



THE ROYAL
SOCIETY



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

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TRUSTEES' REPORT AND FINANCIAL STATEMENTS

for the year ended 31 March 2007

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➤ For the year ended 31 March 2007

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TRUSTEES' REPORT

➤ For the year ended 31 March 2007

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 David Wallace CBE *

Biological Secretary and Vice-President

Sir David Read *

Physical Secretary and Vice-President

Professor Martin Taylor *

Foreign Secretary and Vice-President

Dame Julia Higgins DBE ^a
Professor Lorna Casselton ^{b*}

Other Members of Council

Dame Jocelyn Bell Burnell DBE ^c
Dr Mariann Bienz ^c
Sir Michael Brady ^{d*}
Professor Caroline Dean OBE *
Professor Eleanor Dodson ^c
Professor Athene Donald ^c
Professor Dianne Edwards *
Professor Roderick Flower ^{d*}
Professor Uta Frith ^{d*}
Professor Lynn Gladden OBE ^{d*}
Sir Peter Knight *
Professor Philip Kocienski *
Lord Krebs of Wytham, Vice-President ^{d*}

Professor David Lilley *
Professor Georgina Mace CBE ^c
Professor Angus MacIntyre ^c
Sir Tom McKillop ^{d*}
Professor Ole Petersen ^c
Professor John Pethica ^c
Professor Peter Ratcliffe *
Professor Dale Sanders ^c
Professor John Shepherd *
Professor Adrian Smith ^{d*}
Dr Andrew Smith ^{d*}
Professor James Stirling ^{d*}

Changes

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

a Foreign Secretary until 30 November 2006

b Foreign Secretary since 30 November 2006

c Other Members of Council until 30 November 2006

d Other Members of Council since 30 November 2006

* Members of Council at both 31 March 2007 and at the date of approval of this Report and Financial Statements

Executive Secretary

Mr Stephen Cox CVO

Registered Address

6–9 Carlton House Terrace
London
SW1Y 5AG

www.royalsoc.ac.uk

TRUSTEES' REPORT

➤ For the year ended 31 March 2007

Auditors

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

Solicitors

Darbys
52 New Hall Street
Oxford
OX1 2QD

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

UBS AG
1 Curzon Street
London
W1J 5UB

Internal Auditors

Deloitte & Touche LLP
Hill House
1 Little New Street
London
EC4A 3TR

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).

➤ STRUCTURE, GOVERNANCE AND MANAGEMENT

Organization

The 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. Members of Council serve for various terms of between one and five years. 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 Strategy and Policy Board, comprising the President, honorary officers and the Executive Secretary, is responsible for the recommendation to Council and oversight of policy management. The Finance and General Purposes Committee, comprising the same and other Fellows selected for their experience of financial matters, oversees the financial and other operational systems and methods of control, including risk analysis and management; ensuring the Society complies with all financial aspects of the law, relevant regulations and good practice. 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. Other Committees advise Council on, amongst other things, the election of new Fellows, publishing and the administration of activity programmes including the award of grants etc. The Investment Advisory Committee, comprising Fellows and experienced investment professionals, advises the Treasurer on the performance of the investment managers and recommends objectives and benchmarks forming the basis of the Society's investment policy.

Fellowship

The Royal Society is a Fellowship of outstanding scientists drawn from all areas of science, engineering and medicine. Since its foundation it has embodied and promoted knowledge of the natural world through observation and experiment. Through this approach – new in 1660 – which we now call science, Fellows of the Society have sought over the centuries to obtain a better understanding of ourselves and the world in which we live, and to make that knowledge widely available to benefit society. 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. Forty-four 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.

The election process for Fellows and Foreign Members is extremely rigorous and is based upon the established practice of peer review. Although the identities of the candidates for election remain confidential, the identities of all members of committees involved in the election process, together with the full regulations governing the process, are published annually in the *Year Book* of the Royal Society, copies of which are available for purchase.

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. This latter includes many members of the general public who attend the Society's open discussion meetings.

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. The active review of risk analysis and management is delegated, in the first instance, to the Finance and General Purposes Committee which reports directly to Council. The Audit Committee also actively reviews on a regular basis the major operational and business risks, both financial and non-financial, to which the Society is exposed and believes that systems have been established, which are subject to review through an internal audit process, to mitigate those risks.

Council has agreed clear lines of delegation and authority to staff and has involved staff in recognition of risk in all its activities. Council recognises the need to maintain the Society's independence and has approved an income strategy, connected to the Society's 350th anniversary in 2010, to increase its endowment to address the potential risk to its independence and to ensure the Society's financial stability well into the 21st century.

Connected charities

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.

Management and staffing

The day-to-day management of the Society and its activities are delegated to the Executive Secretary supported by three Directors, responsible for Communications, Science Policy and Finance & Operations, and the senior management team. The Executive Secretary leads a permanent staff of 124. The Executive Secretary is also the Accounting Officer for the Parliamentary Grant-in-Aid and is tasked with ensuring that Council applies the grant on agreed projects and programmes.

The Business Plan and Budget, approved annually by Council, is implemented by seven activity sections led by a core providing strategic direction and co-ordination and supported by four resource management sections, press and public relations and media and publicity units and the development section responsible for fundraising.

Council's responsibilities

Charity law requires the Council, as Trustees, to prepare financial statements for each financial year 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 that period. The Treasurer, on behalf of Council, is responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Society and enable and ensure that the financial statements are prepared in accordance with the Statement of Recommended Practice – Accounting and Reporting by Charities (revised 2005) (SORP 2005) and in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP) and any other relevant accounting standards. He is also responsible for safeguarding the assets of the Society and hence for taking all reasonable steps for the prevention and detection of fraud and other irregularities. In preparing the financial statements the Treasurer, on behalf of Council, has selected suitable accounting policies and applied them consistently; made judgements and estimates that are reasonable and prudent; followed applicable accounting standards and applied the going concern basis.

➤ For the year ended 31 March 2007

➤ 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, organizing 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 will 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 help determine our plans for our 350th Anniversary in 2010.

Plans for 2008/09 and beyond

The Society's ambitious new strategy, defined by these five high level priorities, aims 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 in a rapidly changing world. To support

our activities, the Society aims to raise £100 million by 2010 to support current and future scientific programmes and expand the endowment base. In particular it aims to establish the Royal Society Enterprise Fund to stimulate entrepreneurship and innovation and to expand our research fellowships to support exchanges between industry and academia.

The Society's strong reputation in policy will be enhanced by the creation of the Royal Society Science Policy Centre with 5 Policy Units: Climate Change, Environment and Energy; New and Emerging Technology; Bio-Sciences and Health; International Security; and Innovation and the Science Base. The Centre will undertake an extensive programme of public and stakeholder engagement with expansion of the international reach of our policy work.

A Science and Mathematics Education Policy unit will develop independent policy advice on improving science and maths education at the schools level and provide a co-ordinated unified voice for science and maths education working in partnership with like minded organizations. In particular it will support the Advisory Committee on Mathematics Education (ACME) and the Science Community Partnership Supporting Education (SCORE). It also proposes to create science and mathematics education research fellowships to build a base of robust research on science education issues.

By expanding our programme of international scientific exchanges we will support connections between scientists around the world and build a programme of science, technology and innovation as a driver of development.

Through the creation of a Centre for the History of Science the Society will open up access to the library, archives and collections as a world heritage resource. Through expanded Summer Science Exhibitions, a global travelling exhibition and work in partnership with leading cultural venues and the media we will celebrate our scientific heritage and the vital role of science in the future.

➤ ACHIEVEMENTS AND PERFORMANCE DURING THE YEAR

Major achievements and performance against the strategic priorities during the year were as follows:

Invest in future scientific leaders and in innovation

The Society continued to support excellent postdoctoral scientists in developing their careers by selecting, funding and administering a number of professorial and fellowship award schemes. The largest of these, the University Research Fellowship scheme, provides outstanding postdoctoral scientists with the opportunity to build an independent research career. Also

significant are the Dorothy Hodgkin Fellowships, offering recently-awarded PhD scientists a recognised first step into their chosen careers with flexible arrangements for part-time working, career breaks and mentoring support. During the year the Society appointed 45 new University Research Fellows, maintaining their overall number at 330, and 10 Dorothy Hodgkin Fellows, to make 58 in all.

Work continued with the support of the Wolfson Foundation through two schemes – the Wolfson Laboratory Refurbishment scheme, and the Royal Society Wolfson Research Merit Awards. The former made 8 grants awarded for essential laboratory refurbishment. The Royal Society Wolfson Research Merit Awards supported by the Office of Science and Innovation aim to attract and retain within the UK scientific researchers of outstanding achievement and potential. Thirty-eight Awards were made in the year taking the number supported to 131.

The Research Grants scheme saw high demand with 167 grants made to support new avenues of research. Seventeen appointments were made to the Industry Fellowship scheme supporting collaboration between industry and universities, bringing the number supported to 31. Additional funding from the Office of Science and Innovation (OSI) enabled the Society to award two Brian Mercer Awards for Innovation. These Awards provide funding for an area of research to be developed to a stage where it becomes technologically viable and suitable for venture capital funding. The number of Brian Mercer Feasibility Awards made doubled to 8, through additional funding from the OSI and the ERA Foundation. These awards enable holders to investigate the technical and economical feasibility of commercialising an aspect of their scientific research.

Publishing has continued to perform well: publishing high quality science; providing a first class service to our authors; and delivering a financial surplus to the Society.

Impact Factors (a key citation metric produced by Thomson Scientific) of both *Philosophical*

Transactions journals increased in the 2005 Journal Citation Reports. The ranking of *Philosophical Transactions of the Royal Society A* in the multidisciplinary sciences category rose from 8th to 4th. *Philosophical Transactions of the Royal Society B* also greatly increased its impact factor, although its ranking dropped slightly from 5th to 6th.

Online usage of the 125 Society's journals continued to grow with total article downloads well over 1 million for the first time (an increase of 88% over 2005/6). Usage was boosted in September with the launch of the Digital Journal Archive providing complete access to every article published by the Royal Society since 1665. Article submissions to our research journals reached 3,000 for the first time (up 14% on 2005). Our newest journal, *Interface*, saw submissions almost double allowing an increase in frequency from quarterly to bimonthly. Average processing times (submission to publication) have fallen from 185 days in 2005 to just 103 days in 2006, increasingly attracting the highest calibre authors who rate rapid publication as one of the key factors when choosing journals to submit to.

The recruitment of a Sales Manager and a Marketing Executive has greatly improved our capacity to promote article content to authors (driving up usage and citations), and to grow our subscription sales, reduce cancellations and sell our new online journal packages worldwide. We have entered agreements with two major sales agents, PCG and Accucoms to represent us in North America and Europe.

Some 1,858 participants attended 9 two-day scientific discussion meetings held on a variety of topical science subjects including energy for the future, the science of climate change, Gamma-ray bursts, and supramolecular nanotechnology. In October 500 people attended a meeting on mental processes in the human brain – the most popular discussion meeting ever held by the Society.

Influence policy making with the best scientific advice

Over 40 science policy reports and statements were published during the year. *Pandemic Influenza: science to policy* published in partnership with the Academy of Medical Sciences made recommendations on how to improve the extent to which scientific evidence is used in policy-making. The Society had a high profile in the climate change debate, the *Stern report into the economics of climate change* was launched at the Society to an audience including the Prime Minister and the Chancellor. The Society wrote to ExxonMobil to express concern that some of its corporate publications presented a misleading view of the scientific evidence about climate change. Also launched was *A Degree of Concern?*, addressing issues around the supply of, and demand for, scientifically-trained graduates. The Society was instrumental in facilitating an initiative by the science academies

of the G8 nations, China, and South Africa to influence world leaders meeting at the G8 Summit in July 2006 on the issues of energy sustainability and security and on Avian influenza and infectious diseases.

The Society responded to UK Government consultations on a range of issues during the year, including the four 'Next steps' consultations announced with the 2006 Budget (on health research funding, the efficiency of Research Councils, research assessment, and maximizing the impact of science on innovation), the Marine Bill and Space policy. The Society held a number of workshops and seminars to bring together key scientists and policy-makers on subjects as diverse as international security, digital healthcare and nanomaterials.

Major policy projects were initiated include a global study to assess the potential impacts of ground-level ozone concentrations on human health and the environment over the next century, and investigating the scientific and technological developments in biofuels for transport. Building on *A Degree of concern?*, the Society established a second phase of investigation to consider whether the overall Science, Technology and Mathematics Higher Education provision in the UK will be fit for purpose by the second half of the next decade.

Invigorate science and mathematics education

The Society has confirmed its commitment to a new strategic priority supporting science and mathematics education by appointing, for the first time, a Director of Education to its staff.

The Advisory Committee on Mathematics Education (ACME), operating under the auspices of the Society, has maintained its profile as the leading advisory body on maths education, publishing reports on mathematics in Further Education and in Primary schools, producing a statement on the future of GCSE mathematics, holding a major national conference and providing ongoing advice to the Department for Education and Skills (DfES) and its agencies regarding functional mathematics and support for maths teachers. The Society convened a new partnership

between key players, the Science Community Partnership Supporting Education (SCORE), in 2006. SCORE works to maximize the collective actions of its members: the Association for Science Education; Biosciences Federation; Institute of Biology; Institute of Physics; Royal Society; Royal Society of Chemistry; and Science Council. Both ACME and SCORE have been recognised by DfES and DTI as playing key roles in the delivery of their STEM (Science, Technology, Engineering and Mathematics) programme.

Through ACME and SCORE, and due to our raised profile in STEM education, the Society now has greater influence on DfES strategy and policy and provides a major voice for the science and mathematics communities on the School Science Board, School Mathematics Board and STEM Higher Level Strategy Group. We have published evidence and stimulated debate on increasing uptake of science A levels; commissioned an investigation into increasing capacity in STEM education research; launched a pilot training course for our Research Fellows; provided representatives to act as advisers and assessors for STEM education projects; and evaluated our Partnership Grants Scheme.

Increase access to the best science internationally

During the year 1051 conference grants were made, enabling UK research scientists to attend and participate in overseas conferences. The short visit scheme brought 326 overseas scientists to the UK. 186 longer-term interactions were funded by the International Joint Project Grants scheme. Incoming International Fellowships allowed 55 overseas scientists to spend between 6 months and a year in the UK, with priority being given to scientists from China and India. A further 81 scientists were supported under the International Networking Grants scheme, established to help UK scientists achieve access to the best world wide science and develop enduring partnerships and international collaboration with overseas counterparts. Thematic networking events were delivered with India, Brazil and Korea.

The Society maintained its leading role in European science by continuing to host the secretariat of the European Academies Science Advisory Council (EASAC), providing a means for the national academies of Europe to work together to inject high-quality scientific advice into EU policy-making. During the year, EASAC produced a report *Vaccines: Innovation and Human Health* and, under contract to the European Parliament, one on the Oil Shale industry in Europe. The Society is a member of two high-profile European consortium projects, COREACH and AOUDA, which seek to coordinate European funding of research collaboration with China and India respectively. A successful Frontiers of Science meeting in February 2007, organized by the Society, brought together leading young scientists from the UK, Poland, Czech Republic, Slovakia and Hungary. Globally the Society engaged on high profile initiatives such as the G8 statements for the St. Petersburg Summit, on energy and infectious disease, and the IAP statement on the teaching of

creationism, which received global media coverage. Engagement with Africa continued with the focus on strengthening the work of individual academies, and helping the network of African academies (NASAC) project their strategy and activity plan for the coming three years.

Inspire an interest in the joy, wonder and excitement of scientific discovery

The Society held three successful science exhibitions, showcasing the best of British science to a total of nearly 8,000 visitors. The annual Summer Science Exhibition, held at the Society in July 2006 featured 24 competitively selected exhibits from around the UK. It included Library displays on *Benjamin Franklin* and *Rediscovering Robert Hooke* – presenting the Hooke folio and the story behind its purchase by the Royal Society earlier in the year. The Exhibition moved on to Glasgow in September with the support of Scottish Power. It comprised 22 exhibits from around the UK, 17 from the Summer Science Exhibition and five new Scotland based exhibits. In October, 13 of our exhibits from the past two years were seen at Science Day at Buckingham Palace, held as part of Her Majesty the Queen's 80th birthday celebrations. Over 900 5th and 6th form students and 500 VIP guests from the UK scientific community attended.

The series of talks and lectures on the history of science saw audiences peak for a presentation on Charles Darwin. The Society will expand this programme of activity with history of science conferences, prestige lectures and other events. Podcast versions of several talks have found a wider audience and are proving a popular download from iTunes. The Society held 18 public and prize lectures, answering such diverse questions as *Why creationism is wrong and evolution right* by Steve Jones and *Why life speeds up as you get older* by Douwe Draaisma and *Constructing a nervous system: stem cells to synapses* by Angela Brand winner of the 2006 Rosalind Franklin Award. The science policy and science communications teams held an international workshop in March 2007 to showcase the Intergovernmental Panel on Climate Change (IPCC) working

group 1 report on the physical basis of climate change, attracting top climate scientists from around the world including Dr Ralph Cicerone, President of the US National Academy of Sciences. In November 2006, the Prime Minister gave a Royal Society lecture on the theme of science and innovation to an invited audience in Oxford.

The Society's Media and Communication skills courses provided training to 114 scientists (including many of the Society's funded researchers), equipping participants with skills to interact and engage with non-specialist audiences.

Two major new medals were launched: The Royal Society Pfizer Award went to Dr Alexis Nzila, from the Kenya Medical Research Institute for his work on the mechanisms of anti-malarial drug action. With our partners at the Académie des Sciences, we launched the Microsoft European Science Award, worth a quarter of a million Euros earmarked for research. This went to Dr Dennis Bray of Cambridge University for his work modelling bacterial chemotaxis.

The Society's premier medal, the Copley medal, was awarded to Professor Stephen Hawking FRS in recognition of his outstanding contribution to theoretical physics and theoretical cosmology. Professor Iain Campbell FRS and Professor Joseph Silk FRS were awarded the Croonian and Bakerian Lectureships respectively, and Professor Richard Fortey FRS the Michael Faraday Prize. Dr Andrea Brand received the Rosalind Franklin Award and Professor Kathy Sykes the Royal Society Kohn Award for Excellence in Engaging the Public with Science. The Royal Society's Aventis Prize for Science Books was won by David Bodanis for the *Electric Universe – How electricity switched on the modern world*, with the Junior Prize going to Kate Petty, Jennie Maizels and Corina Fletcher for *The Global Garden*.

September saw the culmination of five years of the Society's Science in Society programme which had been generously funded by the Kohn Foundation. A report, celebrating the programme's achievements, was launched at a reception in Norwich as part of the British Association's Festival of Science Presidential Reception. The programme, now funded by OSI, has launched a range of new initiatives – including an MEP scientist pairing scheme in Europe, and collaboration with business over social and ethical issues in nanotechnology.

The Society continued to promote itself and science in general, via the media, to policy makers, opinion formers and the general public. Key science issues to hit the headlines included climate change, stem cells and science education. The media relations team promoted the science behind climate change, particularly taking on those who sought to discredit or misrepresent the science. The Society gave its public support to advances in stem cell technology and won widespread media coverage for the launch of its report on pandemic influenza. It hosted the live

broadcast of a science-themed BBC Radio 4 Today Programme on Anniversary Day. The profile of the Society's journals in the media continued to go from strength to strength, with the press office developing increasingly efficient ways of ensuring journalists get timely information on upcoming papers.

The website was the principal medium through which the Society communicated speedily with its global audiences. Highlights during the year were the feature on climate change, in which top scientists shared their personal views with viewers, and the hugely popular Summer Science exhibition, with viewers more than doubling since 2005. Webcasting of lectures, award ceremonies and other events was once again a prominent feature of the service with the archive of webcast events growing to 150.

The Society continued the regular production of its Excellence in Science newsletter as a key tool for updating the Fellowship and wider stakeholders about the Society's major activities and initiatives.

Work to develop the Royal Society's history of science strategy continues. Comments from a consultative exercise involving academic historians and other interested parties will guide activities up to 2010 in areas as diverse as cataloguing, grant allocation, publishing and events organization.

Fundraising successes have allowed work to continue on scholarly presentations of the Hooke Folio. The Wellcome Trust's research resources in medical history scheme has enabled the recruitment of an archive cataloguer for the next year who will add 10,000 records to the archive database on 20th century medical and physiological papers. A private donation of £10,000 has allowed photographic work to commence on an online Portraits Catalogue expected to go live within a year.

Donations of papers to the Society's archives included some major collections, notably the personal or additional papers of: Sir Nicholas Shackleton FRS (1937-2006) palaeo-oceanographer; Christopher Longuet-Higgins FRS (1923-2004), chemist and

pioneer of artificial intelligence; and Sir Eric Denton FRS (1923-2007), physiologist and marine biologist. Additions to the archive database include: Papers of Charles Blagden, 18th-19th century Secretary of the Royal Society; Papers of John Henry Gaddum, 20th century pharmacologist; John Hall Gladstone letters, 19th century physical chemist; and Royal Society Food (War) Committee papers, 1914-1919.

The library catalogue of printed books now contains 5,500 items of 20th century Fellows' reprints, forming a separately searchable resource.

Internal tours and external talks have inspired a wide variety of audiences and VIPs, notably: Jeff Bingaman, US Senator for New Mexico; reporters from the Chicago Herald Tribune; crew from the US Space Shuttle; HH the Sheikha of Qatar; the Bibliographical Society AGM; a King's College, London conference on *Representing the 18th century*; staff of Trinity College, Cambridge; and representatives of the African Academies. The Library has contributed interviews and archival material to programmes or features including BBC's 'Time Team', the Canadian Broadcasting Corporation and the History Channel.

➤ FINANCIAL REVIEW

Financial statements

The financial statements for the year ended 31 March 2007 are set out on pages 14-33. These were prepared applying the Accounting Policies set out on page 18 and 19. There were no changes to accounting policies during the year.

Funding sources

The Society receives its funding from a variety of sources. These include the Parliamentary Grant-in-Aid (PGA), donations from companies and trusts, income from investments and endowments and from income from ancillary trading connected to the Society's prime purpose – publishing and the letting of room. Whilst the PGA, which is provided for specific projects and programmes, accounts for 65%-70% the variety of funding sources ensures that the Society retains its independence.

Funds and reserves

The Society's funds have been applied for the purpose of the advancement and promotion of science in accordance with its objectives and policies. An analysis of the expenditure is shown in the Statement of Financial Activities on page 14 and 15. All of the Society's assets are used in the support of its charitable objectives.

The Society's reserves of £194m, of which 51% are held as investments and bank deposits, generate the income that sustains either wholly or in part the Society and many of its activities.

TRUSTEES' REPORT

➤ For the year ended 31 March 2007

The Society's reserves are made up as follows:	£m
<i>Permanent endowments</i>	
Funds invested where there is no power to convert the capital into income.	73
<i>Restricted funds</i>	
Funds, comprising accumulated income and expendable endowments, which may only be used for the purposes specified by the original donor and or contributors as a condition of the gift. The Society depends on the income produced from these reserves to finance core and continuing activities. Expending these reserves would jeopardise the long-term continuance of these activities.	39
Total Permanent endowments and Restricted funds	112
<i>General and Unrestricted funds</i>	
The Society depends upon the income produced from General Purposes reserves to contribute towards day to day running costs. Without this source of income additional charges would need to be levied on the Restricted and Unrestricted funds, reducing funds available for charitable activities. As with Restricted funds the Society depends upon the income from Unrestricted funds and endowments to finance core and continuing activities.	
Tangible fixed assets (note 17 on page 25)	13
Heritage assets held for the Society's charitable purposes (note 19 on page 26)	47
Total Tangible fixed assets and Heritage assets	60
<i>Free Reserves</i>	
Funds invested to support activities (note 23 on page 28)	41
Less: Net Liabilities (note 23 on page 28)	19
	22
Total General and Unrestricted funds	82
Total Funds and Reserves as at 31 March 2007	194

The free reserves provide the working capital of the Society and allow it to develop new initiatives. In addition, the Society has provided for a liability from General Purposes Funds to fund the Pension Plan deficit of £3.2m, which has been calculated in compliance with FRS17. In December 2006 the Society paid an additional contribution of £1m into the Plan to reduce the deficit. The provision of a liability does not mean that an immediate liability for this amount has crystallized. Nor does disclosure of the liability mean that the equivalent amount is already committed and not available for the furtherance of the Society's objectives. The Society is confident that it can meet future contributions without significant impact on planned levels of charitable activity.

The Society continually reviews its policies for retaining reserves on a fund by fund basis with a view to ensuring that the maximum benefit is achieved for the advancement and promotion of science. The restrictions imposed on funds may require that from time to time they are unable to meet the costs of a sustainable programme. In these circumstances they may be allowed to accumulate income for a number of years until they can do so or else they may, where Council has discretion, be applied together with other funds with similar purpose.

Investment policies

The Society, having existed for nearly 350 years, takes a long-term view of investment with the aim of producing above-average total returns whilst growing the base value of investments and dividends in real terms.

The Society has split the portfolio between two firms of managers, Rathbone Investment Management Limited and UBS AG, whose approaches to asset management complement each other

➤ For the year ended 31 March 2007

providing, overall, a more defensive strategy against market fluctuations. 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, because income is important but not paramount, fixed interest. Investments should be suitable for a mature fund seeking both income and capital appreciation. 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.

Within these terms the Society's investment managers have a general discretion over asset allocation and selection. This provides the flexibility to take advantage of changing market situations and opportunities to which they are expected to respond expeditiously to maximize returns for the Society. Generally industry standard benchmarks do not match the Society's requirements.

In addition to funds invested through its investment managers the Society has, on the advice of the Investment Advisory Committee, directly invested in two hedge funds, which have produced significant returns since original investment, and has entered into investment contracts totalling £4.4m in private equity and venture capital companies. At 31 March 2007 a total of £0.6m has been called up. The remainder is payable on call at dates to be determined.

Previously overseas investment was normally made via collectives, but following the receipt of a substantial legacy the Society has acquired investments valued on 31 March 2007 at AUD107.9m (£44.4m). These investments comprise mainly Australian financial equities. In due course these funds will be consolidated into the Society's portfolio.

On the advice of the Investment Advisory Committee the Society's overall investment strategy has been redefined to emulate that of the Yale University model. Changes to the portfolio will be made as appropriate opportunities arise. It may take some time before the strategy is fully implemented. The overall effect of the policy will be to increase holdings in real assets, hedge funds and private equity – whilst reducing holdings in cash and fixed interest funds. This will continue to provide a strong long term equity base for the portfolio, increase returns above that from cash and fixed interest presently held and, in particular, protect the Society from the worst periods of stock market decline.

The Society does not invest in the producers of tobacco or manufacturers of tobacco products.

Obligations

Council considers the Society's finances to be sound and that it is able to fulfil all its obligations and commitments without delay or shortfall in the realization of the assets of its funds.

➤ AUDITORS

A resolution to re-appoint PKF (UK) LLP, Chartered Accountants and Registered Auditors, will be proposed at the annual meeting of the Fellowship of the Society on Anniversary Day for the ensuing year.

Signed on behalf of Council by the President

LORD REES OF LUDLOW
5 July 2007

REPORT OF THE INDEPENDENT AUDITORS TO THE FELLOWSHIP OF THE ROYAL SOCIETY

➤ For the year ended 31 March 2007

We have audited the Financial Statements of The Royal Society for the year ended 31 March 2007 which comprise the Statement of Financial Activities, the Balance Sheet, the Cash Flow Statement and the related notes. The financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Council of the Society, as a body, in accordance with Regulation 7 of the Charities Accounts and Report Regulations 2005. Our audit work has been undertaken so that we might state to the Council members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council members (as trustees), for our audit work, for this report, or for the opinions we have formed.

➤ RESPECTIVE RESPONSIBILITIES OF THE COUNCIL AND AUDITORS

The Council's responsibility 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 the Council's responsibilities.

We have been appointed as 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).

We 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 the Trustees' report and consider the implications for our report if we become aware of any apparent misstatements within it.

➤ 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 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 Royal Society's affairs as at 31 March 2007 and of its incoming resources and application of resources in the year then ended; and
- have been properly prepared in accordance with the Charities Act 1993.

PKF (UK) LLP
Chartered Accountants and Registered Auditors
London
5 July 2007

REPORT OF THE AUDIT COMMITTEE TO COUNCIL ON THE FINANCIAL STATEMENTS

➤ For the year ended 31 March 2007

At a meeting of the Audit Committee held on 21 June 2007 the Committee examined the Treasurer's financial statements for the year ended 31 March 2007, set out on pages 14-33, and enquired into his stewardship of the Society's funds and resources.

The financial statements have been audited by PKF (UK) LLP Chartered Accountants and Registered Auditors. There are no matters arising therefrom 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 2007. 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.

PROFESSOR JOHN PETHICA
Chairman
21 June 2007

STATEMENT OF FINANCIAL ACTIVITIES

➤ For the year ended 31 March 2007

	Notes	General Purposes Funds £'000	Other Unrestricted Funds £'000	Restricted Funds £'000	Permanent Endowment Funds £'000	2007 Total Funds £'000	2006 Total Funds £'000 (reclassified)
INCOMING RESOURCES							
<i>Incoming resources from generated funds</i>							
Grants for charitable activities	1	2,448	549	40,929	-	43,926	41,670
Voluntary income	2	1,165	-	2,198	44,391	47,754	544
Investment income	3	430	153	1,766	-	2,349	2,452
		4,043	702	44,893	44,391	94,029	44,666
<i>Incoming resources from charitable activities</i>							
Trading in furtherance of charitable objectives	4 & 12	5,681	-	-	-	5,681	4,553
Total incoming resources		9,724	702	44,893	44,391	99,710	49,219
RESOURCES EXPENDED							
<i>Costs of generating funds</i>							
Costs of generating grants and voluntary income		400	-	-	-	400	179
Trading in furtherance of charitable activities	12	4,020	-	-	-	4,020	3,318
Investment management costs		48	7	47	54	156	156
Total costs of generating funds	5	4,468	7	47	54	4,576	3,653
<i>Charitable activities</i>							
Invest in future scientific leaders and in innovation		1,345	-	30,784	126	32,255	29,119
Influence policymaking with the best scientific advice		1,238	-	269	-	1,507	1,197
Invigorate science and mathematics education		336	-	803	-	1,139	1,457
Increase access to the best science internationally		1,248	-	6,460	-	7,708	9,209
Inspire an interest in the joy, wonder and excitement of scientific discovery		1,699	-	1,392	-	3,091	2,773
Other		-	122	245	-	367	397
Total for cost of charitable activities	6	5,866	122	39,953	126	46,067	44,152
<i>Governance costs</i>							
Governance costs	6	659	-	-	-	659	572
Total resources expended		10,993	129	40,000	180	51,302	48,377

STATEMENT OF FINANCIAL ACTIVITIES

➤ For the year ended 31 March 2007

Continued from page 14

	Notes	General Purposes Funds £'000	Other Unrestricted Funds £'000	Restricted Funds £'000	Permanent Endowment Funds £'000	2007 Total Funds £'000	2006 Total Funds £'000 (reclassified)
Net incoming/(outgoing) resources before transfers		(1,269)	573	4,893	44,211	48,408	842
Gross transfers between funds	14	13,947	(13,225)	(649)	(73)	-	-
<i>Net incoming/(outgoing) resources before other recognised gains and losses</i>		12,678	(12,652)	4,244	44,138	48,408	842
Net gains on investments	20	3,238	204	1,444	1,694	6,580	14,153
Actuarial losses on defined benefits pension scheme	26	362	-	-	-	362	(190)
Net movement in funds		16,278	(12,448)	5,688	45,832	55,350	14,805
<i>Reconciliation of funds</i>							
Total funds brought forward 1 April 2006		57,893	20,215	33,733	27,261	139,102	124,297
Total funds carried forward 31 March 2007		74,171	7,767	39,421	73,093	194,452	139,102

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

The movements on the permanent endowments, other than for investment management, comprise income receivable from a Legacy from the late Theophilus Murphy less professional costs incurred by the Society this year and last.

BALANCE SHEET

➤ 31 March 2007

	Notes	2007 £'000	2006 £'000
Fixed Assets			
Tangible assets	17	12,892	13,489
Heritage assets	19	47,021	46,085
Investments	20	94,887	86,177
		154,800	145,751
Current Assets			
Stock		15	22
Debtors receivable within one year	21	49,927	8,116
Debtors receivable after one year	21	1,204	1,406
Cash at bank and in hand		3,017	936
		54,163	10,480
<i>Creditors: amount due in one year</i>	22	10,158	9,987
Net Current Assets		44,005	493
Total assets less current assets		198,805	146,244
<i>Creditors: amount due after one year</i>	22	1,181	2,782
		197,624	143,462
Defined Benefits Pension Scheme: liability	26	3,172	4,360
Net Assets		194,452	139,102
Capital Funds			
Permanent Endowment Funds	24	73,093	27,261
Restricted Funds	24	39,421	33,733
Unrestricted Income Funds	15	81,938	78,108
		194,452	139,102

The Financial Statements were approved and authorised for issue by Council and signed on its behalf on 5 July 2007

SIR DAVID WALLACE
Treasurer

CASH FLOW STATEMENT

➤ For the year ended 31 March 2007

Notes	2007 £'000	2006 £'000
<i>Reconciliation of net incoming resources to net cash inflow from activities</i>		
Net incoming resources before revaluation	48,409	842
Depreciation charges	841	814
(Increase)/ decrease in stocks	7	(7)
(Increase)/ decrease in debtors	(41,609)	(1,354)
Increase/(decrease) in creditors	(1,430)	1,700
Increase/(decrease) in pension fund liability	(826)	(2,350)
	5,392	(355)

CASH FLOW STATEMENT

	2007 £'000	2006 £'000
Net cash (outflow)/inflow from activities	5,392	(355)
Capital (outflow)/inflow	1	(1,598)
Increase/(decrease) in cash	2,081	(1,953)

NOTES TO THE CASH FLOW STATEMENT

1. Capital (outflow)/inflow

	2007 £'000	2006 £'000
Purchase of tangible fixed assets	(244)	(417)
Purchase of heritage assets	(936)	(37)
Net purchase/gifts of investments	(2,131)	(1,144)
Net Capital (outflow)/inflow	(3,311)	(1,598)

Proceeds from the sale of investments and purchase of investments are stated net of amounts reinvested.

2. Increase/(decrease) in cash

	Balance 31 March 2007 £'000	Balance 31 March 2006 £'000	Change in year 2007 £'000	Change in year 2006 £'000
Cash at bank and in hand	3,017	936	2,081	(1,953)

ACCOUNTING POLICIES

➤ For the year ended 31 March 2007

Accounting convention

The financial statements are prepared under the historical cost convention, with the exception that 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').

A Summary Income and Expenditure Account, separate from the Statement of Financial Activities, has not been produced, on the ground that the income and expenditure is identifiable from the Statement.

Administration charges

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

Charitable expenditure

Charitable expenditure includes all expenditure incurred on grants awarded or on other schemes run in pursuance of the Society's objectives under its Charter, including Fellowship activities. 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.

Donations, gifts and other income

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

Fellows' contributions

Fellows' Annual Contributions may be compounded into a single payment. Contributions compounded are recognised in the year of receipt as income of an Unrestricted Fund. One-twentieth of each receipt is transferred annually, calculated on a straight line basis, to General Purposes Funds and the balance carried forward to future years.

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.

Grants payable

Grants are recognised as a liability when the Society is under an actual 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 etcetera are regarded, for this purpose, as payment to the individuals concerned.

Grants receivable

Subject to the following, grants are credited as income in the year in which they are receivable. Grants received for specific purposes are accounted for as Restricted Funds. Grants are not recognised as receivable until all conditions for receipt have been complied with. Where donor-imposed restrictions apply to the timing of the related expenditure as a precondition for its use, the grant is treated as deferred income until those restrictions are met.

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.

Heritage assets

The Society's heritage assets, which are those held as objects of the charity and comprise its library, artefacts, portraits, busts and scientific collections, are included on the Balance Sheet at a fair market/replacement value in 2003 and 2004 as stated in note 19 (page 26). 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 realizable values over their useful lives, depreciation on these assets is not likely to be material and none has therefore been provided.

ACCOUNTING POLICIES

➤ For the year ended 31 March 2007

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.

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 disclosed in the Statement of Financial Activities.

Resource allocation

Expenditure on staff, establishment and operating costs are allocated to charitable activities and support costs as follows:

Staff	—	actual costs.
Establishment	—	pro-rata to the office floor space occupied by each activity.
Operating costs	—	pro-rata to the number of staff engaged on each activity.

Support costs

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

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'.

Stocks

Stocks are valued at the lower of cost and net realizable value. No value is included in the financial statements for stocks of publications.

Subsidiary undertaking

The Society does not consolidate its interest in its subsidiary undertaking as changes to the financial statements that would result from consolidation would not be material.

Transfers

Council, in accordance with its powers and within the restrictions imposed by such, has approved the transfer of the annual income of certain funds and to the extent that such income is not otherwise committed has designated the annual income of further funds as available, if needed, for the general use of the Society.

Tangible fixed assets

Expenditure on tangible fixed assets is capitalised if the cost of the asset exceeds £2,500, or in the case of computer hardware or software £5,000. 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

No depreciation is charged in any period prior to that in which the asset was first brought into use by the Society.

NOTES TO THE FINANCIAL STATEMENTS

➤ For the year ended 31 March 2007

1. Grants for activities

	General Purposes Funds £'000	Other Unrestricted Funds £'000	Restricted Funds £'000	Permanent Endowment Funds £'000	2007 Total Funds £'000	2006 Total Funds £'000
<i>From Government and other public bodies</i>						
Administration of the Parliamentary Grant	1,923	-	-	-	1,923	1,876
Rent and External Maintenance	490	-	-	-	490	790
Contribution to charitable activities	-	-	35,113	-	35,113	31,425
<i>From other external bodies</i>						
Administration	35	-	-	-	35	39
Contribution to charitable activities	-	549	5,816	-	6,365	7,540
	2,448	549	40,929	-	43,926	41,670

Details of the income and movement of individual funds are not disclosed as the information is not material to an understanding of these Financial Statements either as a whole or in relation to the context of the foregoing of which the income forms a part.

2. Voluntary income

	General Purposes Funds £'000	Other Unrestricted Funds £'000	Restricted Funds £'000	Permanent Endowment Funds £'000	2007 Total Funds £'000	2006 Total Funds £'000
Gifts and Donations	994	-	2,198	-	3,192	286
Legacies	-	-	-	44,391	44,391	73
Fellows' Contributions	171	-	-	-	171	185
	1,165	-	2,198	44,391	47,754	544

3. Investment income

	General Purposes Funds £'000	Other Unrestricted Funds £'000	Restricted Funds £'000	Permanent Endowment Funds £'000	2007 Total Funds £'000	2006 Total Funds £'000
Dividends and short-term deposit interest	660	115	1,465	-	2,240	2,363
Bank deposit interest	(183)	38	301	-	156	68
Other gains/(losses) and loan interest	(47)	-	-	-	(47)	21
	430	153	1,766	-	2,349	2,452

Details of the income and movement of individual funds are not disclosed as the information is not material to an understanding of these Financial Statements either as a whole or in relation to the context of the foregoing of which the income forms a part.

NOTES TO THE FINANCIAL STATEMENTS

➤ For the year ended 31 March 2007

4. Income from trading in furtherance of charitable activities

	General Purposes Funds £'000	Other Unrestricted Funds £'000	Restricted Funds £'000	Permanent Endowment Funds £'000	2007 Total Funds £'000	2006 Total Funds £'000
Publishing	2,717	-	-	-	2,717	2,355
Lettings in furtherance of objectives	2,417	-	-	-	2,417	2,135
Other	547	-	-	-	547	63
	5,681	-	-	-	5,681	4,553

5. Analysis of costs of generating funds

	Staff and Operating Costs £'000 (Note 8)	Grants & Direct Costs £'000	2007 Total £'000	2006 Total £'000 (Reclassified)
Costs of generating grants and voluntary income	316	84	400	179
Trading in furtherance of charitable activities	1,683	2,337	4,020	3,318
Investment management costs	-	156	156	156
	1,999	2,577	4,576	3,653

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	2007 Total £'000	2006 Total £'000 (Reclassified)
<i>Charitable activities</i>					
Invest in future scientific leaders and in innovation	493	347	31,415	32,255	29,119
Influence policymaking with the best scientific advice	836	595	76	1,507	1,197
Invigorate science and mathematics education	277	182	680	1,139	1,457
Increase access to the best science internationally	712	517	6,479	7,708	9,209
Inspire an interest in the joy, wonder and excitement of scientific discovery	976	659	1,456	3,091	2,773
Other	-	-	367	367	397
Total for costs of charitable activities	3,294	2,300	40,473	46,067	44,152
	Staff and Operating Costs £'000 (Note 8)	Support Costs £'000	Grants & Direct Costs £'000 (Note 11)	2007 Total £'000	2006 Total £'000 (Reclassified)
Total for costs of Governance	185	-	474	659	572

NOTES TO THE FINANCIAL STATEMENTS

➤ For the year ended 31 March 2007

7. Support costs

	Staff and Operating Costs £'000 (Note 8)	Other Direct Costs £'000	2007 Total £'000	2006 Total £'000 (Reclassified)
Press and public relations	341	79	420	314
Finance, information technology and HR	777	-	777	688
House and office services	441	-	441	348
Corporate management	662	-	662	533
	2,221	79	2,300	1,883

8. Staff and operating costs

	Staff Costs £'000 (Note 9)	Operating Costs £'000 (Note 10)	2007 £'000	2006 £'000
Cost of generating funds	1,207	792	1,999	1,632
Charitable activities	2,201	1,093	3,294	3,042
Support costs	1,467	754	2,221	1,818
Governance	129	56	185	155
	5,004	2,695	7,699	6,647

9. Staff costs

	2007 £'000	2006 £'000
Salaries	3,959	3,394
Social Security costs	347	301
Death in service and Pension Scheme administration costs	80	47
Pension costs	618	550
	5,004	4,292
<i>Analysis of pension costs:</i>		
Current service cost (excluding death in service)	634	480
Expected return on the assets	(892)	(730)
Interest costs	876	800
	618	550
	2007	2006
<i>Number of employees earning £60,000 pa or more:</i>		
£60,001 - £70,000	2	1
£70,001 - £80,000	2	1
£90,001 - £100,000	-	1
£100,001 - £110,000	1	-
£110,001 - £120,000	-	1
£120,001 - £130,000	1	-

All of the above are accruing benefits under a defined benefits Pension Scheme.

NOTES TO THE FINANCIAL STATEMENTS

➤ For the year ended 31 March 2007

9. Staff costs (continued)

	2007	2006
The average number of employees, analysed by function was:		
<i>Generating Funds</i>		
Fundraising	5	2
Conference, catering and room hire	4	4
Publishing	23	23
<i>Charitable activities</i>		
Grants UK	8	8
Science Policy	13	11
Education	5	5
Grants International	7	7
International Policy	6	6
Science communication	10	8
Library and information services	8	9
<i>Support and Governance</i>		
Press and public relations	6	6
Finance, information technology and HR	13	13
House and office services	8	7
Corporate management	5	5
Council and Fellowship	3	3
	124	117

10. Operating costs

	2007 Total £'000	2006 Total £'000
Temporary staff	62	32
Staff recruitment, training and welfare	338	150
Establishment costs	711	966
Maintenance	442	503
Office services	638	516
Information technology	246	188
Professional fees	260	122
	2,695	2,477

11. Governance direct costs comprise

	2007 Total £'000	2006 Total £'000
Fellowship costs	157	150
Council and committee expenses	93	95
Auditors' remuneration		
– Audit fee	24	22
– Non audit services	11	12
Internal audit	141	53
Legal fees	48	84
	474	416

NOTES TO THE FINANCIAL STATEMENTS

➤ For the year ended 31 March 2007

12. Trading in furtherance of charitable activities

	Gross Income £'000	Expenditure £'000	2007 Net Surplus £'000	Gross Income £'000	Expenditure £'000	2006 Net Surplus £'000
Publishing	2,717	1,925	792	2,355	1,823	532
Lettings in furtherance of objectives	2,417	1,655	762	2,135	1,432	703
Other	547	440	107	63	63	-
	5,681	4,020	1,661	4,553	3,318	1,235

All of the Society's trading activities are carried out within its prime charitable purposes. The Society is exempt from income tax, corporation tax or capital gains tax on income derived from trading or charitable activities.

13. Payments to trustees

	2007 Total £'000	2006 Total £'000
Remuneration	Nil	Nil
<i>Expenses:</i>		
Travel and subsistence	42	55

Expenses were reimbursed to 26 Trustees (2006 – 21 Trustees).

Indemnity Insurance

With the consent of the Charity Commission the Society has taken out insurance to indemnify Trustees against the consequences of any neglect or defaults on their part. The cost of their insurance for the year was £2k (2006 – £2k). No claims have been made under this policy.

Grants and Awards

Professor Martin Taylor is the holder of a Royal Society Wolfson Merit Award. The amount paid to Manchester University, in respect of the award, in the year was £55k.

14. Gross transfers between funds

	General Purposes Funds £'000	Other Unrestricted Funds £'000	Restricted Funds £'000	Permanent Endowment Funds £'000	2007 Total Funds £'000	2006 Total Funds £'000
Fund administration charges for support of charitable activities	565	(23)	(542)	-	-	-
Reclassification of funds	12,925	(12,925)	73	(73)	-	-
Annual transfers of income	24	(22)	(2)	-	-	-
Transfers of uncommitted income to General Purposes Funds	433	(255)	(178)	-	-	-
	13,947	(13,225)	(649)	(73)	-	-

NOTES TO THE FINANCIAL STATEMENTS

➤ For the year ended 31 March 2007

15. Analysis of Unrestricted Income Funds

	General Reserves £'000	Revaluation Reserve £'000	General Purposes Funds £'000	Other Unrestricted Funds £'000	2007 Total Funds £'000	2006 Total Funds £'000
At 1 April 2006	11,856	46,037	57,893	20,215	78,108	71,289
Net incoming/outgoing resources (page 14)	12,678	-	12,678	(12,652)	26	(113)
Increase in investment gains	3,238	-	3,238	204	3,442	7,122
Actuarial gains/(losses) on defined benefits pensions schemes (note 26)	362	-	362	-	362	(190)
At 31 March 2007	28,134	46,037	74,171	7,767	81,938	78,108

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

16. Financial Memorandum with the Department of Trade and Industry

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

	2007 Total £'000	2006 Total £'000
<i>Non Parliamentary Grant</i>		
Income	63,075	16,321
Expenditure	15,411	14,154
	47,664	2,167

17. Tangible fixed assets

	Leasehold improvements £'000	Computers and other equipment £'000	2007 Total £'000	2006 Total £'000
<i>Cost:</i>				
At 1 April 2006	13,529	3,059	16,588	16,357
Additions	48	196	244	417
Disposals	-	-	-	(186)
At 31 March 2007	13,577	3,255	16,832	16,588
<i>Depreciation:</i>				
At 1 April 2006	1,611	1,488	3,099	2,471
Charge for year	479	362	841	814
Disposals	-	-	-	(186)
At 31 March 2007	2,090	1,850	3,940	3,099
Net book value at 31 March 2007	11,487	1,405	12,892	13,489
Net book value at 31 March 2006	11,918	1,571	13,489	

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

NOTES TO THE FINANCIAL STATEMENTS

➤ For the year ended 31 March 2007

18. Capital commitments

	2007 £'000	2006 £'000
Authorised but not contracted for	Nil	Nil

19. Heritage assets

	2007 £'000	2006 £'000
Valuation or cost at 1 April 2006	46,085	46,048
Additions at cost	936	37
Valuation or cost at 31 March 2007	47,021	46,085
<i>The heritage assets comprise:</i>		
Printed books	13,233	13,233
Archives	22,706	21,770
Pictures, sculptures and other works of Art	8,092	8,092
Other artefacts	2,990	2,990
	47,021	46,085

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.

20. Investments

	2007 £'000	2006 £'000
Valuation at 1 April 2006	86,177	70,880
Additions	19,280	23,563
Disposal proceeds	(16,994)	(22,263)
Investment management costs	(156)	(156)
Gains on valuation at 31 March 2007	6,580	14,153
Valuation at 31 March 2007	94,887	86,177
	2007 £'000	2006 £'000
The valuation at 31 March 2007 comprises:		
<i>Investments listed on a recognized stock exchange including investments and unit trusts:</i>		
UK	65,908	69,131
Overseas	27,678	15,374
<i>Cash:</i>		
UK	1,301	1,672
	94,887	86,177

NOTES TO THE FINANCIAL STATEMENTS

➤ For the year ended 31 March 2007

20. Investments (continued)

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

At 31 March 2007 the following UK equity investments exceeded 5% by value of the invested portfolio.

	%
Landsdowne UK Equity Fund limited Sterling shares	7.8
UBS Triton Property Fund Units	5.5

The Society owns 100% of the issued share capital of Carlton House Terrace Development Limited (note 27). The principal activity of the company is the redevelopment of 6-9 Carlton House Terrace. This property is occupied by the Society.

	2007 £'000	2006 £'000
<i>Funds are invested:</i>		
General Purposes Specific investments	11,453	9,033
Trust and Specific Purposes Specific investments	44	41
Pooled investments	83,390	77,103
	94,887	86,177

21. Debtors

	2007 Receivable within one year £'000	2007 Receivable after one year £'000	2006 Receivable within one year £'000	2006 Receivable after one year £'000
Sales Ledger	1,570	-	1,931	-
Grants receivable	1,400	1,204	2,349	1,406
Legacy receivable	44,391	-	-	-
Other debtors	173	-	1,446	-
Prepayments and accrued income	2,393	-	2,390	-
	49,927	1,204	8,116	1,406

The Society has recognised as income a substantial legacy receivable from Australia as although it does not yet have possession and title to the underlying assets it has been confirmed, by the Australian courts as the beneficiary.

22. Creditors

	2007 Due within one year £'000	2007 Due after one year £'000	2006 Due within one year £'000	2006 Due after one year £'000
Publications advanced sales	1,760	-	1,659	-
Grants payable	6,923	1,181	7,118	2,782
Other creditors	1,233	-	628	-
Accruals	242	-	582	-
	10,158	1,181	9,987	2,782

NOTES TO THE FINANCIAL STATEMENTS

➤ For the year ended 31 March 2007

23. Analysis of net assets between funds

	General Purposes Funds £'000	Other Unrestricted Funds £'000	Restricted Funds £'000	Permanent Endowment Funds £'000	2007 Total Funds £'000	2006 Total Funds £'000
<i>Funds' balances at 31 March 2007 are represented by:</i>						
Tangible fixed assets	12,892	-	-	-	12,892	13,489
Heritage assets	47,021	-	-	-	47,021	46,085
Investments	36,987	3,727	25,272	28,901	94,887	86,177
Net Current assets/(liabilities)	(19,557)	4,040	15,330	44,192	44,005	493
Creditors: Due after one year	-	-	(1,181)	-	(1,181)	(2,782)
Defined benefit pension scheme liability	(3,172)	-	-	-	(3,172)	(4,360)
Net assets	74,171	7,767	39,421	73,093	194,452	139,102

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

24. Trust and Specific Purposes Funds – at 31 March 2007

The funds comprising the following have been established from grants and contribution, bequests, gifts and other donations received for the use of the Society in promoting and/or advancing natural science. They are broadly classified by the Society's strategic objectives. With the exception of those classified as unrestricted they are subject to restrictions as to the purpose for which capital (where applicable) and/or income may be applied and to conditions imposed by donors.

	Other Unrestricted Funds £'000	Restricted Funds £'000	Permanent Endowment Funds £'000	2007 Total Funds £'000	2006 Total Funds £'000 (Reclassified)
<i>Invest in future scientific leaders and in innovation</i>					
Balance 1 April 2006	12,925	26,560	24,893	64,378	54,844
Income	-	32,774	44,391	77,165	31,735
Expenditure on activities	-	(30,784)	(126)	(30,910)	(29,363)
Transfers	(12,925)	(270)	(73)	(13,268)	(421)
Net gains on investments	-	997	1,497	2,494	7,583
Balance 31 March 2007	-	29,277	70,582	99,859	64,378
<i>Influence policymaking with the best scientific advice</i>					
Balance 1 April 2006	-	2,751	-	2,751	2,471
Income	-	379	-	379	288
Expenditure on activities	-	(269)	-	(269)	(230)
Transfers	-	(174)	-	(174)	(171)
Net gains on investments	-	155	-	155	393
Balance 31 March 2007	-	2,842	-	2,842	2,751

NOTES TO THE FINANCIAL STATEMENTS

➤ For the year ended 31 March 2007

24. Trust and Specific Purposes Funds – at 31 March 2007 (continued)

	Other Unrestricted Funds £'000	Restricted Funds £'000	Permanent Endowment Funds £'000	2007 Total Funds £'000	2006 Total Funds £'000 (Reclassified)
<i>Invigorate science and mathematics education</i>					
Balance 1 April 2006	-	92	-	92	132
Income	-	820	-	820	309
Expenditure on activities	-	(803)	-	(803)	(348)
Transfers	-	(1)	-	(1)	(1)
Net gains on investments	-	-	-	-	-
Balance 31 March 2007	-	108	-	108	92
<i>Increase access to the best science internationally</i>					
Balance 1 April 2006	-	(2,565)	70	(2,495)	(2,681)
Income	-	7,354	-	7,354	8,320
Expenditure on activities	-	(6,460)	-	(6,460)	(8,193)
Transfers	-	(129)	-	(129)	(86)
Net gains on investments	-	57	5	62	145
Balance 31 March 2007	-	(1,743)	75	(1,668)	(2,495)
<i>Inspire an interest in the joy, wonder and excitement of scientific discovery</i>					
Balance 1 April 2006	-	3,560	1,309	4,869	4,118
Income	-	1,416	-	1,416	1,120
Expenditure on activities	-	(1,392)	-	(1,392)	(744)
Transfers	-	(68)	-	(68)	(70)
Net gains on investments	-	110	79	189	445
Balance 31 March 2007	-	3,626	1,388	5,014	4,869
<i>Other Funds</i>					
Balance 1 April 2006	7,290	3,335	989	11,614	11,795
Income	702	2,150	-	2,852	(131)
Expenditure on activities	(122)	(245)	-	(367)	(396)
Transfers	(300)	(7)	-	(307)	(311)
Investment management costs	(7)	(47)	(54)	(108)	(121)
Net gains on investments	204	125	113	442	778
Balance 31 March 2007	7,767	5,311	1,048	14,126	11,614
<i>All Funds</i>					
Balance 1 April 2006	20,215	33,733	27,261	81,209	70,679
Income	702	44,893	44,391	89,986	41,641
Expenditure on activities	(122)	(39,953)	(126)	(40,201)	(39,274)
Transfers	(13,225)	(649)	(73)	(13,947)	(1,060)
Investment management costs	(7)	(47)	(54)	(108)	(121)
Net gains on investments	204	1,444	1,694	3,342	9,344
Balance 31 March 2007	7,767	39,421	73,093	120,281	81,209

There are no funds materially in deficit at 31 March 2007.

NOTES TO THE FINANCIAL STATEMENTS

➤ For the year ended 31 March 2007

25. Contingent liabilities and financial commitments

Contingent liabilities:

Staff who were in the Society's employment on 31 December 1992 are entitled to a contractual payment to compensate them for the consequences of the reduction of the Society's retirement age from 65 to 60. The liability crystallizes only on retirement from the Society. Had all eligible staff retired on 31 March 2007 the liability would have been £51k (2006- £49k); of this liability £6k is expected to crystallize in the year to 31 March 2008.

For the above staff who were members of the Pension Plan, the Society has also undertaken to provide life insurance cover (at three times their salary level at retirement) up to the age of 65. The cost of providing this cover for the year to 31 March 2007 was £1k (2006 - £1k). The future cost is also estimated at £1k per annum.

Financial commitments:

At 31 March 2007 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 £490k (2006-£490k) per annum. The next rent review will be on 5 January 2025.
- agreements and commitments to fund research professorships/fellowships and other grants totalling £73m (2006—£61m). 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 £3.8m (2006-nil) payable at dates yet to be agreed.

26. Pension obligations:

The Society operates a defined benefits Pension Scheme providing benefits based on final pensionable salary. The assets of the scheme are held separately from those of the Society and are invested in a fund administered by investment managers. Under the terms of the Trust Deed the scheme is administered by Trustees who delegate routine administration to professional administrators. At 31 March 2007 benefits were accruing to 89 (2006 – 82) members of staff. This is the Society's only Pension Scheme.

The contributions and pension costs are determined by a qualified actuary on the basis of a triennial valuation; the most recent valuation being at 1 January 2004. For the purposes of the valuation the actuary assumed that earnings would increase by 5% per annum and the interest earned on future income of the fund would be 7.5% per annum. The valuation at 1 January 2004 showed that the market value of the scheme's assets was £6.8m, with the actuarial value of those assets representing a MFR funding solvency of 98%. The next valuation was due at 1 January 2007.

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 December 2006. Life cover and dependents' pensions in respect of death in service are provided by additional insurance premiums.

NOTES TO THE FINANCIAL STATEMENTS

➤ For the year ended 31 March 2007

26. Pension obligations (continued)

The Society has implemented FRS 17. The additional disclosures required are set out below.

For the purposes of the valuation, the assumptions used for calculating the liabilities as at 31 March 2007, 31 March 2006 and 31 March 2005 were:

	2007 %	2006 %	2005 %
Inflation	3.10	2.90	2.90
Salary escalation	6.10	5.90	5.90
Increase to pensions in payment*			
– subject to LPI minimum 4%	4.10	4.25	4.25
– subject to LPI	3.10	2.90	2.90
Statutory revaluation	2.90	2.90	2.90
Discount rate (pre-and-post-retirement)	5.30	4.90	5.30

*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%.

	2007		2006		2005		2004	
	Value £'000	Long-term rate of return %	Value £'000	Long-term rate of return %	Value £'000	Long-term rate of return %	Value £'000	Long-term rate of return %
Equities	12,247	7.3	10,980	7.5	6,720	8.2	5,750	8.4
Property	172	7.7	140	7.9	80	7.3	130	7.3
Bonds	1,531	4.2	1,380	4.4	860	4.3	840	4.4
Cash and other net assets	1,671	4.2	1,060	4.4	610	4.2	280	3.4
Total fair value of assets	15,621		13,560		8,270		7,000	
Present value of scheme liabilities	(18,793)		(17,920)		(14,790)		(12,420)	
Net pension liability – deficit in the scheme	3,172		4,360		6,520		5,420	

The scheme has a number of purchased annuities in respect of past retirements. These are understood to fully match the associated liabilities and have been excluded from both the assets and the liabilities at 31 March 2007, 31 March 2006, 31 March 2005 and 31 March 2004.

NOTES TO THE FINANCIAL STATEMENTS

➤ For the year ended 31 March 2007

26. Pension obligations (continued)

Analysis of the amount chargeable to charitable expenditure.*

	2007 £'000	2006 £'000
Operating charge	634	480
<i>Current service cost (excluding death in service)</i>		
Expected return on the assets	892	730
Interest cost	(876)	(800)
Other finance income	16	(70)

*This information has been incorporated into the Statement of Financial Activities on page 14.

Analysis of amounts recognizable within gains and losses categories of the Statement of Financial Activities.*

	2007		2006		2005		2004	
	£'000	%	£'000	%	£'000	%	£'000	%
Annual return less expected return on Pension Scheme assets	(365)	(2.3)	1,550	11.4	250	3.0	820	11.7
Experience gains and losses arising on the scheme liabilities	778	4.1	(50)	(0.3)	(30)	(0.2)	40	0.4
Change in assumptions underlying the present value scheme liabilities	(51)	(2.0)	(1,690)	(9.4)	(1,180)	(8.0)	320	2.6
Actuarial gain / (loss) on defined benefits scheme	362		(190)		(960)		1,180	

*This information has been incorporated into the Statement of Financial Activities on page 15.

The above percentages for the actual return less expected return are expressed as a percentage of the scheme assets at the end of the period. All other percentages are expressed as a percentage of the scheme liabilities at the end of the period.

The movement in the deficit during the year is as follows based on the assumptions given above.

	2007 £'000	2006 £'000
Deficit at 1 April 2006	4,360	6,520
<i>Movement in the year:</i>		
Current service cost	634	480
Contributions	(1,444)	(2,900)
Other finance income	(16)	70
Actuarial (gain)/loss	(362)	190
Deficit at 31 March 2007	3,172	4,360
<i>The deficit comprises:</i>		
Fair value of assets	15,621	13,560
Present value of liabilities	(18,793)	(17,920)
	3,172	4,360

NOTES TO THE FINANCIAL STATEMENTS

➤ For the year ended 31 March 2007

27. Subsidiary undertaking

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.

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

	2007 £'000	2006 £'000
Restricted Funds		
<i>Incoming resources:</i>		
Dividends and interest	43	51
<i>Resources expended:</i>		
Charitable grants to the Royal Society	(43)	(51)
	-	-
Permanent Endowment Funds		
Balance at 31 March 2007	1,140	1,131
Total Funds as at 31 March 2007	1,140	1,131

29. Other funds

	2007 Investment Market Value £'000	2006 Investment Market Value £'000
<i>The Society is the beneficiary of the following funds:</i>		
CURL FUND		
The investments for this fund are held and managed by the New Zealand Public Trust Office	38	34
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.	473	448
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



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PARLIAMENTARY GRANT-IN-AID

for the year ended 31 March 2007

➤ INDEPENDENT AUDITORS' REPORT TO THE SECRETARY OF STATE FOR TRADE AND INDUSTRY ON THE ACCOUNTS OF THE PARLIAMENTARY GRANT-IN-AID PROGRAMME OF THE ROYAL SOCIETY For the year ended 31 March 2007

We have audited the accounts on pages 36-38, which have been prepared on an accruals basis.

➤ RESPONSIBILITIES

The respective responsibilities of the Royal Society and its Executive Secretary as Accounting Officer for the Parliamentary Grant for the preparation of these accounts are set out in a Financial Memorandum dated 31 October 2005, which contains conditions attaching to the Grant-in-Aid including the following:

- any income and expenditure not covered by funds provided by the Secretary of State for Trade and Industry but accounted for within the Parliamentary Grant-in-Aid shall be clearly identified;
- the Society shall comply with any directions given by the Secretary of State for Trade and Industry, approved by the Treasury, as to the information to be contained in the statement, the manner in which the information is to be presented, and methods and principles according to which the statement is to be prepared;
- the Auditors should be qualified under the terms of the Companies Act;
- the Auditors' Report, in addition to giving an opinion on whether the accounts give a true and fair view of the Society's surplus or deficit for the year, should say whether grant monies have been properly applied in accordance with the terms and conditions of grant and for the purposes approved by the Secretary of State.

Our report has been prepared for the purposes stated above and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for those purposes or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

➤ BASIS OF 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 accounts. It also includes an assessment of whether the accounting policies are appropriate to the circumstances of the programme, 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 accounts 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 the information in the accounts.

➤ OPINION

In our opinion the accounts give a true and fair view of the state of affairs of the programme at 31 March 2007 and of its deficit for the year then ended and that in all material respects the expenditure and income have been applied for the purposes intended by Parliament, which are set out in the Financial Memorandum, and the financial transactions conform to the authorities that govern them.

PKF (UK) LLP
Chartered Accountants
Registered Auditors
London
5 July 2007

PARLIAMENTARY GRANT-IN-AID

➤ SUMMARY OF INCOME & EXPENDITURE For the year ended 31 March 2007

	Scientific Excellence £'000	Influence Policymaking £'000	Education £'000	International £'000	Scientific Discovery £'000	Support and Central Expenses £'000	2007 Total £'000	2006 Total £'000
PARLIAMENTARY GRANT-IN-AID								
<i>Income:</i>								
Office of Science and Innovation grant received in year	25,450	300	470	7,124	679	2,386	36,409	32,590
Transfer (from)/to prior years	621	(47)	57	(638)	(53)	-	(60)	132
Refunds	59	-	-	228	-	-	287	177
	26,130	253	527	6,714	626	2,386	36,636	32,899
<i>Expenditure:</i>								
<i>Grant and activity costs</i>								
(Outstanding)/prepaid 1 April 2006	1,702	-	-	(4,526)	(80)	-	(2,904)	(1,580)
Out-turn for the year	26,130	253	527	6,714	626	2,386	36,636	32,899
(Outstanding)/prepaid 1 April 2007	(1,808)	-	24	3,784	52	-	2,052	2,904
	26,024	253	551	5,972	598	2,386	35,784	34,223
	106	-	(24)	742	28	-	852	(1,324)
<i>Deposit interest:</i>								
Interest receivable							180	127
Surrenderable to the Office of Science and Innovation							(180)	(127)
							-	-
<i>Surplus of income over expenditure</i>								
Surplus/(deficit) for the year							852	(1,324)
Balance as at 31 March 2006							(2,904)	(1,580)
BALANCE as at 31 March 2007							(2,052)	(2,904)
<i>Represented by:</i>								
Grants partly prepaid							2,205	2,264
Grants receivable							-	35
Other debtors							-	3
Balance at bank							297	190
							2,502	2,492
Grants due for payment within one year							(3,115)	(2,385)
Grants due for payment after one year							(1,142)	(2,783)
Other Creditors							(87)	(76)
Amount repayable to the Office of Science and Innovation							(210)	(152)
							(2,052)	(2,904)

Stephen Cox
Accounting Officer
5 July 2007

PARLIAMENTARY GRANT-IN-AID

➤ SUMMARY OF INCOME & EXPENDITURE For the year ended 31 March 2007

	Parliamentary Grant-in-Aid Received £'000	Refunds £'000	Grants & Subscriptions £'000
BLOCK 1 - SCIENTIFIC EXCELLENCE			
Research Professors	1,104	-	893
University Research Fellows	13,298	3	13,825
Dorothy Hodgkin Fellows	2,110	-	1,867
Japan 2+2 Fellows	200	-	-
Industry Fellows	317	-	338
Research Support	3,914	22	4,332
Research Merit Awards	2,000	-	1,998
Innovation Awards	250	-	250
Rosalind Franklin Award	40	-	36
Relocation Fellowship Grants	521	-	258
Research Grants	1,696	34	2,227
	25,450	59	26,024
BLOCK 2 – INFLUENCE POLICYMAKING			
Science Policy	300	-	253
	300	-	253
BLOCK 3 - EDUCATION			
Education Policy Advice	80	-	118
Education Grants	180	-	224
Education Events/ Resources for Schools	60	-	54
Education Networking	5	-	5
Royal Institution	145	-	150
	470	-	551

PARLIAMENTARY GRANT-IN-AID

➤ SUMMARY OF INCOME & EXPENDITURE For the year ended 31 March 2007

	Parliamentary Grant-in-Aid Received £'000	Refunds £'000	Grants & Subscriptions £'000
BLOCK 4 - INTERNATIONAL			
New Frontiers	30	-	5
Capacity Building	40	-	28
UK International Science Policy	20	-	57
Asia	30	2	35
Europe	20	-	21
Rest of World	10	-	6
International Lectures	33	-	-
ICSU	60	-	131
International Seismological Centre	-	-	69
International Activities	62	-	17
International Networking	330	-	405
Relations with Overseas Academies	21	-	25
Academia Europea	77	-	75
Short Visits	1,005	44	1,087
Conference Grants	850	14	984
Joint Projects	1,475	118	1,495
International Fellows	2,343	50	847
RS Research Projects	92	-	94
International Subscriptions	430	-	382
International Meetings in UK	196	-	209
	7,124	228	5,972
BLOCK 5 – SCIENTIFIC DISCOVERY			
History of Science Projects	82	-	80
Medals, Lectures and Awards	100	-	108
Summer Science Exhibition	113	-	104
Royal Event	125	-	105
Training for Scientists	27	-	13
Adhoc Activities	60	-	35
Media Master Classes	22	-	21
Science in Society	150	-	132
	679	-	598
BLOCK 6 - SUPPORT AND CENTRAL EXPENSES			
Rent	490	-	490
Operating Costs	1,896	-	1,896
	2,386	-	2,386
TOTAL	36,409	287	35,784

The Royal Society

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As we prepare for our 350th anniversary in 2010, we are working to achieve five strategic priorities:

- **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



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