation of Statement of Financial Activities to operating cash flows

	2007 £m	2006 £m
Incoming resources	318.3	324.4
Decrease in accrued income	5.9	3.1
Increase in deferred income	0.4	–
(Increase)/decrease in debtors	(5.5)	0.3
Gift in kind asset received	–	(5.3)
Gain on disposal of fixed assets	(0.1)	–
Exchange gains/(losses)	3.8	0.4
Income received	315.2	322.9
Grants awarded	(359.2)	(324.7)
Increase/(decrease) in commitments	22.8	(5.7)
Grants paid	(336.4)	(330.4)
Other resources expended	(194.0)	(221.2)
(Decrease)/increase in creditors and provisions	(1.0)	18.4
Provision for PRIs	11.9	12.9
Loss on disposal of fixed assets	0.5	–
Depreciation	21.4	20.2
Impairment charge	–	9.9
Other operating costs	(161.2)	(159.8)
Returns on investments and servicing of finance	(27.8)	(1.8)
Net cash outflow from operating activities	(210.2)	(169.1)

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 September 2007 (continued)

21. CONSOLIDATED CASH FLOW (continued)

(b) Reconciliation of investment sales and purchases

	2007 £m	2006 £m
Sales of quoted investments	9,908.8	5,602.0
Sales of unquoted investments	847.3	669.0
Sales of investment property	146.6	48.4
Decrease/(increase) in proceeds receivable on disposal of investments	51.1	(71.8)
Proceeds from sales of investments	10,953.8	6,247.6
Purchases of quoted investments	8,656.8	5,583.7
Purchases of unquoted investments	1,605.3	1,384.9
Purchases of investment property	50.1	33.3
Decrease/(increase) in amounts payable on acquisition of investments	162.4	(150.6)
Transfer of fixed asset to investment property portfolio	(29.8)	–
Purchase of PRI investments	12.6	13.2
Purchases of investments	10,457.4	6,864.5
Gain on derivative financial instruments	212.5	161.9
Decrease/(increase) in amounts receivable on derivative financial instruments	62.0	(51.9)
Proceeds from derivative financial instruments	274.5	110.0

(c) Issue of corporate bonds

During the prior year Wellcome Trust Finance plc (a subsidiary of the Wellcome Trust) issued £550 million 4.625 per cent, Guaranteed Bonds due 2036. The net proceeds of the issue of £538.9 million were equal to the proceeds of issue of £541.6 million less the directly attributable transaction costs of £2.7 million. During the year Wellcome Trust Finance plc paid interest on the Bonds amounting to £25.4 million (2006: £nil).

(d) Movement in cash and liquid resources

	30 September 2007 £m	Cash flows £m	1 October 2006 £m
Cash and certificates of deposits held by fund managers	1,590.9	533.3	1,057.5
Term deposits	0.1	0.1	–
Liquid resources	1,591.0	533.4	1,057.5
Cash at bank and in hand	8.4	3.0	5.4
Total cash and liquid resources	1,599.4	536.4	1,062.9

22. MAJOR NON-CASH TRANSACTIONS

The Trust has finance lease arrangements with a total capital value of £86.5 million as at 30 September 2007 (2006: £86.5 million). Interest charges of £2.2 million (2006: £1.8 million) were added to the financing balance.

23. FINANCIAL RISK MANAGEMENT

Financial risks arise where there is uncertainty in the timing and amount of future cashflows in relation to an asset or liability. The Group is exposed to the financial risks detailed in the following sections.

(a) Market price risk

Market price risk is the risk that the value of an asset or liability will fluctuate due to changes in market prices. This is a key risk for the Group, because its ability to fund comparable research over the long term is dependent on maintaining the purchasing power of the asset base. The Group's expenditure is predominantly discretionary and the Governors and senior management monitor cash expenditure, commitments and the endowment performance throughout the year to manage the balance between funding charitable activities and maintaining the purchasing power of the asset base.

The Group invests in financial instruments, taking positions in traded instruments, including cash backed derivatives. The Group's interest rate securities, equity securities, investment properties and trading derivative financial instruments are susceptible to market price risk arising from uncertainties about future prices of the instruments. The maximum asset and liability value exposed to market price risk at 30 September 2007 is the value of the traded investment assets and liabilities as detailed in the following table:

	Value as at 30 September 2007 £m	Value as at 30 September 2006 £m
Quoted investments	9,039.7	9,143.5
Unquoted investments	3,962.9	2,794.2
Investment properties	973.0	892.6
Derivative financial instrument asset positions	34.6	51.9
Assets exposed to risk	14,010.2	12,882.2
Derivative financial instruments liability positions	(44.8)	–
Liabilities exposed to risk	(44.8)	–

The Group's market price risk is managed through diversification of the investment portfolio. The Group's overall market positions are monitored on a daily basis by the Trust Investment Division, and are reviewed on a quarterly basis by the Board of Governors.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 September 2007 (continued)

23. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk

Credit risk is the risk that a counterparty to the Group will fail to discharge an obligation to the Group, leading to a financial loss in the Group. The Group's credit risk concentration is spread between its debtors and assets held by counterparties. The risk is mitigated by regular review of all counterparties and the setting of appropriate exposure limits. The following table details the Group's exposure to credit risk as at 30 September 2007:

	Value as at 30 September 2007 £m	Value as at 30 September 2006 £m
Interest bearing investments	306.9	438.5
Derivative financial instrument asset positions	34.6	51.9
Investment cash balances and certificates of deposit	1,590.9	1,057.5
Proceeds receivable on sale of investments	151.5	202.6
Other investment debtor balances	15.4	10.0
Other debtors	6.5	7.4
Term deposits and cash	8.5	5.4
	2,114.3	1,773.3

(c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulties raising cash to meet its commitments when they fall due. This is a risk to the Group due to value of the Group's commitments to charitable and investment activities, however this risk is mitigated by the Group's significant holdings in liquid assets (such as directly held quoted investments and cash and cash equivalents).

The Group is exposed to liquidity risk in respect of its payment commitments, including annual Bond interest payments of £25.4 million, quarterly finance lease creditor payments of £0.5 million, payments of committed grants, payments of committed investments and standard operational expenditure. The Group's liquidity requirements are managed through an appropriate holding in very liquid assets, which comprise cash and cash equivalents and interest bearing securities. The following table details the Group's exposure to liquidity risk as at 30 September 2007:

	Value as at 30 September 2007 £m	Value as at 30 September 2006 £m
Liquid assets		
Interest bearing investments	306.9	438.5
Investment cash balances and certificates of deposit	1,590.9	1,057.5
Term deposits and cash	8.5	5.4
Creditors falling due within one year	(503.3)	(506.5)
	1,403.0	994.9

(d) Currency risk

Currency risk is the risk that the value of an asset or liability will fluctuate due to changes to foreign currency exchange rates. The Group is impacted by short term fluctuations in foreign currency exchange rates because 49% of its investment assets are denominated in currencies other than pounds sterling, the currency of the majority of the Group's expenditure and the functional currency of the Group. However over the longer term the impact of changes to foreign currency exchange rates will be reduced. The Group has no significant financial liabilities denominated in currencies other than pounds sterling.

The Group hedges its currency risk through the use of a passive currency overlay covering up to a maximum of 70% of its overseas exposure. The following table details the total value exposed to currency risk as at 30 September 2007:

Currency	Value as at 30 September 2007 (Currency, m)	Value as at 30 September 2007 £m
Traded investments assets		
US \$	\$13,220.4	6,488.9
Euro	€2,525.3	1,762.7
Japanese Yen	¥123,071.3	525.2
Other		1,553.8
Other investment balances		
US \$	\$195.6	96.0
Euro	€112.1	78.3
Japanese Yen	¥2,777.7	11.9
Other		7.9
Forward currency contracts		
US \$	(\$4,205.6)	(2,065.6)
Euro	(€887.4)	(620.3)
Japanese Yen	(¥46,288.8)	(198.4)
Other		(8.1)
Total value exposed to currency risk		7,632.3

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 September 2007 (continued)

23. FINANCIAL RISK MANAGEMENT (continued)

(e) Interest rate risk

Interest rate risk arises from the risk that the value of an asset or liability will fluctuate due to changes in interest rates (i.e. for fixed interest assets or liabilities) or that future cashflows will fluctuate due to changes in interest rates (i.e. for variable rate assets or liabilities). The following table details the values of interest bearing assets and liabilities exposed to interest rate risk as at 30 September 2007:

	Weighted average interest rate	Value as at 30 September 2007 £m
Interest bearing financial assets and liabilities		
Interest bearing assets		
<i>Maturing within one year</i>		
Fixed rate	–	–
Floating rate	n/a	3.4
<i>Maturing between two and five years</i>		
Fixed rate	5.445%	232.5
Floating rate	n/a	21.9
<i>Maturing after five years</i>		
Fixed rate	6.375%	3.5
Floating rate	n/a	45.6
Total interest bearing assets		306.9
Interest bearing liabilities		
<i>Maturing after five years</i>		
Fixed rate – bond liability	4.625%	(543.8)
Floating rate – finance lease creditor	n/a	(86.5)
Total interest bearing liabilities		(630.3)

The maturity dates of the Group's interest bearing liabilities are detailed in note 17. The Bond liability value detailed in the table above is the book value, the fair value of this liability is detailed in note (f) below.

The Board of Governors monitors the Trust's exposure to long term debt and the related finance costs on a quarterly basis.

(f) Fair value of financial assets and liabilities

The following table is a comparison of fair values and book values of all Group financial assets and liabilities as at 30 September 2007:

	Fair value as at 30 September 2007 £m	Book value as at 30 September 2007 £m
Financial assets		
Quoted investments	9,039.7	9,039.7
Unquoted investments	3,962.9	3,962.9
Investment properties	973.0	973.0
Derivative financial instruments	(10.2)	(10.2)
Other investment balances	1,698.6	1,698.6
Programme related investments	1.5	1.5
Other debtors	6.5	6.5
Term deposits and cash	8.5	8.5
Financial liabilities		
Bond liability	491.5	543.8
Finance lease liability	86.5	86.5
Trade creditors	4.8	4.8
Other creditors	10.2	10.2

Quoted investments, unquoted investments, investment properties, derivative financial instruments and programme related investments are held at fair value. The book value of other investment balances (which comprises investment cash and other current investments debtors and creditors), other debtors, term deposits and cash, trade creditors and other creditors is equal to the fair value of these balances. The fair value of the Bond liability as at 30 September 2007 was £491.5 million (2006: £555.9 million) and is based on the market value of the Bonds at that date. The book value of the finance lease liability is updated for movements in interest rates and is therefore equal to fair value.

REFERENCE AND ADMINISTRATIVE DETAILS

Board of Governors

Sir William Castell, LVO, FCA (*Chairman*)

Professor Adrian Bird, CBE, FRS, FMedSci (*Deputy Chairman from 1 April 2007*)

Professor Martin Bobrow, CBE, FRS, DSc, FRCP, FMedSci (*Deputy Chairman retired 31 March 2007*)

Professor Sir Leszek Borysiewicz, PhD, FRCP, FRCPath, FMedSci (*resigned 30 September 2007*)

Professor Kay Davies, CBE, FMedSci, FRS (*from 1 January 2008*)

Professor Christopher Fairburn, DM, FRCPsych, FMedSci (*from 1 January 2008*)

Dame Patricia Hodgson

Professor Richard Hynes, PhD, FRS (*from 1 January 2007*)

Mr Roderick Kent, MA, MBA (*from 1 February 2008*)

Professor Ronald Plasterk, PhD (*resigned 15 February 2007*)

Mr Alastair Ross Goobey, CBE

Professor Peter Rigby, PhD, FMedSci (*from 1 January 2008*)

Professor Peter Smith, CBE, DSc, HonMFPH, FMedSci

Professor Dame Jean Thomas, DBM, CBE, FRS, ScD, FMedSci (*retired 30 September 2007*)

Mr Edward Walker-Arnott

Company Secretary

Mr John Stewart

Executive Board

Dr Mark Walport, PhD, FRCP, FMedSci (*Director*)

Dr Ted Bianco, PhD (*Director of Technology Transfer*)

Mr John Cooper (*Director of Resources*)

Dr David Lynn, PhD (*Head of Strategic Planning and Policy Unit*)

Ms Clare Matterson (*Director of Medicine, Society and History*)

Mr David Phillipps, FCA (*Director of Finance*)

Dr Sohaila Rastan, MA, DPhil, FMedSci (*Director of Science Funding*) (*to 30 April 2007*)

Dr Alan Schafer, PhD (*Head of Molecular and Physiological Sciences*) (*from 11 June 2007*)

Mr John Stewart (*Head of Legal*)

Mr Danny Truell (*Chief Investment Officer*)

All of the above have been in office throughout the year unless otherwise stated.

COMMITTEES OF THE BOARD OF GOVERNORS

Audit Committee

Mr Simon Leathes (*Chairman to 31 December 2007; member from 1 January 2008*)

Mr Edward Walker-Arnott (*Chairman from 1 January 2008*)

Mr Rodney Baker-Bates (*to 30 September 2007*)

Mr Philip Johnson (*from 1 January 2008*)

Professor Peter Smith

Mr Nicholas Temple

Remuneration Committee

Sir William Castell (*Chairman*)

Professor Adrian Bird (*from 1 April 2007*)

Professor Martin Bobrow (*to 31 March 2007*)

Dame Patricia Hodgson

Mr Edward Walker-Arnott

Mr Alastair Ross Goobey (*remuneration of the Chairman and the Deputy Chairman only*)

Investment Committee

Sir William Castell (*Chairman*)

Professor Martin Bobrow (*to 31 March 2007*)

Mr Alastair Ross Goobey

Mr Tim Church (*from 1 November 2007*)

Mr Peter Davies (*from 1 January 2007*)

Mr Naguib Kheraj (*from 1 November 2007*)

Mr Stewart Newton

Mr Hugh Stevenson

Dr Mark Walport

Mr David Phillipps

Mr Danny Truell

Mr Peter Pereira Gray

Ms Sandra Robertson (*to 3 August 2007*)

Nominations Committee

Sir William Castell (*Chairman*)

Professor Adrian Bird (*from 1 April 2007*)

Professor Martin Bobrow (*to 31 March 2007*)

Professor Richard Hynes (*from 1 October 2007*)

Professor Jean Thomas (*to 30 September 2007*)

Mr Edward Walker-Arnott

Strategic Awards Committee

Professor Adrian Bird (*Chairman from 1 April 2007*)

Professor Martin Bobrow (*Chairman to 31 March 2007*)

Sir William Castell

Professor Kay Davies (*from 1 January 2008*)

Professor Leszek Borysiewicz (*to 30 September 2007*)

Professor Christopher Fairburn (*from 1 January 2008*)

Dame Patricia Hodgson

Professor Richard Hynes (*from 1 January 2007*)

Mr Roderick Kent (*from 1 February 2008*)

Professor Ronald Plasterk (*to 15 February 2007*)

Professor Peter Rigby (*from 1 January 2008*)

Mr Alastair Ross Goobey

Professor Peter Smith

Professor Jean Thomas (*to 30 September 2007*)

Mr Edward Walker-Arnott

Dr Mark Walport

Dr Ted Bianco

Ms Clare Matterson

Dr Sohaila Rastan (*to 30 April 2007*)

PRINCIPAL ADVISERS

Auditors

PricewaterhouseCoopers LLP

Bankers

HSBC Bank plc

Solicitors

CMS Cameron McKenna LLP

Proskauer Rose LLP

Global custodian bank

JP Morgan Chase Bank NA

BOARD OF GOVERNORS

Sir William Castell
(Chairman)

Professor Adrian Bird
(Deputy Chairman)

Professor
Sir Leszek Borysiewicz

Dame Patricia Hodgson

Professor Richard Hynes

Mr Alastair Ross Goobey*

Professor Peter Smith

Professor Dame Jean Thomas

Mr Edward Walker-Arnott

*While finalising this publication, we were saddened to learn that Alastair Ross Goobey had died, following a long illness. Alastair was an outstanding Governor and extraordinary friend of the Wellcome Trust. A Governor since 2002, his advice was instrumental in helping to develop the investments of the Trust. He took a great interest in all aspects of our activities and will be sadly missed by those who worked with him.

EXECUTIVE MANAGEMENT

Executive Board

Dr Mark Walport
(Director)

Dr Ted Bianco

Mr John Cooper

Dr David Lynn

Ms Clare Matterson

Mr David Phillipps

Mr John Stewart

Mr Danny Truell

Further copies of this *Annual Report and Financial Statements 2007* are available from the Trust's website or, without charge, from:

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