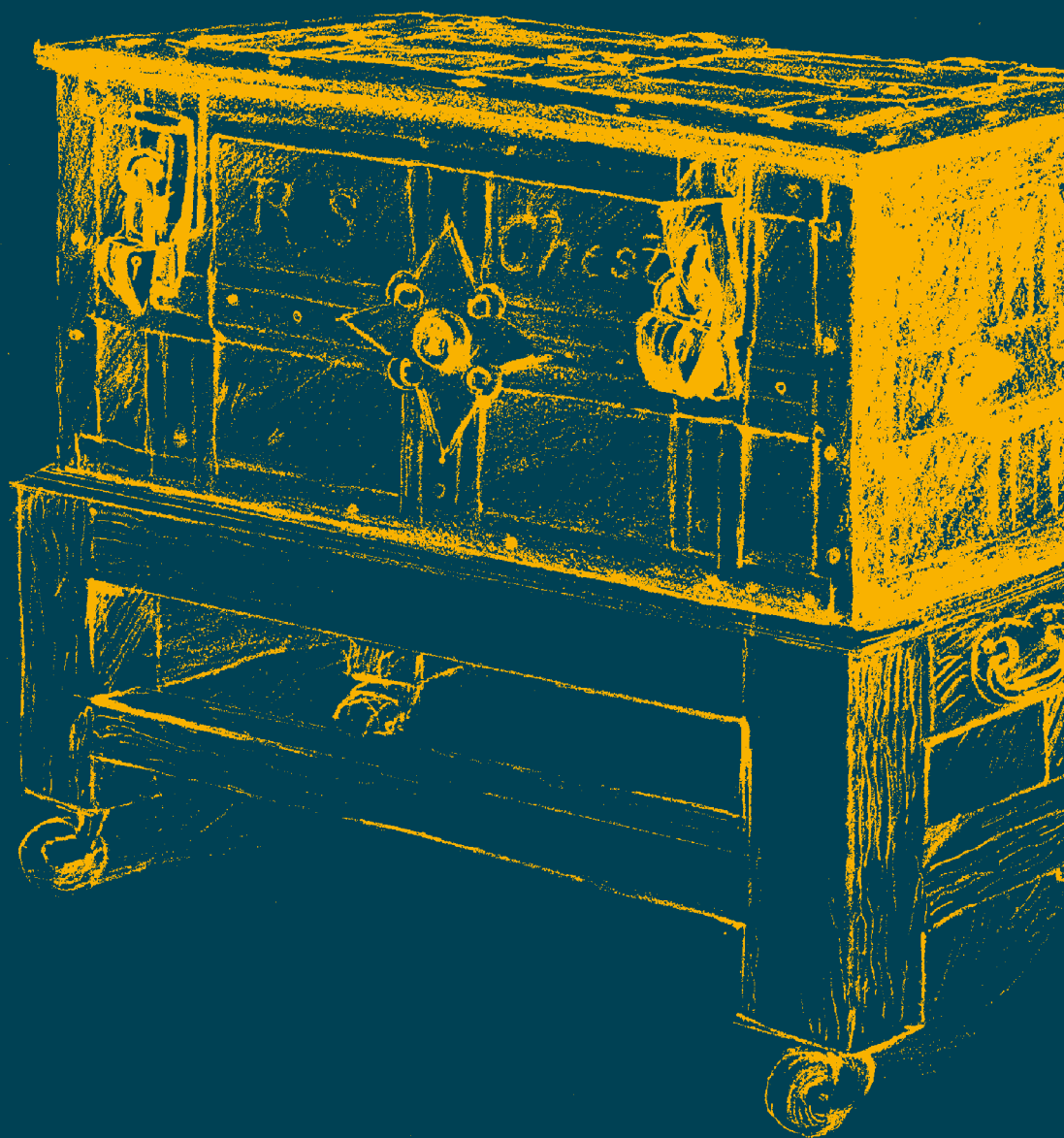


Trustees' Report and Financial Statements

For the year ended 31 March 2010

*Iron chest given to
R S by Mr. Ball, a founder
about 1663 for documents
Weld's, History, Vol. P.171*



CELEBRATE
350 YEARS



THE ROYAL SOCIETY

Trustees' Report and Financial Statements

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Auditors

PKF (UK) LLP
Chartered Accountants and Registered Auditors
Farringdon Place
20 Farringdon Road
London EC1M 3AP

Solicitors

Needham & James LLP
Needham & James House
Bridgeway
Stratford upon Avon Warwickshire
CV37 6YY

Bankers

Barclays Bank plc
Level 28
1 Churchill Place
London E14 5HP

Investment Managers

Rathbone Investment Management Ltd
159 New Bond Street
London W1S 2UD

Internal Auditors

haysmacintyre
Fairfax House
15 Fulwood Place
London WC1V 6AY

Registered charity No 207043

Trustees

The Trustees of the Society are the Members of its Council duly elected by its Fellows.

Ten of the 21 members of Council retire each year in line with its Royal Charter.

President

Lord Rees of Ludlow OM Kt

Treasurer and Vice-President

Sir Peter Williams CBE

Physical Secretary and Vice-President

Sir Martin Taylor ^a
Professor John Pethica ^b

Biological Secretary and Vice-President

Dame Jean Thomas DBE

Foreign Secretary and Vice-President

Professor Lorna Casselton

Vice-Presidents

Dame Nancy Rothwell DBE ^b
Sir Christopher Llewellyn Smith ^b

Other members of the Council

Professor David Barford ^b
Professor David Baulcombe ^a
Sir Michael Berry
Professor Richard Catlow ^b
Dame Kay Davies DBE ^a
Dame Ann Dowling DBE
Professor Jeffery Errington ^a
Professor Alastair Fitter
Dr Matthew Freeman ^b
Sir Richard Friend
Professor Brian Greenwood CBE ^b
Professor Andrew Hopper CBE ^b
Dame Louise Johnson DBE ^b
Sir John Kingman ^a
Dr Tim Palmer ^a
Professor John Pyle ^b
Professor Carol Robinson ^a
Mr Philip Ruffles CBE ^b
Professor Bernard Silverman
Sir John Sulston ^a
Professor Andrew Thomson ^a
Professor Fiona Watt ^a
Professor Semir Zeki ^b

Changes

The above served as Members of Council throughout the year unless indicated as below.

a Member until 30 November 2009

b Member since 30 November 2009

Executive Secretary

Mr Stephen Cox CVO

Registered Address

6–9 Carlton House Terrace
London SW1Y 5AG

royalsociety.org

The Royal Society of London for Improving Natural Knowledge, commonly known as the Royal Society, is an independent self-governing scientific academy founded in 1660 incorporated by Royal Charter and is a Registered Charity. This report and the financial statements attached are presented in the format required by the Statement of Recommended Practice – Accounting and Reporting by Charities (revised 2005).

Trustees' Report

Structure, Governance and Management

Organisation

The Royal Society is governed by a Council of 21 Fellows, who are also its trustees for charity purposes, including five honorary officers: President, Treasurer, two Secretaries (one drawn from the physical sciences and mathematics, and the other from the life sciences) and a Foreign Secretary. The Royal Charter requires that 10 of the 21 members of Council retire each year.

The composition of Council comprises three categories of membership – the President and other officers who hold office for one year but are eligible for re-election annually and normally serve for five years, one retiring each year by rotation; one representative from each of 10 subject area classifications who hold office for one year but are eligible for re-election for a second year; and members elected to create a balanced and representative Council who also hold office for one year but are eligible for re-election for a second.

All members of Council begin and end their tenure on Council on Anniversary Day, which is 30 November – St. Andrew's day. Suggestions for membership of Council are invited annually from the Fellowship. The determination of vacancies and nomination of candidates is decided by Council in accordance with its Standing Orders. Nominees are confirmed by ballot of the Fellowship. All members of Council are elected from the Fellowship.

Fellows elected to Council are amongst the world's leading scientists and are well-qualified to provide the Society with the necessary guidance and leadership to achieve its objectives. Council holds an annual seminar to ensure that its members have a wider understanding of their responsibilities and duties as trustees of a charity. As many members of Council serve for only one year, and others for two, it is not usually possible to provide extended training.

Council is advised by a wide range of committees, the membership of which and their subcommittees is not always confined to Fellows. The Board, comprising the President, honorary officers and the Executive Secretary, makes recommendations to Council on policy management.

The Audit Committee reports direct to Council, reviews the audited financial statements and recommends their approval to Council, enquires into the Treasurer's stewardship of Society assets, reviews reports from the external and internal auditors, monitors management response thereto and implementation of agreed recommendations.

Fellowship

The Royal Society is a Fellowship of outstanding scientists drawn from all areas of science, engineering and medicine. The Society's mission is best described as being to expand the frontiers of knowledge by championing the development and use of science, engineering and medicine for the benefit of humanity and the good of the planet. Fellows of the Society are elected for life and designate themselves through the use of the letters FRS after their names. 44 new Fellows and eight Foreign Members are elected annually through a peer review process that culminates in a vote by existing Fellows. The main criterion for election is scientific excellence. Fellows are called upon to perform a wide range of tasks for, and on behalf of, the Society. Many Fellows invest significant time and effort, voluntarily, to carry out these tasks in support of the cause of science and the Society.

Volunteers

The Society is grateful for the valuable contribution to its work made voluntarily. This includes not only that made by its Fellows but also many non Fellows who give their time serving on committees supporting the Society and its activities, together with many others, too numerous to specify, who peer review grant applications and attend, participate in and contribute towards its activities.

Risk assessment

The major risks to which the Society is exposed, as identified by Council, have been reviewed and systems have been established to mitigate those risks. As the governing body Council is ultimately responsible that proper arrangements are in place for adequate and effective risk management and control. The active management of risk is delegated, in the first instance, to the Board which reports directly to Council. Council puts reliance upon Audit Committee to assess the risk management and control and governance arrangements within the Society and advise Council on the effectiveness of such arrangements. The Audit Committee has actively reviewed the major operational and business risks, both financial and non-financial, to which the Society is exposed.

Connected charities and subsidiary undertakings

Council regards The Wolfson Research Professorship of the Royal Society to be a Connected Charity of the Royal Society. The charity's objectives and activities are common to or in parallel with, those of the Society and it is administered by the Society. The principal contact address for the charity is that of the Society. The Wolfson Research Professorship of the Royal Society supports the Society's Professorship of that name. Note 25 to the accounts sets out the Society's relationship with its subsidiary undertakings.

Management and staffing

The Executive Secretary is responsible for the day-to-day management of the Society and its activities, supported by five Directors – responsible for Development and Fundraising, Finance and Operations, History of Science, Public Affairs and Science Policy – and the senior management team. In March 2010 the Society had 145 staff in post. This year a new Human Resources and Payroll Administrator was appointed.

The Business Plan and Budget, approved annually by Council, is implemented by eight activity sections, and six resource and support sections. The 350th Anniversary Programme is managed by an additional temporary section and the Enterprise Fund is managed by a Chief Executive Officer.



The Royal Society is a Fellowship of outstanding scientists drawn from all areas of science, engineering and medicine. It is the world's oldest scientific academy in continuous existence, and has been at the forefront of enquiry and discovery since its foundation in 1660.



The Kavli Royal Society International Centre provides the Royal Society with a prestigious residential centre outside London for holding internationally significant scientific conferences and offering opportunities for concentrated academic reflection. Its focus is on strengthening both UK and international science.

Statement of Trustees' Responsibilities

The trustees (Council members) of the Royal Society, are responsible for preparing the Trustees' Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Charity law requires the trustees to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the group and the Society and of the incoming resources and application of resources of the group for the year. In preparing those financial statements the trustees are required to:

- select suitable accounting policies and then apply them consistently;
- observe the methods and principles in the Charities SORP;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Royal Society will continue in operation.

The trustees are responsible for keeping accounting records that disclose with reasonable accuracy the financial position of the Society and enable them to ensure that the financial statements comply with the Charities Act 1993 and regulations made thereunder. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The trustees are responsible for the maintenance and integrity of the financial information included on the Society's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements and other information included in annual reports may differ from legislation in other jurisdictions.

Objectives and Activities

Summary of aims and objectives

The Charter incorporates the Society in the name of The President, Council and Fellows whose studies are to be applied to further promoting by the authority of experiments the sciences of natural things and of useful arts, to the glory of God the Creator, and the advantage of the human race. The present day Society has three major roles as a learned society embracing the entire scientific landscape by supporting excellent individuals, organising meetings and producing publications; as the United Kingdom's (UK) Academy of Science providing independent scientific advice and representing UK science on the international stage; and as a funding agency providing support for scientists, engineers and technologists to pursue their work.

In April 2006, Council adopted a new strategic plan for the Society's work to cover the period 2006-2011. Briefly it identified five strategic priorities to:

- Invest in future scientific leaders and in innovation
- Influence policymaking with the best scientific advice
- Invigorate science and mathematics education
- Increase access to the best science internationally
- Inspire an interest in the joy, wonder and excitement of scientific discovery.

These form the basis of our work for the period 2006-2011, provide the focus for our fund raising activity, guide our submissions to government in the spending reviews and determine our plans for our 350th anniversary in 2010.

In setting the Society's objectives and future plans, Council has given consideration to the Charity Commission's guidance on public benefit.

Achievements and Performance during the year

Major achievements and performance against the strategic priorities during the year are summarised below.

In reviewing the Society's performance during the year, Council has had regard to the guidance on public benefit issued by the Charity Commission.

Invest

Through its research fellowships and funding programmes, the Royal Society works in partnership with universities and industry, both within the UK and internationally, to invest in the future of UK science.

The Royal Society supports more than 800 UK based research Fellowships. In 2009/10, 38 University Research, 10 Dorothy Hodgkin, 12 Industry, and 7 Leverhulme Trust Senior Research Fellowships were awarded. Additionally the Research Grants scheme (supporting young scientists to change the direction of their research) awarded 164 grants.

Royal Society discussion meetings are interdisciplinary international conferences on novel and innovative areas of science, engineering and technology. During 2009/10, 3,700 participants registered to attend 12 scientific discussion meetings held on a variety of topical science subjects.

Royal Society Publishing continued to perform well in its principal objectives to publish high quality science, provide first class service to its authors and deliver a financial contribution to the Royal Society.

Philanthropic fundraising for the Royal Society Enterprise Fund, which provides financial support to start-up businesses emerging from the science base, has enabled the Fund to make its first three investments in 2009, including in a business whose research was previously funded by a Royal Society-funded Brian Mercer Award for Innovation.

The Society's research fellowships and funding programmes provide public benefit by supporting excellent scientists and investing in the future of UK science.

Influence

This year, the Society formally launched its Science Policy Centre to increase the reach and impact of its policy work.

Policy work is organised under four flagship themes: sustainability; governance; diplomacy and innovation. The Centre has offered independent advice via in-depth reports, briefings, statements, seminars, consultation responses and a programme of 'PolicyLab' events.

The Society published two major reports under sustainability. The first, *Geoengineering the climate: science, governance and uncertainty*, reviews the science behind some of the proposed large-scale interventions with the potential to alter the Earth's climate system. The second was *Reaping the benefits: science and the sustainable intensification of food crop production*, assessing the contribution that next-generation biological approaches could make to food production over the next 30 years.

The Society works with a range of partners to strengthen the contribution of science to security, diplomacy and development. In June 2009, the Society organised a conference on *New Frontiers in science diplomacy* with the American Association for the Advancement of Science (AAAS).

The scientific century: securing our future prosperity, published in March 2010, urges the UK government to put science and innovation at the heart of strategy for economic growth. The contribution of science, technology, engineering and mathematics (STEM) to service sector innovation was the topic of the Society's *Hidden wealth* report, published in July 2009

The Society's MP-Scientist Pairing Scheme helps MPs to forge networks with research scientists. In 2009 the Scheme was expanded to incorporate pairings with Civil servants, pairing 16 scientists with MPs and ten with Civil servants.

The Society delivers public benefit through the advice and information it provides on a number of policy issues of global importance.



Dr Angela Taylor is a Dorothy Hodgkin Fellow at the Department of Astrophysics, University of Oxford. Her research focuses on creating telescopes to make observations of the electromagnetic relic radiation from the Big Bang, known as the cosmic microwave background.



Dr Carmel Toomes is a University Research Fellow at the Institute of Molecular Medicine, University of Leeds. Her research aims to identify the genes underlying human blindness and explore the impact of genetic mutations on blood vessel development within the eye.



The Society has been running its MP-Scientist Pairing Scheme since 2001. The Scheme has played an important role in helping MPs to forge networks with research scientists and in 2009 it expanded to incorporate pairings with Civil servants.

Invigorate

As a result of generous support received from The Ogden Trust and the Shuttleworth Foundation, in October 2009 the Society began to support a Fellowship in the area of physics education research and a Fellowship in the field of science, technology, engineering and mathematics (STEM) education.

The Society continued work on its third and fourth 'state of the nation' reports assessing the health of UK science and mathematics education. The Society contributed to the production of two national policy reports, the first by the Government-commissioned Science and Learning Expert Group on secondary science and mathematics education, published in March 2010, and the second by the Society's own Science Policy Centre on *The scientific century: securing our future prosperity*, published in March 2010.

The Partnership Grants scheme continues to attract applications, with 112 schools applying for funding this year and over £119,300 being awarded to 56 projects.

The Advisory Committee on Mathematics Education (ACME), operating under the auspices of the Royal Society, has maintained its profile as the leading advisory body on 5-19 mathematics education in England.

As a member of the Science Community Partnership Supporting Education (SCORE), the Royal Society has been playing a major role in supporting the Government's STEM programme.

Providing direct support to schools remains a priority for the Society and one of the main ways it ensures the delivery of public benefit in the area of education.

Increase

Largely through the work of the newly-launched Science Policy Centre, the Royal Society continued to demonstrate international leadership in science and science policy, through its membership of multilateral partnerships, its central role in the governance of these partnerships and its participation in international meetings.

As part of the 350th anniversary celebrations, the Society hosted over 100 of the world's science academies at the InterAcademy Panel (IAP) triennial Conference and General Assembly in January 2010 – the largest international meeting in the Society's recent history.

This year saw the recently launched Science Policy Centre form strategic partnerships with other academies and organisations, national and international, including AAAS, TWAS, the US National Academies of Science and the Chinese Academy of Sciences, on projects as diverse as science diplomacy, synthetic biology and geoenvironment.

The Royal Society, in partnership with the Network of African Science Academies (NASAC) and Pfizer (US), made good progress on its African academy-strengthening programme, building capacity in the national science academies of Ghana, Tanzania and Ethiopia.

In May 2009 six awards were made under the Society's new capacity building scheme for Ghana and Tanzania, the Leverhulme Royal Society Africa Award. This new programme provides support for UK-Ghana and UK-Tanzania research collaborations, to strengthen the research and training capacity at institutions in either African country.

The Royal Society delivers public benefit by working closely with the leading scientific organisations around the world to promote collaboration and to ensure UK scientists are engaging with the best scientists worldwide so they remain at the forefront of world-class science.

Inspire

The Royal Society Summer Science Exhibition proved to be more popular than ever, enjoying its first weekend opening with a total of over 5,500 visitors. An additional 16,500 viewers explored the Exhibition website. The Royal Society's public programme of lectures and debates consisted of 16 events attracting an audience of 3,800. *Royalsociety.tv* (which hosts the live webcasts and video archive) was viewed by 29,000 people.

The Society's media profile has been raised significantly during the past year. The start of the Society's 350th anniversary year was celebrated with the launch of the *Trailblazing* website which secured widespread media coverage. The website was the principal medium through which the Society communicated with its global audiences attracting 1.1 million visitors over the year.

There was strong demand on the Library's picture resources in support of a variety of 350th anniversary projects. The most visible were the anniversary publication, *Seeing Further*, which drew heavily on the collections for its illustrative content and the series of Royal Mail stamps which used portraits of Fellows.

Refurbishment of the Library reading rooms and the Archive stores (to achieve the prevailing standard for archive storage, BS.5454) commenced officially in December 2009 and the Library is on schedule to re-open in June 2010.

The Society's wide range of popular activities ensures it delivers public benefit through its public communication programme, media work and events connected with its library and archives.

Fundraising

The 350th Anniversary Campaign has raised £103 million to date, with nearly £9 million of gifts and pledges in the past financial year. More than 30% of the Fellows have supported the campaign, contributing £11.7 million in donations and pledges.

Substantial gifts have been received from The Wolfson Foundation, The Garfield Weston Foundation and Winton Capital Management to support the Kavli Royal Society International Centre, which will open this summer with a full programme of international scientific meetings.

Over the past year, the Royal Society Enterprise Fund has made investments in three new companies. The Fund has now raised over £6.6 million, but will rely on further contributions to continue its success.

Support for the Royal Society Industry Fellowships has continued with both Rolls Royce and Astra Zeneca renewing their support for the scheme. The Education Research Fellowship scheme will continue this year with support from The Ogden Trust and The Worshipful Company of Actuaries.

The International Development Research Centre has pledged support to the *Atlas of Islamic-World Science and Innovation*, a landmark study by the Science Policy Centre which will explore the changing landscape of science and innovation across a diverse selection of countries with large Muslim populations.

Plans for 2010/11

The coming year is the final of the Society's ambitious five year strategy to expand the frontiers of knowledge by championing the development and use of science, engineering and medicine for the benefit of humanity and the good of the planet. As the Society's 350th anniversary year comes to an end, we are planning a new strategy to direct us through the next five years and beyond.

2010 is a period of unprecedented activity and external visibility in the life of the Society and beyond the challenges of delivering a successful 350th anniversary programme, initial foundations for our next strategy have already been laid. The Society's new corporate plan will be in place during 2011 and will involve consultation and the meaningful participation of Council, the Fellowship, staff, and other parties interested in the health of science and maximizing the benefits it brings.

During 2010/2011 we will launch the Royal Society programme at the Kavli Royal Society International Centre, an extension of the work that is carried out at the Society's premises in London. It will enable the Royal Society to have residential meetings which will create an intensive and creative environment. The major component of the Royal Society funded events held at the Kavli Royal Society International Centre in 2010/11 will be the Scientific Programme (approximately 70%), national and international science policy activities, science education activities and training events for scientists will make up the remaining 30%.

From our grant from the Department for Business, Innovation and Skills (BIS) we will support research scientists and engineers through a range of appointments, grants and international activity, support for science communication and innovation and science education.



The Partnership Grants scheme continues to attract applications, with 112 schools applying for funding this year. Over £119,300 was awarded to 56 projects in 2009/10. Pictured are pupils from Sittingbourne Community College in Kent, awarded a Partnership Grant in 2008.



As part of the 350th anniversary celebrations, the Society hosted the world's science academies at the InterAcademy Panel (IAP) triennial Conference and General Assembly in January 2010 – the largest international meeting in the Society's recent history.



The Royal Society Summer Science Exhibition proved to be more popular than ever with over 5,500 visitors attending over five days in June and July 2009. Visitors included 1,000 secondary school students and teachers and 16,500 viewers explored the Exhibition website.

Despite the ongoing financial recession the Society was in a strong position at the year end with overall funds of the Society having grown by £38.1m over the year. The investment gain for the year was £35m and donations from Fellows and friends of the Society of £6.4m were received. The Society spent £7.8m on the refurbishment of Chicheley Hall and £0.5m of a £1.5m project to refurbish Library and Archive areas. Both these projects were ongoing at year end and are supported by substantial donations.

Financial Review

The Society received grant income from the Department of Business Innovation and Skills (BIS) of £45.8m predominantly to support the Society's grant programme. The BIS grant allocation was agreed in the 'Science Budget 2008-09 to 2010-11' and a settlement for 2011/12 will form part of the new government's spending plans. Income from the Society's investments was £3.9m and surpluses from the Society's trading activities totalled £2.6m. The total contribution from trading, including to overheads, was £3.7m.

The Society's income over the year is broken down in Fig 1.

The expenditure for 2009/10 has supported the objectives of the Society as set out in the 'Statement of Financial Activities' on page 14 of this report. The nature of the Society's £65.7m revenue expenditure over the year is broken down in Fig 2.

All of the expenditure of the Society was spent in pursuit of its charitable purposes. The split of this expenditure between direct support of charitable activities, support, governance and primary purpose trading is set out in Fig 3.

The Society's £84m of unrestricted funds include £28.4m of tangible fixed assets and £47m of heritage assets leaving freely available income funds (reserves) of £8.6m at the year end. These reserves are held to maintain the independence of the Society and to meet the short term needs of the Society particularly in the event of the loss of its major sources of funding.

The Society has not designated any of its funds but has committed a further £2.5m to complete the refurbishment of the Kavli Royal Society International Centre at Chicheley Hall during 2010/11. The Society holds a £41m expendable endowment and a permanent endowment of £89m. The Society retains a £7m loan repayable in February 2012. The value of the Society's overall funds position (excluding heritage and tangible assets) is set out in Fig 4.

At 31 March 2010 the Society had seven trust funds (as set out within note 22) amounting to £137m. No funds are in a deficit position and Society is content that the objects of these funds are sufficiently wide to meet the future activities of the Society. Their year end values are set out in Fig 5.

The Society (having been in existence since 1660) takes a very long term view on its investments and their performance. The Society aims to produce above average total returns on its portfolio, whilst having access to sufficient cash to meet its planned activities. The value of the Society's funds under investment rose by £34m to £162m over the year. The mix of investments held at year end is shown in Fig 6.

The Society expects investments in the portfolio normally to comprise leading UK and international companies, Unit and Investment Trusts including those investing in major international markets, property and fixed interest. The emphasis in the UK portfolio is on larger well established companies paying a dividend in excess of the market, although it is expected that it will also include a proportion of medium and smaller sized companies, venture capital, hedge, private equity and property funds. Rathbone Investment Management Limited is the investment manager for the majority of the funds with £151m under their management at year end. Private Equity and Venture Capital funds are held with UBS AG and Flag Capital Management. The Society's Australian portfolio is managed by Evans & Partners Pty Ltd of Melbourne, Australia investing predominantly in Australian equities.

Within these terms the Society's investment managers have a general discretion over asset allocation and selection. The Treasurer is advised by an active Investment Advisory Committee. The Society does not invest in the producers of tobacco or manufacturers of tobacco products.

The Society's primary purpose Publishing activity performed well over the year with revenues increasing by 8% year on year to £4.3m and the overall contribution to the Society increasing by 7% to £2.2m. The Society's primary purpose conferencing activities saw revenues increase by an impressive 26% to £3.2m with the overall contribution to the Society increasing by 54% to £1.6m. These activities continue to directly support the Society in its charitable objectives in addition to providing a valuable source of unrestricted funding.

The Society's Enterprise fund completed its first investment in August 2009 and made two further investments during the year. At year end the fund had £0.9m invested and funds of £3.7m available for investment.

Fig 1: 2009/10 Income by Source (£m)

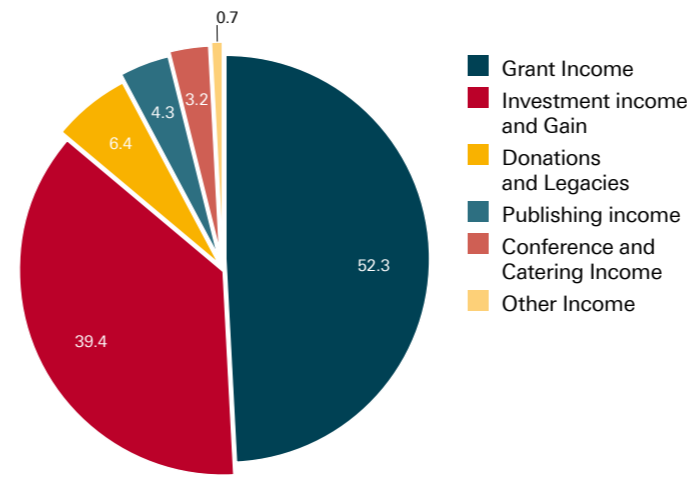


Fig 4: Nature of Royal Society Funds at year end (£m)

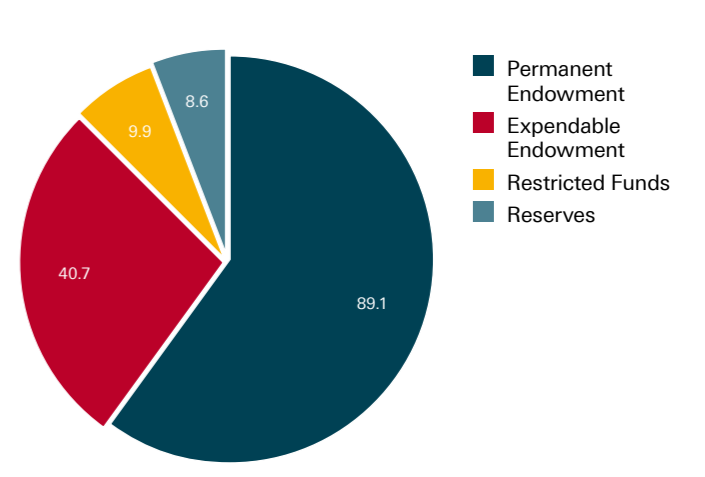


Fig 2: 2009/10 Society Expenditure by type (£m)

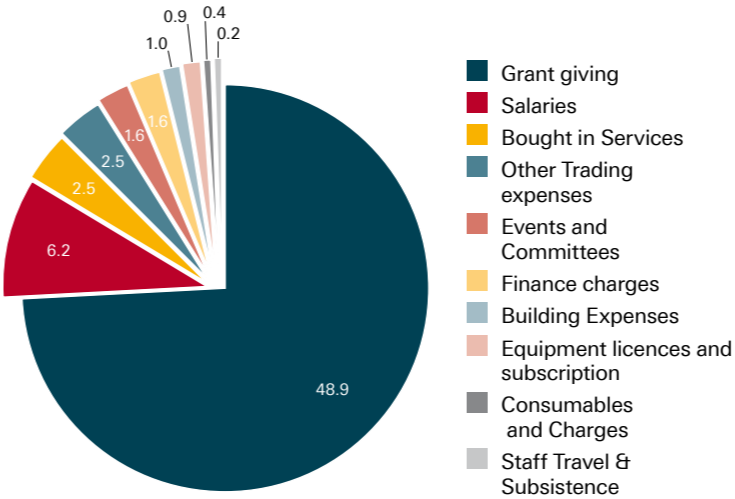


Fig 5: Trust Funds of the Royal Society at year end (£m)

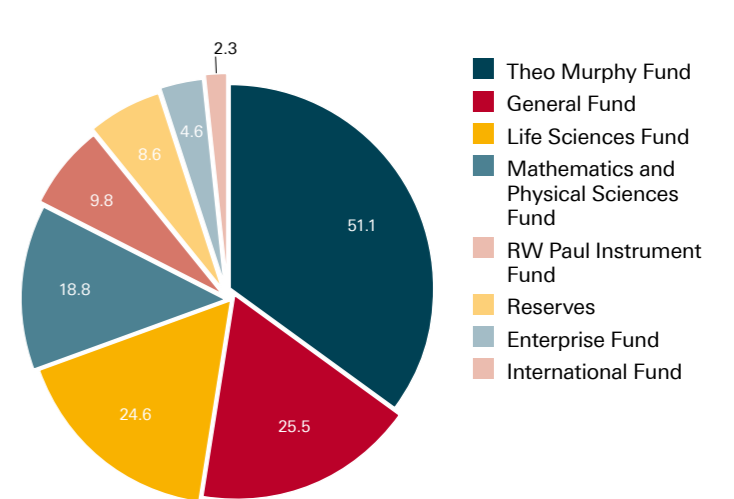


Fig 3: 2009/10 Society Expenditure by Purpose

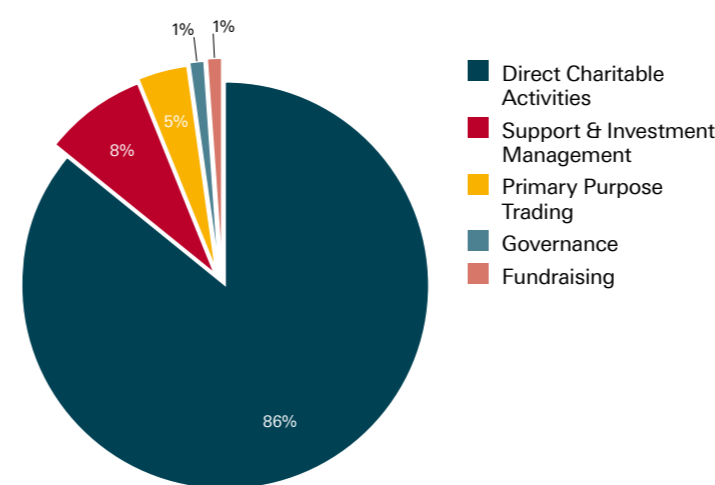
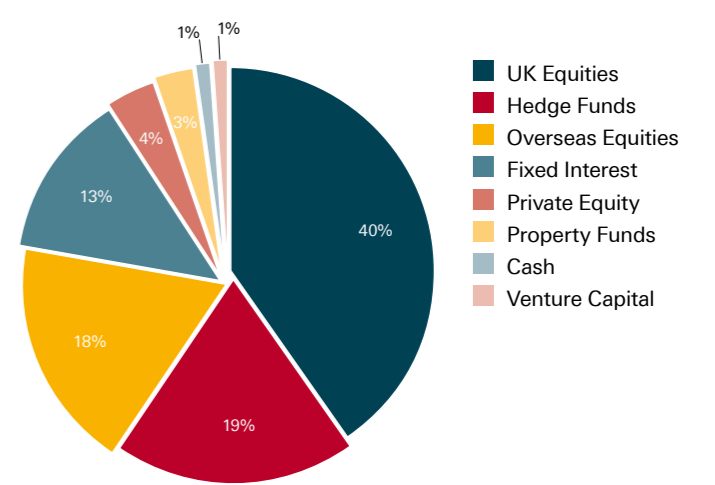


Fig 6: Investments by Asset Class at year end



We have audited the financial statements of the Royal Society ("the financial statements") for the year ended 31 March 2010 which comprise the group Statement of Financial Activities, the group and Society's balance sheets, the group cash flow statement and the related notes. The financial statements have been prepared under the accounting policies set out therein.

Independent Auditors' Report to the Council of the Royal Society

This report is made solely to the trustees (Council of the Society), as a body, in accordance with regulations made under section 44 of the Charities Act 1993. Our audit work has been undertaken so that we might state to the trustees those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than trustees as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the trustees and auditors

The trustees' responsibilities for preparing the Trustees' Report and the financial statements in accordance with applicable law and United Kingdom accounting standards ('United Kingdom Generally Accepted Accounting Practice') are set out in the Statement of Trustees' Responsibilities.

We have been appointed as auditors under section 43 of the Charities Act 1993 and report in accordance with regulations made under 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).

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

We read other information contained in the annual report and consider whether it is consistent with the audited financial statements. This other information comprises only the Trustees' Report, the Audit Committee Report and the summary of Parliamentary Grant-in-Aid. 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 other information.

The relationship between the Royal Society and the Department for Business, Innovation and Skills (BIS) and the terms upon which BIS provides funds to the Society are governed by a Financial Memorandum. Our responsibility

includes a requirement to report our opinion on whether the funds provided by BIS have been applied in accordance with this Financial Memorandum.

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 trustees in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and Society's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations 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 group's and Society's affairs as at 31 March 2010 and of the group's incoming resources and application of resources in the year then ended; and
- have been properly prepared in accordance with the Charities Act 1993.

In our opinion, in all material aspects the income from BIS has been applied to the purposes intended by Parliament as set out in the Financial Memorandum and the financial transactions conform to the authorities which govern them.

London
8 July 2010
PKF (UK) LLP
Statutory Auditors

At a meeting of the Audit Committee held on 1 July 2010 the Committee examined the Treasurer's financial statements for the year ended 31 March 2010, set out on pages 14-39, and enquired into his stewardship of the Society's funds and resources.

Audit Committee Report to the Council of the Royal Society on the Financial Statements

The financial statements have been audited by PKF (UK) LLP Chartered Accountants and Registered Auditors. There are no matters arising there from which the Committee feels should be drawn to the attention of Council.

The Committee has received all information and explanations it has required and is satisfied that the Treasurer has properly carried out his duties under Statute 33 to prepare financial statements that give a true and fair view of the state of affairs of the Society and of the surplus or deficits of its funds for the year ended 31 March 2010. The Committee is also satisfied that the Treasurer has taken all reasonable steps for the prevention and detection of fraud and other irregularities.

The Committee recommends the adoption of the financial statements by Council.

SIR JOHN KINGMAN FRS
Chairman
1 July 2010

Consolidated Statement of Financial Activities

For the year ended 31 March 2010

	Notes	Unrestricted Funds £'000	Restricted Funds £'000	Expendable Endowment Funds £'000	Permanent Endowment Funds £'000	2010 Total Funds £'000	2009 Total Funds £'000
INCOMING RESOURCES							
Incoming resources from generated funds							
Grants for charitable activities	1	2,407	49,925	-	-	52,332	50,354
Voluntary income	2	1,735	4,652	25	-	6,412	18,434
Investment income	3	1,315	2,536	-	-	3,851	4,687
Other income		(77)	-	-	606	529	257
		5,380	57,113	25	606	63,124	73,732
Incoming resources from charitable activities							
Trading in furtherance of charitable objectives	4	7,624	-	-	-	7,624	6,642
Total incoming resources		13,004	57,113	25	606	70,748	80,374
RESOURCES EXPENDED							
Costs of generating funds							
Costs of generating grants and voluntary income		533	-	-	-	533	544
Investment management costs		66	14	92	201	373	304
Total costs of generating funds	5	599	14	92	201	906	848
Charitable activities							
Invest in future scientific leaders and in innovation		3,276	42,567	-	-	45,843	43,735
Influence policymaking with the best scientific advice		1,622	88	-	-	1,710	1,815
Invigorate science and mathematics education		1,025	848	-	-	1,873	1,751
Increase access to the best science internationally		1,564	7,470	-	-	9,034	9,266
Inspire an interest in the joy, wonder and fulfilment of scientific discovery		4,458	1,267	-	-	5,725	5,205
Total for cost of charitable activities	6	11,945	52,240	-	-	64,185	61,772
Governance costs	6	635	-	-	-	635	599
Total resources expended		13,179	52,254	92	201	65,726	63,219

Continued from page 14

	Notes	Unrestricted Funds £'000	Restricted Funds £'000	Expendable Endowment Funds £'000	Permanent Endowment Funds £'000	2010 Total Funds £'000	2009 Total Funds £'000
Net incoming resources before transfers							
		(175)	4,859	(67)	405	5,022	17,155
Gross transfers between funds	13	4,691	(4,673)	(18)	-	-	-
Net incoming/(outgoing) resources before other recognised gains and losses							
		4,516	186	(85)	405	5,022	17,155
Net gains/(losses) on investments	18	6,237	1,324	8,770	19,135	35,466	(28,988)
Actuarial losses on defined benefits pension scheme	24	(2,413)	-	-	-	(2,413)	(2,589)
Net movement in funds		8,340	1,510	8,685	19,540	38,075	(14,422)
Total funds brought forward at 1 April 2009		75,720	8,453	31,990	69,536	185,699	200,121
Total funds carried forward 31 March 2010		84,060	9,963	40,675	89,076	223,774	185,699

All of the above results are derived from continuing activities. There are no other gains or losses other than are stated above

Consolidated Balance Sheet

For the year ended 31 March 2010

	Notes	2010 £'000	2009 £'000
Fixed Assets			
Tangible assets	15	28,446	20,786
Heritage assets	17	47,024	47,023
Investments	18	162,320	128,453
		237,790	196,262
Current Assets			
Stock		29	19
Debtors receivable within one year	19	5,723	4,198
Debtors receivable after one year	19	4,100	4,802
Cash at bank and in hand		365	1,759
		10,217	10,778
Creditors: amount due in one year	20	(12,465)	11,404
Net Current Liabilities		(2,248)	(626)
Total assets less current assets		235,542	195,636
Creditors: amount due after one year	20	(7,239)	(7,083)
		228,303	188,553
Defined Benefits Pension Scheme: liability	24	(4,529)	(2,854)
Net Assets		223,774	185,699
Permanent Endowment Funds	22	89,076	69,536
Expendable Endowment Funds	22	40,675	31,990
Restricted Funds	22	9,963	8,453
Unrestricted Income Funds	22	84,060	75,720
		223,774	185,699

The financial statements were approved and authorised for issue by Council and signed on its behalf on 8 July 2010

SIR PETER WILLIAMS CBE FRS

Treasurer

8 July 2010

Consolidated Cash Flow Statement

For the year ended 31 March 2010

	Notes	2010 £'000	2009 £'000
Reconciliation of net incoming resources to net cash inflow from activities			
Net incoming resources before revaluation		5,022	17,155
Depreciation charges		983	1,008
Loss on disposal of fixed assets		-	206
Increase in stocks		(10)	(3)
Increase in debtors		(823)	(3,550)
Increase in creditors		1,217	7,781
Increase / (decrease) in pension fund liability		(738)	108
		5,651	22,705
Cash Flow Statement			
Net cash outflow from activities		5,651	22,705
Capital outflow	1	(7,045)	(24,404)
Decrease in cash	2	(1,394)	(1,699)
Notes to the Cash Flow Statement			
1. Capital outflow			
Purchase of tangible fixed assets		(8,643)	(9,357)
Purchase of heritage assets		(1)	(2)
Net purchase of investments		1,600	(15,045)
Net Capital outflow		(7,045)	(24,404)
Proceeds from the sale of investments and Purchase of investments are stated net of amounts reinvested.			
2. Decrease in cash			
Cash at bank and in hand			
Balance 31 March		365	1,759
Change in year		(1,394)	(1,699)

Accounting Policies

for the year ended 31 March 2010

Accounting convention

The financial statements are prepared under the historical cost convention, with the exception that certain investments are valued at mid-market prices as at the Balance Sheet date and heritage assets are valued at their insurance valuation. They are also prepared in accordance with applicable accounting and financial reporting standards and the requirements of the Charities Act 1993 and the Statement of Recommended Practice – Accounting and Reporting by Charities (revised 2005) ('the SORP').

Donations, gifts and other income

Donations gifts and other income are credited as income in the year in which they are receivable.

Legacies

Unless incapable of financial measurement, legacies are credited as income in the year in which they are receivable. Council has determined that it does not regard a legacy as receivable until probate has been granted in respect of the estate.

Fellows' Contributions

Fellows' Annual Contributions are recognised in the year in which they become due. Fellows' Annual Contributions may be compounded into a single payment.

Charitable expenditure

Charitable expenditure includes all expenditure incurred on grants awarded, on other schemes run in pursuance of the Society's objectives under its Charter, including Fellowship activities and primary purpose trading. The direct costs of supporting these activities, including staff, establishment and other overhead costs are separately analysed and shown as support costs under this heading.

Administration charges

An administration charge is made on funds, calculated at 15% of investment income. For other types of income the rate and basis of the charge have been separately agreed with the original donor(s) of the fund.

Foreign currency

Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Assets and liabilities in foreign currency are translated into sterling at the rate of exchange ruling on the Balance Sheet date.

Resource allocation

Expenditure on staff, establishment and operating costs are allocated to charitable activities and support costs pro-rata to the actual staff costs of each activity.

Support costs

Support costs are apportioned over charitable activities proportionately to the direct costs incurred on those activities during the year.

Grants receivable

Grants are credited as income in the year in which they are receivable. Grants are recognised as receivable when all conditions for receipt have been complied with. Where donor-imposed restrictions apply to the timing of the related expenditure as a precondition of its use, the grant is treated as deferred income until those restrictions are met. Grants received for specific purposes are accounted for as Restricted funds

Grants receivable in respect of expenditure on tangible fixed assets are treated as income of either a Restricted or Unrestricted Fund as applicable. A transfer is made annually to General Purposes Funds in equal instalments on the same basis as the depreciation charge applicable to the asset concerned.

Grants payable

Grants are recognised as a liability when the Society is under a legal or constructive obligation to make a transfer to a third party. Where grants are time related to future periods and are to be financed by specific grants receivable in those future periods, they are treated as liabilities of those periods and not as liabilities at the Balance Sheet date. Such grants are disclosed as future commitments.

The proportion of grants both by value and number made to institutions is less than 5% of total grants payable. Disclosure of such grants is not considered material nor is the disclosure of the number of grants payable to individuals. Grants paid to institutions in respect of Royal Society Professorships/ Fellowships and international exchange grants etc are regarded, for this purpose, as payment to the individuals concerned.

Tangible fixed assets

Expenditure on tangible fixed assets is capitalised if the cost of the total asset exceeds £2,500, or in the case of computer hardware or software £5,000. Additions of smaller value may be capitalised if forming part of a larger asset. The cost of other items is written off as incurred.

Depreciation is calculated to write off the cost of tangible fixed assets by equal instalments over their expected useful lives as follows:

Leasehold improvements	20–30 years
Computers and other equipment	3–20 years

Capitalised assets in the course of construction will be depreciated as for other assets in their class once fully constructed. At the year end, no depreciation charge had been made for these assets.

Heritage assets

The Society's heritage assets are those held as objects of the charity and comprise its library, artefacts, portraits, busts and scientific collections. These assets are included on the Balance Sheet using a historical valuation based on a fair

market / replacement value in 2003 and 2004 as stated in note 17. Additions to the heritage assets subsequent to this valuation are held at cost price. This valuation policy reflects the value the assets are held at for insurance purposes.

The cost of obtaining an annual value outweighs the value of any resultant benefit. The Society holds and retains these assets as a long-term policy for use in its charitable purposes and has no intention of disposing of any of these items. Taking account of likely realisable values over their useful lives, depreciation on these assets is not likely to be material and none has therefore been provided.

Investments

Investments listed on a recognised stock exchange, including investment and unit trusts, are stated at mid-market value.

Net investment gains/losses for the year are credited / charged in the Statement of Financial Activities. Unlisted investments are listed at cost, reviewed annually for evidence of impairment and adjusted accordingly. No adjustment for impairment of the value of unlisted investments was considered necessary in the year.

Investment management fees are charged proportionately against the funds under investment.

Pension costs

The Society operates a Pension Scheme providing defined benefits for its employees. The assets of the scheme are held separately from those of the Society, in separate trustee administered funds. Pension scheme assets are measured at fair value and liabilities on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained triennially and updated under FRS17 rules at each balance sheet date. Any surplus or deficit is shown in the balance sheet as an asset or liability.

The charge to the Statement of Financial Activities is calculated so as to spread the cost of pensions over employees' working lives with the Society. The charge comprises the current service cost, computed by the actuary under FRS17, and gains and losses on settlements and curtailments. Past service costs are recognised immediately if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs. The interest costs and the expected return on assets are shown as a net amount of other finance costs or credits charged or credited to the Statement of Financial Activities. Actuarial gains and losses are recognised immediately under the description "Actuarial losses on defined benefits pension scheme".

Subsidiary undertakings

The Society has three wholly owned subsidiary companies, Carlton House Terrace Developments Limited (which was dormant in year), The Royal Society Enterprise Fund Limited and The Royal Society Trading Limited. The results of these companies are consolidated into the financial statements (see Note 25).

The results of the parent charity have not been shown separately within the accounts to the consolidated position. The only differences between the two positions are the Society's investment in the subsidiaries and inter-company transactions, neither of which are material.

Transfers

Council, in accordance with its powers and within the restrictions imposed by such, has approved the support of the Society's activities from the annual income first and expendable endowment if income has been spent of certain funds.

Notes to the financial statements

For the year ended 31 March 2010

1. Grants for activities

	Unrestricted Funds £'000	Restricted Funds £'000	Expendable Endowment Funds £'000	Permanent Endowment Funds £'000	2010 Total Funds £'000	2009 Total Funds £'000
From Government and other public bodies:						
Administration of the Parliamentary Grant	1,827	-	-	-	1,827	1,885
Rent and External Maintenance	495	-	-	-	495	495
Contribution to charitable activities	-	43,390	-	-	43,390	40,942
From other external bodies						
Contribution to charitable activities	85	6,535	-	-	6,620	7,032
Total	2,407	49,925	-	-	52,332	50,354

Details of the income and movement of individual funds are disclosed in note 22.

2. Voluntary income

	Unrestricted Funds £'000	Restricted Funds £'000	Expendable Endowment Funds £'000	Permanent Endowment Funds £'000	2010 Total Funds £'000	2009 Total Funds £'000
Gifts, Donations and Legacies	1,535	4,652	25	-	6,212	18,250
Fellows Contributions	200	-	-	-	200	184
Total	1,735	4,652	25	-	6,412	18,434

3. Investment income

	Unrestricted Funds £'000	Restricted Funds £'000	Expendable Endowment Funds £'000	Permanent Endowment Funds £'000	2010 Total Funds £'000	2009 Total Funds £'000
Dividends and short-term deposit interest	1,145	2,536	-	-	3,681	4,675
Bank deposit interest	170	-	-	-	170	12
Other gains and loan interest	-	-	-	-	-	-
Total	1,315	2,536	-	-	3,851	4,687

4. Trading in furtherance of charitable activities

	Income £'000	Gross Expenditure £'000	2010 Net Surplus £'000	Gross Income £'000	Expenditure £'000	2009 Net Surplus £'000
Publishing	4,295	2,999	1,296	3,963	2,498	1,465
Lettings in furtherance of objectives	3,178	2,059	1,119	2,579	1,874	705
Other	151	-	151	100	-	100
Total	7,624	5,058	2,566	6,642	4,372	2,270

All of the Society's trading activities are carried out within its prime charitable purposes. The costs of the Society's publishing operation are included as part of the "Invest" goal on the face of the SOFA, whilst the costs associated with the lettings operations are included in the "Inspire" goal.

The Society was exempt from income tax, corporation tax or capital gains tax on income derived from its trading or charitable activities.

5. Analysis of costs of generating funds

	Staff and Operating Costs £'000 (Note 8)	Grants & Direct Costs £'000	2010 Total £'000	2009 Total £'000
Costs of generating grants and voluntary income	495	38	533	544
Investment management costs	-	373	373	304
Total	495	411	906	848

6. Analysis of costs of charitable activities and Governance

	Staff and Operating Costs £'000 (Note 8)	Support Costs £'000 (Note 7)	Grants & Direct Costs £'000	2010 Total £'000	2009 Total £'000
Charitable activities					
Invest in scientific excellence to create tomorrow's leaders of science	1,678	437	43,728	45,843	43,735
Influence policymaking with the best scientific advice	973	528	209	1,710	1,815
Invigorate science and mathematics education	786	426	661	1,873	1,751
Increase access to the best science internationally	1,036	562	7,436	9,034	9,266
Inspire an interest in the joy, wonder and fulfilment of scientific discovery	1,797	879	3,049	5,725	5,205
Total for costs of charitable activities	6,270	2,832	55,083	64,185	61,772
Total for costs of Governance (Note 11)					
	210	-	425	635	599

Notes to the financial statements

For the year ended 31 March 2010

7. Support costs

	Staff and Operating Costs £'000 (Note 8)	Other Direct Costs £'000	2010 Total £'000	2009 Total £'000
Press and public relations	611	137	748	815
Finance, information technology and Human Resources	896	-	896	964
House and office services	375	-	375	340
Corporate Management	813	-	813	728
Total	2,695	137	2,832	2,847

8. Staff and operating costs

	Staff Costs £'000 (Note 9)	Operating Costs £'000 (Note 10)	2010 Total £'000	2009 Total £'000
Cost of generating funds	295	200	495	421
Charitable activities	4,159	2,112	6,271	5,699
Support costs	1,606	1,089	2,695	2,751
Governance	125	85	210	208
Total	6,185	3,486	9,671	9,079

9. Staff and operating costs

	2010 Total £'000	2009 Total £'000
Salaries	5,210	4,860
Social Security costs	448	420
Death in service, Payroll and Pension Scheme administration costs	10	148
Pension costs	527	644
Total	6,195	6,072

	2010	2009
Number of employees earning £60,000 pa or more:		
£60,001 - £70,000	5	-
£70,001 - £80,000	1	2
£80,001 - £90,000	3	2
£90,001 - £100,000	1	1
£120,001 - £130,000	1	2
£130,001 - £140,000	1	-
£150,001 - £160,000	-	1
£180,001 - £190,000	1	-

Of the thirteen employees above, eleven are accruing benefits under a defined benefits Pension Scheme.

	2010	2009
The average number of employees, analysed by function was:		
Generating Funds	6	7
Charitable activities	97	92
Support & Governance	39	36
Total	142	135

10. Operating costs

	2010 Total £'000	2009 Total £'000
Temporary staff	11	81
Staff recruitment, training and welfare	174	268
Establishment costs	1,848	1,748
Maintenance	200	218
Office services	323	274
Information technology	144	200
Professional fees	227	197
Finance - pension cost	370	21
Loan Interest	189	-
Total	3,486	3,007

11. Governance direct costs comprise

	2010 Total £'000	2009 Total £'000
Fellowship costs	202	193
Council and committee expenses	101	106
Auditor's remuneration:		
Audit fee	31	29
Audit fee – Underprovision prior year	16	6
Non audit services	19	2
Internal audit	38	26
Legal fees	18	28
Total	425	391

12. Payments to trustees

	2010 Total £'000	2009 Total £'000
Remuneration	Nil	Nil
Expenses:		
Travel & subsistence	42	40

Expenses were reimbursed to 26 Trustees (2009 – 25 Trustees)

Indemnity Insurance

With the consent of the Charity Commission the Society has taken out Trustees' indemnity insurance. The cost of their insurance for the year was £3k (2009 – £3k). No claims have been made under this policy.

Grants and Awards

Professor Carol Robinson is a holder of a Royal Society Research Professorship. The amount paid to the University of Cambridge, in respect of the award, in the year was £48,280. On 1st October 2009 she transferred to the University of Oxford and the amount paid in respect of the award, in the year was £87,177.

Dr Timothy Palmer is a holder of a 2010 Anniversary Royal Society Research Professorship. The amount paid to the University of Oxford, in respect of the award, in the year was £57,029.

Professor David Baulcombe is a holder of a Royal Society Research Professorship. The amount paid to the University of Cambridge, in respect of the award, in the year was £149,870.

Notes to the financial statements

For the year ended 31 March 2010

13. Gross transfers between funds

	Unrestricted Funds £'000	Restricted Funds £'000	Expendable Endowment Funds £'000	Permanent Endowment Funds £'000	2010 Total Funds £'000	2009 Total Funds £'000
Fund administration charges for support of charitable activities	5,103	(5,085)	(18)	-	-	-
Support of charitable activities	(412)	412	-	-	-	-
Gross transfers between funds	4,691	(4,673)	(18)	-	-	-

14. Financial Memorandum with the Department of Business, Innovation and Skills

Under the terms of its Financial Memorandum with the Department of Business, Innovation and Skills, the Society is required to identify in these Financial Statements any income and expenditure not covered by funds provided by the Grant.

	2010 Total £'000	2009 Total £'000
Non Parliamentary Grant		
Income	24,198	36,697
Expenditure	(18,730)	(18,745)
Total	5,468	17,952

15. Tangible fixed assets

	Leasehold improvements £'000	Computers and other equipment £'000	Assets under construction £'000	2010 Total £'000	2009 Total £'000
Cost:					
At 1 April 2009	15,118	3,354	7,473	25,945	17,433
Additions	165	210	8,268	8,643	9,357
Disposals	-	-	-	-	(845)
At 31 March 2010	15,283	3,564	15,741	34,588	25,945
Depreciation:					
At 1 April 2009	2,851	2,308	-	5,159	4,790
Charge for year	617	366	-	983	1,008
Disposals	-	-	-	-	(639)
At 31 March 2010	3,468	2,674	-	6,142	5,159
Net book value at 31 March 2010	11,815	890	15,741	28,446	20,786
Net book value at 31 March 2009	12,267	1,046	7,473	20,786	

All material tangible fixed assets are used for the support of charitable activities within the Society.

The assets under construction relate to the purchase and refurbishment of Chicheley Hall, which is intended to be ready for use in Summer 2010, and the Library refurbishment which will be intended to be ready for use in June 2010

16. Capital commitments

	2010 Total £'000	2009 Total £'000
Authorised and contracted for	2,152	-
Authorised but not contracted for	873	9,000
Total Commitment	3,025	9,000

At the balance sheet date, a further spend of up to £2.524m had been authorised by Council for the refurbishment of Chicheley Hall in order to bring it into use as a Centre for the Advancement of Science. £2m of this expenditure had been contracted by the year end.

At the balance sheet date, a further spend of up to £0.5m had been authorised by Council for the refurbishment of the History of Science Centre. £91k of this expenditure had been contracted by the year end.

17. Heritage assets

	2010 Total £'000	2009 Total £'000
Valuation or cost at 1 April 2009	47,023	47,021
Additions at cost	1	2
Valuation or cost at 31 March 2010	47,024	47,023
The heritage assets comprise:		
Printed books	13,233	13,233
Archives	22,706	22,706
Pictures, sculptures and other works of Art	8,092	8,092
Other artefacts	2,993	2,992
Total	47,024	47,023

The printed books and archives were valued on 5 August 2003 by Roger Gaskell, a rare book dealer and the pictures and other artefacts by Weller King in May 2004. The valuations are on a fair market/replacement basis. The trustees consider the present market/replacement values are not materially different from those stated.

Notes to the financial statements

For the year ended 31 March 2010

18. Investments

	2010 Total £'000
Valuation at 1 April 2009	128,453
Additions of investments	39,609
Disposal of investments	(28,946)
Net change in cash invested for trades	(10,663)
Investment management costs	(373)
Net cash removed	(1,832)
(Losses) / gains on valuation at 31 March 2010	35,466
Exchange rate gains on valuation at 31 March 2010	606
Valuation at 31 March 2010	162,320
The valuation at 31 March 2010 comprises:	
Investments listed on a recognised stock exchange including investments and unit trusts:	
UK	120,072
Overseas	33,275
Other Unlisted Securities:	
UK	2,058
Overseas	5,114
Cash:	
UK	1,086
Overseas	715
Total	162,320

Overseas investments comprise equities, unit/investment trusts and fixed interest funds.

At 31 March 2010 the following UK equity investments exceeded 5% by value of the invested portfolio.

Landsdowne UK Equity Fund limited Sterling shares

8.0%

The Society owns 100% of the issued share capital of Carlton House Terrace Development Limited (note 25).

The principal activity of the company is the redevelopment of 6-9 Carlton House Terrace. This property is occupied by the Society.

The Society owns 100% of the issued share capital of The Royal Society Enterprise Fund Limited (note 25).

The principal activity of the company is providing advice to the Society in its application of the Enterprise Fund

The Society owns 100% of the issued share capital of The Royal Society Trading Limited (note 25).

The principal activity of the company is to process the external activities that occur at the Kavli Royal Society International Centre.

Funds are invested:

Trust & Specific Purposes Specific investments	881
Pooled investments	161,439
Total	162,320

19. Debtors

	2010 Receivable within one year £'000	2010 Receivable after one year £'000	2009 Receivable within one year £'000	2009 Receivable after one year £'000
Trade debtors	1,502	-	1,194	-
Grants receivable	700	4,100	700	4,802
Legacy receivable	94	-	1,140	-
Other debtors	432	-	75	-
Accrued income	2,656	-	791	-
Prepayments	339	-	298	-
Total	5,723	4,100	4,198	4,802

20. Creditors

	2010 Due within one year £'000	2010 Due after one year £'000	2009 Due within one year £'000	2009 Due after one year £'000
Publications advanced sales	2,264	-	2,613	-
Grants payable	357	-	444	-
Other creditors	1,373	239	1,658	83
Bank Loan	-	7,000	-	7,000
Accruals & deferred income	8,471	-	6,689	-
Total	12,465	7,239	11,404	7,083

The £7m bank loan due after more than one year was taken out in the prior year from the Unity Bank. The loan is to be repaid in not more than 36 months from February 2009, with interest payments on the full amount falling due each quarter. Interest is payable at a rate of 1.00% per annum over Unity Bank's base rate, subject to a minimum lending rate of 2% per annum, and is calculated on a daily basis. Capital is required to be repaid only at the end of the term of the loan.

21. Analysis of net assets between funds

	Unrestricted Funds £'000	Restricted Funds £'000	Expendable Endowment Funds £'000	Permanent Endowment Funds £'000	2010 Total Funds £'000	2009 Total Funds £'000
Funds' balances at 31 March 2010 are represented by:						
Tangible fixed assets	28,446	-	-	-	28,446	20,786
Heritage assets	47,024	-	-	-	47,024	47,023
Investments	22,606	9,963	40,675	89,076	162,320	128,453
Net Current liabilities	(2,248)	-	-	-	(2,248)	(626)
Creditors: Due after one year	(7,239)	-	-	-	(7,239)	(7,083)
Defined benefit pension scheme liability	(4,529)	-	-	-	(4,529)	(2,854)
Net assets	84,060	9,963	40,675	89,076	223,774	185,699

The deficit of creditors over current assets for General Purposes Funds is funded by investments, which can be realised to meet the net liabilities as they fall due for payment.

Notes to the financial statements

For the year ended 31 March 2010

22. Movements on Trust and Specific Funds in year

	B/Fwd @ 01/04/09 £'000	Income £'000	Expenditure £'000	Admin/ support Transfer £'000	Investment Gain/(loss) £'000	C/Fwd @ 31/03/10 £'000
Permanent Endowment Funds						
General Fund	4,047	-	(12)	-	1,112	5,147
International Fund	841	-	(2)	-	233	1,072
Life Sciences Fund	11,514	-	(33)	-	3,166	14,647
Mathematics and Physical Sciences Fund	7,110	-	(21)	-	1,955	9,044
RW Paul Instrument Fund	7,589	-	(22)	-	2,087	9,654
Project Funds	5	-	-	-	1	6
Theo Murphy Fund	38,430	606	(111)	-	10,581	49,506
Total Permanent Endowment Funds	69,536	606	(201)	-	19,135	89,076
Expendable Endowment Funds						
General Fund	15,597	-	(45)	-	4,263	19,815
International Fund	965	-	(3)	-	265	1,227
Life Sciences Fund	7,770	25	(22)	(5)	2,137	9,905
Mathematics and Physical Sciences Fund	7,658	-	(22)	(13)	2,105	9,728
Total Expendable Endowment Funds	31,990	25	(92)	(18)	8,770	40,675
Restricted Funds						
Enterprise Fund	2,326	1,715	(224)	(12)	843	4,648
International Fund	-	50	-	(56)	6	-
Life Sciences Fund	-	527	(450)	(94)	17	-
Mathematics and Physical Sciences Fund	-	410	(50)	(399)	39	-
RW Paul Instrument Fund	16	214	(44)	(29)	22	179
Project Funds						
Wolfson Lab Refurbishment	-	2,155	(2,132)	(23)	-	-
Wolfson Merit Awards	-	760	(764)	-	-	(4)
Other	1,855	3,742	(3,588)	(866)	52	1,195
Deferred refurbishment funds	2,504	-	-	(156)	-	2,348
Theo Murphy Fund	1,198	1,198	(1,053)	(87)	345	1,601
Chicheley Development	-	2,951	-	(2,951)	-	-
PGA	554	43,391	(43,949)	-	-	(4)
Total Restricted Funds	8,453	57,113	(52,254)	(4,673)	1,324	9,963
Unrestricted Funds						
General Fund	-	787	(210)	(78)	56	555
Deferred refurbishment funds	2,897	173	(148)	(114)	-	2,808
PGA	-	2,322	(2,322)	-	-	-
Revaluation Reserve	46,036	-	-	-	-	46,036
General Purposes	26,787	9,722	(10,499)	4,883	3,768	34,661
Total Unrestricted Funds	75,720	13,004	(13,179)	4,691	3,824	84,060

22. Movements on Trust and Specific Funds in year Continued from page 28

	B/Fwd @ 01/04/09 £'000	Income £'000	Expenditure £'000	Admin/ support Transfer £'000	Investment Gain/(loss) £'000	C/Fwd @ 31/03/10 £'000
Total for all trusts						
Enterprise Fund	2,326	1,715	(224)	(12)	843	4,648
General Fund	19,644	787	(267)	(78)	5,431	25,517
International Fund	1,806	50	(5)	(56)	504	2,299
Life Sciences Fund	19,284	552	(505)	(99)	5,320	24,552
Mathematics and Physical Sciences Fund	14,768	410	(93)	(412)	4,099	18,772
RW Paul Instrument Fund	7,605	214	(66)	(29)	2,109	9,833
Project Funds						
Wolfson Lab Refurbishment	-	2,155	(2,132)	(23)	-	-
Wolfson Merit Awards	-	760	(764)	-	-	(4)
Other	1,860	3,742	(3,588)	(866)	53	1,201
Deferred refurbishment funds	5,401	173	(148)	(270)	-	5,156
Theo Murphy Fund	39,628	1,804	(1,164)	(87)	10,926	51,107
PGA	554	45,713	(46,271)	-	-	(4)
Revaluation Reserve	46,036	-	-	-	-	46,036
Chicheley Development	-	2,951	-	(2,951)	-	-
General Purposes	26,787	9,722	(10,499)	4,883	3,768	34,661
Total	185,699	70,748	(65,726)	-	33,053	223,774

The Enterprise Fund was created by generous donations in support of the Society in making equity investments in innovative early-stage businesses emerging from the science base in the UK and elsewhere.

The objects of the General Fund are to promote and advance for the general benefit of the public, including the scientific (science, medicine, engineering and technology) community, the efficiency and effectiveness of the Royal Society and its Fellowship. This shall be done in particular by establishing, promoting, supporting and maintaining, for the general benefit of the public and the scientific community, its activities, premises, fixtures and fittings, equipment, libraries and archives, general publications and the history of science.

The objects of the International Fund are to promote and advance for the general benefit of the public, including the scientific (science, medicine, engineering and technology) community the study and investigation of, and research into all areas of science internationally. This shall be done in particular by promoting and carrying out international scientific collaboration, encouraging international interchange between scientists, advancing the engagement of the public in matters related to such international science, and providing the best possible scientific advice and information on international scientific policy.

The objects of the Life Sciences Fund are to promote and advance for the general benefit of the public, including the scientific (science, medicine, engineering and technology) community, the study and investigation of, and research into all areas of life sciences and other science at the interface between this area and other areas of science. This shall be done in particular by supporting scientists working in this area, advancing engagement of the public in all matters relating to such science and providing the best possible scientific advice and information to those making policy in the area of life science.

The objects of the Mathematics and Physical Sciences Fund are to promote and advance for the general benefit of the public, including the scientific (science, medicine, engineering and technology) community, the study and investigation of, and research into all areas of mathematics and physical sciences and other science at the interface between this area and other areas of science. This shall be done in particular by supporting scientists working in this area, advancing engagement of the public in all matters relating to such science and providing the best possible scientific advice and information to those making policy in the area of mathematics and physical science.

Following the Deed of retirement of the other trustees the property and investments of the RW Paul Instrument Fund were transferred to the sole remaining trustee being the Royal Society in the prior year. The investment portfolio held was valued at £9.26m at the date of transfer of which £9.177m was permanently endowed. The application of the balance of the transfer plus any income from the portfolio is restricted to the provision of grants under the Paul Instrument Grants Scheme.

The Theo Murphy Funds (in the UK and Australia) were created through a bequest from the estate of the late Theo Murphy. The funds "shall be used or applied to further scientific discovery in the fields of medicine, science, technology and engineering".

Deferred Refurbishment Funds consist of grant income received in past years in respect of capital projects at Carlton House Terrace. This income was recognised in full upon receipt, and designated / restricted funds created to the value of the relevant assets, which are now being reduced over time in line with the recommended treatment detailed in the SORP 2005.

The Revaluation Reserve relates to the revaluation of the heritage assets.

Notes to the financial statements

For the year ended 31 March 2010

23. Financial commitments

At 31 March 2010 the Society had the following commitments:

- an annual commitment for rent under a non-cancellable operating lease in respect of occupation of 6–9 Carlton House Terrace, London. The future commitment for rent is estimated at £495k (2009-£495k) per annum. The next rent review will be on 5 January 2025.
- agreements and commitments to fund research professorships/fellowships and other grants totalling £97m (2009-£56m). Of these, £40.7m are due in less than one year, and £56.2m in between two and five years. There is a further £0.28m payable in more than 5 years. All of these grants are treated as liabilities of future periods to which they are time related and will be financed by specific grants or other income receivable in those periods.
- the Society has entered into investment contract commitments totalling £6.6m (2009-£7.2m) payable at dates yet to be agreed.

24. Pension obligations

The Royal Society ("the Employer") operates a defined benefit pension arrangement in the UK called the Pension and Life Assurance Plan of the Royal Society ("the Plan"). The Plan is open to new members, and provides benefits on a defined benefit basis.

The FRS 17 liability does not include any allowance for discretionary benefits. The Employer expects to make contributions to the Scheme during the year to 31 March 2011 of £765,000.

Contributions payable by the Society during the year were at the rate of 16% of pensionable salaries. Members contributions were 7%. An additional contribution of £1m to reduce the deficit was paid into the Plan by the Society in 2009. Life cover and dependents' pensions in respect of death in service are provided by additional insurance premiums.

The Principal assumptions used to calculate Scheme liabilities include:

	2010 %	2009 %	2008 %
Inflation	3.90	3.20	3.70
Salary escalation	4.90	5.20	5.70
Increase to pensions in payment*			
– subject to LPI minimum 4%	4.30	4.10	4.20
– subject to LPI	3.80	3.20	3.60
Discount rate (pre-and-post-retirement)	5.60	6.80	6.50
Pre-retirement mortality table	S1NA	A92	A92
Post-retirement mortality table	S1NA	PA92	PA92
Post-retirement mortality projection	Long Cohort based on Individual Year of Birth	Medium Cohort based on Individual Year of Birth	Medium Cohort based on Individual Year of Birth
Tax free cash	0%	0%	0%
Withdrawals	None	None	None

*Pensions in payment increase by the lesser of the annual increase in the retail price index or 5%. For service prior to 1 November 2001 this is subject to a minimum increase of 4%.

Under the mortality tables and projections adopted, the assumed future life expectancy at age 60 is as follows;

	2010	2009	2008
Male currently aged 40	28.4 years	28.0 years	27.9 years
Female currently aged 40	31.0 years	30.8 years	30.7 years
Male currently aged 60	27.1 years	26.8 years	26.8 years
Female currently aged 60	29.9 years	29.8 years	29.7 years

24. Pension obligations Continued from page 30

	Long Term rate of return expected at 31/03* 2010	Long Term rate of return expected at 31/03* 2009	Long Term rate of return expected at 31/03 2008
Scheme's assets	6.3%	5.2%	6.4%

*The expected return on assets is a weighted average of the assumed long-term returns for the various asset classes

Assets

	2010	2009	2008
Equities	78.8%	42.3%	80.2%
Property	0.0%	0.0%	1.0%
Bonds	16.9%	14.9%	9.4%
Cash	1.2%	42.5%	9.4%
Other	3.1%	0.3%	0.0%

The actual return on the Scheme's assets net of expenses over the year to the review date was approximately 32%.

The assets do not include any investment in shares of the Employer.

Amounts Recognised in the Balance sheet at 31 March 2010

	Value at 31/03/10 £'000	Value at 31/03/09 £'000
Fair Value of Assets	18,673	12,920
Present Value of Funded Obligations	(23,202)	(15,774)
Scheme Surplus / (Deficit)	(4,529)	(2,854)

Amounts disclosed on the balance sheet are made up of:

	Value at 31/03/10 £'000	Value at 31/03/09 £'000
Liabilities		
Present value of Funded Obligations	23,202	15,774
Present Value of Unfunded Obligations	-	-
Unrecognised Past Service Costs	-	-
Other liabilities	-	-
Assets		
Fair Value of Assets	18,673	12,920
Asset not recognised due to limit on recognisable surplus	Nil	Nil
Net Liability	4,529	2,854

Assets recognised in Statement of Financial Activities

	Value at 31/03/10 £'000	Value at 31/03/09 £'000
Actuarial Gains and Losses	(2,413)	(2,589)
Effect of limit on recognisable surplus	-	-
Total	(2,413)	(2,589)

Notes to the financial statements

For the year ended 31 March 2010

24. Pension obligations Continued from page 31

	Value at 31/03/10 £'000	Value at 31/03/09 £'000
Current service cost	(535)	(623)
Interest cost	(1,082)	(1,072)
Expected return on assets	712	1,051
(Gain)/Losses on settlements or curtailments	-	-
Past service cost	-	-
Effect of limit on recognisable surplus	-	-
Total	(905)	(644)

Reconciliation of Assets and Defined Benefit Obligation

The change in assets over the period was:

	Value at 31/03/10 £'000	Value at 31/03/09 £'000
Fair value of assets at the beginning of the period	12,920	16,321
Expected return on assets	712	1,051
Contributions by the Employer	1,643	535
Contributions by Scheme participants	277	229
Benefits paid	(251)	(601)
Actuarial gain/(loss) on assets only	3,372	(4,615)
Change due to settlements or curtailments	-	-
Fair value of assets at the end of the period	18,673	12,920
Actual return on assets	4,084	(3,563)

The change in defined benefit obligation over the period was:

	Value at 31/03/10 £'000	Value at 31/03/09 £'000
Defined benefit obligation at the beginning of the period	15,774	16,477
Current service cost	535	623
Contributions by Scheme participants	277	229
Past service cost	-	-
Interest cost	1,082	1,072
Benefits paid	(251)	(601)
Actuarial (gain)/loss) (excluding the actuarial gain/(loss) on assets)	5,785	(2,026)
Change due to settlements or curtailments	-	-
Defined benefit obligation at the end of the period	23,202	15,774

Summary of Prior Year Amounts (all values in £'000)

The change in assets over the period was:

Period to	31/03/10	31/03/09	31/03/08	31/03/07	31/03/06
Present value of defined Benefit obligation	23,202	15,774	16,477	18,793	17,920
Scheme Assets	18,673	12,920	16,321	15,621	13,560
Scheme (Deficit)	(4,529)	(2,854)	(156)	(3,172)	(4,360)
Experience gains and losses on Scheme liabilities	975	(132)	(99)	778	(50)
Experience adjustments on Scheme assets	3,372	(4,615)	(1,370)	(365)	1,550

25. Subsidiary undertakings

The Society owns 100% of the £1 called-up and issued share capital of Carlton House Terrace Developments Limited. The principal activity of that company is the redevelopment of the interior of 6–9 Carlton House Terrace, London; the property occupied by the Society. The company did not trade during the year.

The Society also owns 100% of the £1 called-up and issued share capital of The Royal Society Trading Limited. The Royal Society Trading Limited company has been set up to process all external activities that occur at the Kavli Royal Society International Centre. The Company did not trade during the year.

The Society also owns 100% of the £1 called-up and issued share capital of The Royal Society Enterprise Fund Limited. The principal activity of that company is providing advice to the Society in its application of the Enterprise Fund. The Company started trading in the period to 31 March 2009, and traded exclusively with the Society in the period ended 31 March 2010.

The Enterprise Fund Limited will remain a wholly owned subsidiary of the Royal Society, but on 1st April 2010 will become the general partner of an LLP representing the 'fund'. The Society will be the only limited partner of the fund in the initial years.

Results of the Royal Society Enterprise Fund Limited Period Ended 31 March 2010;

	2010 £'000	2009 £'000
Trading income	395	298
Cost of sales	(395)	(298)
Result for the period	-	-
Total funds brought forward at 1 April 2009	1	1
Total funds carried forward at 31 March 2010	1	1

The Royal Society (Australia) Pty Limited is the trustee of the Royal Society Theo Murphy (Australia) Fund. It is an Australian company the shares of which are owned by the Society.

26. Connected Charities – The Wolfson Research Professorship of the Royal Society

Amounts disclosed on the balance sheet are made up of:

	2010 £'000	2009 £'000
Restricted Funds		
Incoming resources:		
Dividends and interest	45	57
Resources expended:		
Charitable grants to the Royal Society	(45)	(57)
	-	-
Permanent Endowment Funds		
Total funds brought forward at 1 April 2009	1,013	816
Total funds carried forward at 31 March 2010	1,013	816

Notes to the financial statements

For the year ended 31 March 2010

27. Other funds

The Society is the beneficiary of the following funds:

	2010 Investment Market Value £'000	2009 Investment Market Value £'000
Curl Fund		
The investments for this fund are held and managed by the New Zealand Public Trust Office	38	38
Horace Le Marquand And Dudley Bigg Trust		
The investments of the permanent endowment of the Trust are held and managed by Rensberg Sheppards. The Trustees are Investec Trust (Jersey) Limited.	429	336
Stead Fund		
The Society receives the income from certain investments held by Killik & Co, Stockbrokers, after payment of certain life annuities. On the death of the annuities the capital will revert to the Society.	2	2

Parliamentary Grant-in-Aid

Summary of Income and Expenditure
for the year ended 31 March 2010



Parliamentary Grant-in-Aid

Summary of Income and Expenditure for the year ending 31 March 2010

	Invest in future scientific leaders and in innovation £'000	Influence policymaking with the best scientific advice £'000	Invigorate science and mathematics education £'000	Increase access to the best science internationally £'000	Inspire an interest in the joy, wonder and fulfilment of scientific discovery £'000	Support and Central Expenses £'000	2010 Total £'000	2009 Total £'000
Parliamentary Grant-In-Aid								
Income								
Department of Business, Innovation and Skills grant received in year	36,637	-	290	6,274	300	2,322	45,823	43,364
Transfer from prior years	-	-	-	(112)	-	-	(112)	(40)
Refunds	407	-	-	320	-	-	727	353
	37,044	-	290	6,482	300	2,322	46,438	43,677
Expenditure								
Grant and activity costs								
Prepaid 1 April 2009	554	-	-	-	-	-	554	1,351
Out-turn for the year	36,969	-	250	6,524	373	2,322	46,438	43,677
Prepaid 1 April 2010	(252)	-	-	256	-	-	4	(554)
	37,271	-	250	6,780	373	2,322	46,996	44,474
	(227)	-	40	(298)	(73)	-	(558)	(797)
Deposit interest								
Interest receivable							1	182
Surrenderable to the Department of Business, Innovation and Skills							(1)	(182)
Total							-	-
Surplus of income over expenditure								
Deficit for the year							(558)	(797)
Balance as at 31 March 2009							554	1,351
BALANCE as at 31 March 2010							(4)	554
Represented by:								
Grants partly prepaid							252	554
Balance at bank							205	94
							457	648
Grants due for payment within one year							(256)	-
Amount repayable to the Department of Business, Innovation and Skills.							(205)	(94)
							(4)	554

Parliamentary Grant-in-Aid

Summary of Income and Expenditure for the year ending 31 March 2010

	Parliamentary Grant-in-Aid Received £'000	Refunds £'000	Grants & Subscriptions £'000
Invest in future scientific leaders and in innovation			
Research Professors	1,555	-	1,400
University Research Fellows	23,100	257	22,574
Dorothy Hodgkin Fellows	3,360	89	3,334
Japan 2+2 Fellows	-	-	-
Diversity	30	-	25
Industry Fellows	530	-	532
Research Support	4,245	-	4,372
Research Merit Awards	2,000	-	2,003
Innovation Awards	-	-	-
Rosalind Franklin Award	40	-	43
Relocation Fellowship Grants	59	11	44
Research Grants	1,718	50	2,944
	36,637	407	37,271
Influence policymaking with the best scientific advice			
Science Policy	-	-	-
	-	-	-
Invigorate science and mathematics education			
Education Policy Advice	100	-	81
Education Grants	100	-	99
Education Events/ Resources for Schools	50	-	30
Education External Activities	40	-	40
	290	-	250
Increase access to the best science internationally			
New Frontiers	30	-	33
International Activities	66	-	211
Capacity building	146	-	82
International Seismological Centre	70	-	69
Travel Grants	1,200	96	1,345
Joint Projects	1,400	149	1,658
International Fellowships	2,610	52	2,463
Science in Africa	100	23	99
RS Research Projects	42	-	61
International Subscriptions	400	-	507
International Meetings in UK	210	-	252
	6,274	320	6,780

Parliamentary Grant-in-Aid

Summary of Income and Expenditure for the year ending 31 March 2010

Continued from page 37

	Parliamentary Grant-in-Aid Received £'000	Refunds £'000	Grants & Subscriptions £'000
Inspire an interest in the joy, wonder and fulfilment of scientific discovery			
History of Science Projects	-	-	20
Medals, Lectures and Awards	100	-	127
Summer Science Exhibition	115	-	142
Training for Scientists	25	-	22
Adhoc Activities	60	-	62
	300	-	373
Support and Central Expenses			
Rent	495	-	495
Operating Costs	1,827	-	1,827
	2,322	-	2,322
TOTAL	45,823	727	46,996

Stephen Cox
Accounting Officer

8 July 2010

The Royal Society

The Royal Society is a fellowship of 1400 outstanding individuals from all areas of science, engineering and medicine, who form a global scientific network of the highest calibre. The Fellowship is supported by a permanent staff of 145 with responsibility for the day-to-day management of the Society and its activities.

In our 350th anniversary year and beyond, we are working to achieve five strategic goals:

- Invest in future scientific leaders and in innovation
- Influence policymaking with the best scientific advice
- Invigorate science and maths education
- Increase access to the best science internationally
- Inspire an interest in the joy, wonder and excitement of scientific discovery

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Front cover image:
Pencil drawing of the Royal Society's treasurer's chest.
Drawn by Mr Butterworth to illustrate Mr Herbert Rix's (Assistant Secretary of the Royal Society) article in *Leisure Hour magazine*, 1896.
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