

Financial Review

The Foundation committed £22.2 million (2007: £25.2 million) in new grants during the year. The reduction in grant-making spend was due to a slow build in the first part of the year following the introduction of a new approach to grant-making. We intend to return to pre 2008 spending levels during 2009. Grants reported in the Statement of Financial Activities include funds returned from cancelled and returned grants.

Costs in support of the Foundation's grant-making activities fell from £1.6 million to £1.4 million because of reduced employee head count. Governance costs have increased to £0.3 million from £0.2 million.

The cost of generating funds, which is made up of investment management and oversight fees, increased to £4.9 million from £3.9 million. This was due to greater outperformance by equity managers leading to higher performance fees in the year.

The Foundation also had £1.3 million in programme related investments at the end of the year (2007: £1.2 million). These investments are made up of loans, quasi equity and other investments made by the Finance Fund.

Risk Assessment

The Trustees are responsible for the management of the risks faced by the Foundation. The detailed review and consideration of risk management is delegated to the Audit Committee. The Trustee Board reviews the Foundation's risk position, internal control assessment and its compliance with relevant statutory and finance regulations annually.

The Foundation has a clear organisational structure with documented lines of authority and delegation, which is reviewed regularly by the Audit Committee and the Trustee Board. The Foundation also has segregation of duties in regard to governance, management, grant-making, finance and investment. Procedures are in place for documenting decisions, actions and issues.

The Trustee Board reviews and approves the Foundation's strategic plan, risk map and annual budget. The Trustee Board regularly reviews management accounts including actual results and forecasts and reports from grant-making. The Audit, Finance and Administration, and Investment Committees regularly report to the Trustee Board.

In order to evaluate and manage risk the Foundation has a risk mapping process to identify the major risks that could impact on the strategic aims as laid out in the Foundation's Strategic Plan. This process identifies the major risks the Foundation faces, the likelihood of occurrence, the significance of the risk, any mitigating controls that are in place and seeks to identify actions and resources required to reduce these risks further.

The Foundation's investment activities are its main financial risk. This is mitigated through regular review of investment policy, management of asset allocation, monthly independent performance reporting, market and manager updates and the support of investment advisers.

Reserves and Expenditure Policies

All of the Foundation's funds are unrestricted.

The Foundation's expenditure policy is set at a level intended to sustain the real value of the capital base whilst preserving the real purchasing power of the expenditure through time.

For planning purposes the annual expenditure target is set by reference to a three year rolling plan. Expenditure targets may be over or under-spent in an individual year in a controlled manner reflecting demand and the quality of applications.

The Foundation's grant-making policy is explained in the Grant-making overview on pages 19-20.

Investment Review

The total return on investments in the year was -17.6% (2007: +5.7%) against the Foundation's multi asset tailored blended benchmark of -21.5% (2007: +6.3%). The market value of investments at year end was £740.8 million (2007: £955.4 million).

The Foundation's investments have been materially impacted by the economic climate. In response to the volatile and uncertain markets a higher level of cash has been maintained throughout the year in order to place the portfolio in a more defensive state. The actual asset allocation at year end comprised:

	2008 %	2007 %	Change %
Public equity investments	45.5	47.0	(1.5)
Fixed income investments	4.3	8.3	(4.0)
Property investments	9.9	12.4	(2.5)
Alternative investments	27.6	15.0	12.6
Investment cash	14.8	17.4	(2.6)
Other investment balances	(0.1)	0.5	(0.6)
Derivatives	(2.0)	(0.6)	(1.4)
	<u>100.0</u>	<u>100.0</u>	<u>0.0</u>

The main changes in asset allocation outside valuation movements during the year were:

- > a reduction in public equity investments reflecting a move out of equities into alternative investments;
- > within public equity investments a reduction of the proportion of UK to overseas equities from 55.5% to 31.3% reflecting a move into other developed and emerging market equities;
- > a reduction in fixed income investments with a move out of emerging market debt; and
- > an increase in alternative investments with a further allocation to the Foundation's hedge fund, private equity and venture capital portfolios reflecting the Foundation's continued commitment to these asset classes.

Contribution to the outperformance of the benchmark during the year came from non-investment grade credit and equities. Underperformance came from property and investment grade credit investments.

The market value of investments at the end of the year is detailed in note 9 to the financial statements.

Investment Policy

The Foundation's investments are made in accordance with the investment powers set out in its Scheme. The Foundation's long-term investment objective is to maintain the real value of its capital base whilst providing a predictable, stable and sustainable level of income to support the Foundation's activities.

The Foundation manages the inherent risk of investments through diversification. Investments are made across a broad range of asset classes, geographies, investment managers and investment strategies.

The Foundation's policy is that all investments are externally managed by investment managers whose performance is measured against agreed benchmarks. Investment monitoring is carried out through custody reporting, independent monthly and quarterly performance reporting and regular manager review meetings. The Foundation has a policy of hedging a substantial part of currency exposure in the portfolio using a passive currency overlay. The Foundation continues to minimise investments in funds dependent upon leverage or credit. The Foundation's segregated equity portfolios do not invest in companies that derive their main sources of revenue from tobacco-related products.

Charitable Scheme

The operation of Esmée Fairbairn Foundation is governed by a Charity Commissioners' Scheme, dated 14 January 2002, which enables the assets to be applied by the Trustees at their discretion for general charitable purposes. The scheme supercedes the original Trust Deed made on 20 January 1961 and a Charity Commission order granted on 20 January 2000 giving Trustees investment delegating powers. The Charity Commission approved an incorporation of the Trustee body on 16 June 2008 in the name of The Trustees of Esmée Fairbairn Foundation.

The Foundation is a charity registered in England and Wales number 200051.

The Esmée Fairbairn Foundation exists and operates for the public benefit. Through its grant-making programmes it works to improve the quality of life throughout the UK. In determining its grant-making strategies, and in the administration of the Foundation generally, the Trustees have paid due regard to the guidance published by the Charity Commission under section 4 of the Charities Act 2006.

The Foundation's Trustees are listed on the inside back cover of this report. The Trustee Board meets six times per year to oversee the delivery of the Foundation's overall strategy. A number of Trustee committees support the work of the Foundation throughout the year. The current membership of the Audit, Finance and Administration and Investment Committees can also be found on the inside back cover.

Audit Committee

The Audit Committee reviews and recommends systems of internal control on financial, governance and operational risks. It also reviews the draft annual report and accounts, meets with the Foundation's external auditors and reports to the Trustee Board.

Finance and Administration Committee

The Finance and Administration Committee reviews and recommends to the Trustee Board annual budgets, staff remuneration and benefits, and human resources policies and procedures. It also oversees major property, ICT, governance and other projects.

Nominations Committee

An ad-hoc Nominations Committee meets to make recommendations to the Trustee Board on the appointment of new trustees.

Investment Committee

The Investment Committee formulates investment policy, oversees its implementation, manages overall asset allocation, monitors investment performance and reports to the Trustee Board.

Funding decisions

All Trustees are members of the Foundation's Main Fund Grants Committee who take decisions on all Main Fund grants above £75,000. A Grants Committee, comprising Trustees and Executive members, takes decisions on grants up to £75,000. The Trustee Board allocates budget and delegates decision-making on the Foundation's funding strands to Strand Panels. All strand grants over £150,000 go to the Trustee Board. The Panels are made up of Trustees and have external experts as advisers. The Strand Panels report to the Trustee Board. Finance Fund investments in excess of £1 million are referred to the Trustee Board.

Trustees' Responsibilities Statement

Under the Scheme rules of the Foundation and charity law, the Trustees are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

The financial statements are required by law to give a true and fair view of the state of affairs of the Foundation and of the excess of income over expenditure for that period.

In preparing these financial statements, generally accepted accounting practice entails that the Trustees:

- > select suitable accounting policies and then apply them consistently;
- > make judgements and estimates that are reasonable and prudent;
- > state whether applicable UK Accounting Standards and the Statement of Recommended Practice have been followed, subject to any material departures disclosed and explained in the financial statements;
- > state whether the financial statements comply with the Scheme, subject to any material departures disclosed and explained in the financial statements; and
- > prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Foundation will continue in business.

The Trustees are required to act in accordance with the Scheme of the Foundation, within the framework of the Charities Act 1993. They are responsible for keeping proper accounting records, sufficient to disclose at any time, with reasonable accuracy, the financial position of the Foundation at that time, and to enable the Trustees to ensure that, where any statements of accounts are prepared by them under section 42(1) of the Charities Act 1993, those statements of accounts comply with the requirements of regulations under that provision. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Foundation and to prevent and detect fraud and other irregularities.

Disclosure of information to auditors

The Trustees who held office at the date of approval of this Trustees' report confirm that, so far as they are each aware, there is no relevant audit information of which the Foundation's auditors are unaware; and each Trustee has taken all the steps that they ought to have taken as a Trustee to make themselves aware of any relevant audit information and to establish that the Foundation's auditors are aware of that information.

In the name and on behalf of The Trustees of Esmée Fairbairn Foundation



Tom Chandos
Chairman
26 March 2009

Independent auditors' report to The Trustees of Esmée Fairbairn Foundation

We have audited the financial statements of Esmée Fairbairn Foundation for the year ended 31 December 2008 which comprise the Statement of Financial Activities, the Balance Sheet and the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Foundation's Trustee body, in accordance with section 43 of the Charities Act 1993 and regulations made under section 44 of that Act. Our audit work has been undertaken so that we might state to the Foundation's Trustees those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Foundation and its Trustee body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Trustees and auditors

The Trustees' responsibilities for the preparation of the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Trustees' Responsibilities on page 34.

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 are properly prepared in accordance with the Charities Act 1993. We also report to you if, in our opinion, the Trustees' Annual Report is not consistent with the financial statements, if the Foundation has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware

of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

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

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

Opinion

In our opinion:

- > the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the charity's affairs as at 31 December 2008 and of its incoming resources and application of resources for the year then ended;
- > the financial statements have been properly prepared in accordance with the Charities Act 1993.

KPMG LLP

KPMG LLP
1 Forest Gate
Brighton Road
Crawley
West Sussex
26 March 2009

Statement of Financial Activities

For year ended 31 December 2008

	Notes	Total Funds 2008 £'000	Total Funds 2007 £'000
Incoming resources			
Investment income	2	31,491	35,631
Other incoming resources	2	515	349
		<u>32,006</u>	<u>35,980</u>
Resources expended			
Cost of generating funds	3 & 5	4,909	3,871
Charitable activities	4 & 5	22,815	25,003
Governance costs	5 & 6	291	225
		<u>28,015</u>	<u>29,099</u>
Net incoming resources			
Realised and unrealised gains/(losses) on fixed asset investments	9	3,991 (216,941)	6,881 13,934
Net movement in funds			
Funds at 1 January 2008		(212,950) <u>937,754</u>	20,815 <u>916,939</u>
Funds at 31 December 2008	15	<u>724,804</u>	<u>937,754</u>

The notes on pages 39 to 47 form part of these accounts.

The Foundation has no recognised gains or losses other than the net movement in funds for the year.

The net incoming resources and resulting net movement in funds in each of the financial years are from continuing operations.

Balance Sheet

At 31 December 2008

	Notes	2008 £'000	2007 £'000
Fixed assets			
Tangible fixed assets	8	319	7,622
Investment assets	9	740,815	955,387
Programme related investments	10	1,334	1,242
		<u>742,468</u>	<u>964,251</u>
Current assets			
Assets held for sale		7,456	-
Debtors	11	596	38
Cash at bank		1,835	3,421
		<u>9,887</u>	<u>3,459</u>
Creditors: falling due within one year	12	<u>(21,752)</u>	<u>(26,059)</u>
Net current liabilities		<u>(11,865)</u>	<u>(22,600)</u>
Total assets less current liabilities		730,603	941,651
Creditors: amounts falling due after one year	13	(5,729)	(3,897)
Provisions: for liabilities	14	(70)	-
Net assets: representing unrestricted funds	15	<u>724,804</u>	<u>937,754</u>

The notes on pages 39 to 47 form part of these accounts.
The accounts were approved and authorised for issue by the
Trustee Board on 26 March 2009.

Signed in the name and on behalf of the Trustees
of Esmee Fairbairn Foundation:



Tom Chandos
Chairman

Cash Flow Statement

For the year ended 31 December 2008

	Notes	2008 £'000	2007 £'000
Net cash inflow from operating activities	18	6,746	9,209
Cash flows from investments and capital expenditure			
Sale of investments		365,335	720,502
Purchase of investments		(367,850)	(757,578)
Decrease in investment cash		56,711	23,655
Cash outflow on derivative financial instruments		(61,716)	1,595
Increase in loan to subsidiary undertaking		(557)	-
Cash outflow to programme related investments		(70)	(86)
Cash inflow from programme related investments		65	55
Cash inflow from finance lease commitments		21	29
Purchase of tangible fixed assets		(271)	(47)
Net cash utilised on investments and capital expenditure		(8,332)	(11,875)
Net decrease in cash and cash equivalents		(1,586)	(2,666)
Analysis of change in cash			
Cash balance at the beginning of the year		3,421	6,087
Net cash outflow		(1,586)	(2,666)
Cash balance at the end of the year		1,835	3,421

Notes to the Accounts

1. Basis of accounting and accounting policies

Basis of accounting

The accounts have been prepared in accordance with applicable UK accounting standards and comply with the Charities Act 1993 and the Statement of Recommended Practice ('Accounting and Reporting by Charities') revised 2005. Except as otherwise stated, these financial statements have been prepared using the historic cost convention. The Trustee Board consider all the funds to be unrestricted.

Consolidated accounts

The Foundation has not prepared consolidated accounts as the results of its subsidiary undertakings are not material to the group.

Incoming resources

Dividend income and related tax credits are recognised when the right to receive payment is established. Interest and other investment income is recognised on a receivable basis over the period to which it relates.

Resources expended

The cost of generating funds, charitable activities and support and governance costs are charged to the relevant category or activity according to the area to which the expenditure relates. Expenditure incurred that relates to more than one cost category is apportioned based on the number of full-time equivalent staff allocated to that activity. Grants are recognised as expenditure in the year in which they are approved and such approval has been communicated to the recipients, except to the extent that it is subject to conditions that enable the Foundation to revoke the award.

Tangible fixed assets

Tangible fixed assets are included in the balance sheet at cost less accumulated depreciation. Freehold land is not depreciated. Freehold buildings are depreciated at 2% per annum. Leasehold improvements are depreciated over the term of the lease. Office and computer equipment is depreciated at between 20% and 33% per annum. Depreciation is charged on a straight line basis over the assets' useful lives.

Leased assets

Assets obtained under finance leases are capitalised as tangible fixed assets and depreciated over their useful lives. Finance leases are those where substantially all of the benefits and risks of ownership are assumed by the Foundation. Obligations under such agreements are included in creditors net of the finance charge allocated to future periods. The finance element of the rental payments is charged to the Statement of Financial Activities over the period of the lease.

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

Investments

Quoted investments

Quoted investments are stated at market value at the balance sheet date. Asset purchases and sales are recognised at date of trade.

Unquoted investments

Unquoted investments are valued at the Trustee Board's best estimate of fair value as follows: Pooled investments are stated at fair value, the basis of fair value being the market value of the underlying investments held. These valuations are provided by the fund managers and are subject either to independent valuation or annual audit.

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

Private equity investments are held through funds managed by private equity groups. As there is no identifiable market price for private equity funds, these funds are included at the most recent valuations from the private equity groups where the:

- i. private equity group provides a fair value that complies with the International Private Equity and Venture Capital Valuation Guidelines; or
- ii. private equity group provides valuations that complies with International Financial Reporting Standards or US GAAP.

Where a valuation is not available at the balance sheet date, the most recent valuation from the private equity group is used, adjusted for cashflows and foreign exchange movements and any impairment between the most recent valuation and the balance sheet date.

Where a private equity group does not provide a fair value that complies with the above, the Foundation is unable to obtain a reliable fair value, and therefore these investments are held at cost.

Derivative financial instruments

Derivatives are recognised in the Balance Sheet at fair value. The Foundation uses forward currency contracts to reduce currency exposure in its investment portfolio. The basis of fair value of these forward exchange contracts is estimated by using the gain or loss that would arise from closing the contract at the balance sheet date. Managers of segregated funds also enter into derivatives as part of their portfolio risk management; fair values of these derivatives are provided by the fund managers.

Other investment balances

Following a change in approach, the Foundation has classified debtors and creditors arising as part of the investment portfolio as "other investment balances" and grouped them together as part of investment assets.

Notes to the Accounts

Programme related investments

Programme related investments that are loans are accounted for at the outstanding amount of the loan less any provision for unrecoverable amounts. Unquoted equity programme related investments are held at cost, less any provision for diminution in value, as the Foundation is unable to obtain a reliable estimate of fair value.

Provisions

Provisions have been made for possible future liabilities arising from contracts entered into by the Foundation.

Realised and unrealised gains and losses on investments

Realised and unrealised gains and losses on all investments, apart from programme related investments, are included in the Statement of Financial Activities.

Realised and unrealised gains and losses on programme related investments are included in charitable activities within the Statement of Financial Activities.

Pension

The Foundation operates a defined contribution group personal pension plan for employees. The assets of the scheme are held separately from those of the Foundation. The annual contributions are charged to the Statement of Financial Activities.

Foreign exchange

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

Irrecoverable VAT

Irrecoverable value added tax (VAT) is included in the Statement of Financial Activities within the expenditure to which it relates.

Related party transactions

Material transactions with related parties are disclosed in the notes to these financial statements. The Foundation's policy is for Trustees, executive or advisers to declare their interest and exempt themselves from all relevant discussions and decisions which may involve a transaction with a related party or in which they may have a conflict of interest.

2. Income

	2008 £'000	2007 £'000
Investment income		
Public equity investments	12,296	22,410
Fixed income investments	4,037	6,020
Property investments	5,105	4,877
Investment cash	10,053	2,324
	<u>31,491</u>	<u>35,631</u>

Other income

	2008 £'000	2007 £'000
Bank interest	394	223
Interest from subsidiary undertakings	39	-
Programme related investment interest	55	53
Service charges and management fees	27	18
Grants receivable	-	55
	<u>515</u>	<u>349</u>

3. Cost of generating funds

	2008 £'000	2007 £'000
Direct staff costs	159	88
Support costs	181	38
Investment related legal and professional fees	162	263
Investment managers and advisers fees	4,407	3,482
Total costs of generating funds	<u>4,909</u>	<u>3,871</u>

Notes to the Accounts

4. Charitable activities

	Main Fund £'000	Strands £'000	Development Fund £'000	Finance Fund £'000	TASK £'000	Total 2008 £'000	Total 2007 £'000
Grants approved	17,223	2,957	360	400	990	21,930	24,770
Grants plus	245	-	9	12	-	266	438
	<u>17,468</u>	<u>2,957</u>	<u>369</u>	<u>412</u>	<u>990</u>	<u>22,196</u>	<u>25,208</u>
Cancelled and returned grants	(712)	-	-	-	-	(712)	(1,936)
	<u>16,756</u>	<u>2,957</u>	<u>369</u>	<u>412</u>	<u>990</u>	<u>21,484</u>	<u>23,272</u>
Movement on provision for bad debts	-	-	-	(97)	-	(97)	164
Direct staff costs	-	-	-	-	-	568	681
Support costs	-	-	-	-	-	798	886
Consultants and advisers fees	-	-	-	-	-	62	-
Total charitable activities	<u>16,756</u>	<u>2,957</u>	<u>369</u>	<u>315</u>	<u>990</u>	<u>22,815</u>	<u>25,003</u>

Grants approved in 2008, listed on pages 21 to 30 of the annual report, accompany these accounts.

Grants Plus is the cost of adding value over and above the grants we make in appropriate cases, such as organisational development, research and evaluation.

5. Support costs

	Cost of generating funds £'000	Charitable activities £'000	Governance costs £'000	Total 2008 £'000	Total 2007 £'000
Support staff costs	105	401	127	633	575
Office, premises and technology	73	384	59	516	428
Consultants and advisers fees	3	13	2	18	63
Total support costs	<u>181</u>	<u>798</u>	<u>188</u>	<u>1,167</u>	<u>1,066</u>
Total support costs for prior year	<u>38</u>	<u>886</u>	<u>142</u>	<u>-</u>	<u>1,066</u>

Notes to the Accounts

6. Governance costs

	2008 £'000	2007 £'000
Support costs	188	142
Trustees' expenses	19	24
Auditors' remuneration	49	49
Legal and professional fees	17	10
Other governance costs	18	-
	<u>291</u>	<u>225</u>

Trustees' expenses for travel and subsistence were reimbursed to 7 (2007: 11) Trustees.

7. Staff costs

	2008 £'000	2007 £'000
Salaries	1,010	994
National insurance contributions	112	111
Pension contributions	118	125
Other staff related costs	120	114
Total staff costs	<u>1,360</u>	<u>1,344</u>

The Foundation operates a defined contribution group personal pension plan and makes employer contributions of 12.5% when matched by a 5% employee contribution.

The average number of employees during the year calculated on a full time basis was as follows:

	2008	2007
Investment management and oversight	3	2
Grant-making	18	22
Governance	2	1
Total number of employees	<u>23</u>	<u>25</u>

The number of employees who received remuneration of more than £60,000 in the year was as follows:

	2008	2007
£60,000 - £69,999	1	2
£80,000 - £89,999	1	1
£90,000 - £99,999	1	-

All the employees paid over £60,000 had employer contributions, equal to 12.5% of salary, under a defined contribution group personal pension plan.

Notes to the Accounts

8. Tangible fixed assets

	Freehold property £'000	Leasehold improvements £'000	Office & computer equipment £'000	Total £'000
Cost				
At 1 January 2008	8,047	-	264	8,311
Additions in the year	-	212	59	271
Assets reclassified as held for sale	(8,047)	-	-	(8,047)
At 31 December 2008	-	212	323	535
Accumulated depreciation				
At 1 January 2008	525	-	164	689
Depreciation charge for year	66	-	52	118
Depreciation on assets reclassified as held for sale	(591)	-	-	(591)
At 31 December 2008	-	-	216	216
Net book value				
At 31 December 2008	-	212	107	319
At 1 January 2008	7,522	-	100	7,622

The net book value of assets held under finance leases included above is £71,555 (2007:£32,459) and the depreciation charge on these assets for the year was £24,867 (2007:£14,189)

During the year the Foundation offered the freehold property for sale. This property has therefore been reclassified with current assets as held for sale at the year end.

9. Investments

i) Market value

	Market value 2008 £'000	Market value as reclassified 2007 £'000	Amounts reclassified 2007 £'000	Market value as reported 2007 £'000
Public equity investments	336,832	448,248	(12,555)	460,803
Fixed income investments	31,507	78,873	(110,588)	189,461
Property investments	73,578	118,889	-	118,889
Alternative investments	204,502	143,725	(14,241)	157,966
Investment cash	109,665	166,376	141,376	25,000
Other investment balances	(500)	4,650	-	4,650
Derivative financial instruments	(14,769)	(5,374)	(5,374)	-
Total investments	740,815	955,387	(1,382)	956,769

Investment cash includes all cash balances managed as part of the investment portfolio. In the prior year cash held by investment managers was included in public equity and short term deposits were included in fixed income and current investment assets. Other investment balances includes accrued income, amounts payable on investment purchases, amounts receivable on investment sales and accrued investment costs; in the prior year these balances were included in accrued income and expense in current assets and liabilities. Derivatives include all derivative assets and liabilities; in the prior year these balances were included in alternative investments. Prior year numbers have been reclassified to be consistent with this presentation.

Notes to the Accounts

Alternative investments comprise hedge funds, venture capital and private equity, commodity investments and a £10.0 million (2007: £10.0 million) investment in a subsidiary company which is carried at cost. This subsidiary invests in venture capital type investments and is managed as part of the Foundation's investment portfolio.

The Foundation has entered into commitments to invest in private equity and venture capital funds. At the balance sheet date outstanding commitments totalled: £82.1 million (2007: £45.0 million). The Foundation models its cashflows based upon the original commitment.

ii) Purchases, sales, gains and losses

	Market Value 2007 £'000	Purchases £'000	Sale proceeds £'000	Investment gain/(loss) £'000	Market value 2008 £'000
Market value					
Public equity investments	448,248	202,633	(233,419)	(80,630)	336,832
Fixed income investments	78,873	89,391	(104,980)	(31,777)	31,507
Property investments	118,889	-	(1,495)	(43,816)	73,578
Alternative investments	143,725	75,826	(25,441)	10,392	204,502
	<u>789,735</u>	<u>367,850</u>	<u>(365,335)</u>	<u>(145,831)</u>	<u>646,419</u>

Realised and unrealised gains/losses on fixed asset investments of £216.9 million loss (2007: £13.9 million gain) in the Statement of Financial Activities is made up of the £145.8 million loss analysed above (2007: £6.8 million gain) and the £71.1 million loss (2007: £7.1 million gain) on derivative financial instruments disclosed in Note 9.iv.

iii) Reconciliation to book cost

	2007 £'000	Purchases £'000	Sale proceeds £'000	Investment gain/(loss) £'000	2008 £'000
Book cost and realised gains					
Public equity investments	406,307	202,633	(233,419)	(20,926)	354,595
Fixed income investments	87,000	89,391	(104,980)	(1,453)	69,958
Property investments	93,529	-	(1,495)	-	92,034
Alternative investments	119,810	75,826	(25,441)	-	170,195
	<u>706,646</u>	<u>367,850</u>	<u>(365,335)</u>	<u>(22,379)</u>	<u>686,782</u>
Market value adjustment					
Unrealised gains/(losses)	83,089	-	-	(123,452)	(40,363)
	<u>789,735</u>	<u>367,850</u>	<u>(365,335)</u>	<u>(145,831)</u>	<u>646,419</u>

iv) Derivative financial instruments

	2008 £'000	2007 £'000
Derivative financial instrument asset positions	1,865	239
Derivative financial instrument liability positions	(16,864)	(5,613)
Derivative financial instrument total net positions	<u>(14,999)</u>	<u>(5,374)</u>
Net gains/(losses) on derivative financial instruments	<u>(71,110)</u>	<u>7,157</u>

Notes to the Accounts

v) UK and overseas holdings

	2008 £'000	2007 £'000
Public equity investments		
UK listed	105,350	248,609
Overseas	231,482	199,639
	<u>336,832</u>	<u>448,248</u>
Fixed income investments		
Overseas	31,507	78,873
	<u>31,507</u>	<u>78,873</u>
Property investments		
UK	37,908	77,561
Overseas	35,670	41,328
	<u>73,578</u>	<u>118,889</u>
Alternative investments		
UK	12,547	12,982
Overseas	191,955	130,743
	<u>204,502</u>	<u>143,725</u>
	<u>646,419</u>	<u>789,735</u>

10. Programme related investments

	2008 £'000	2007 £'000
Programme related investments	1,334	1,242
Total programme related investments	<u>1,334</u>	<u>1,242</u>

During the year a further £7.1 million was promised under the Finance Fund, this will be committed and drawn in 2009.

11. Debtors

	2008 £'000	2007 £'000
Prepayments and other debtors	39	38
Loan receivable from subsidiary undertaking	557	-
Total debtors	<u>596</u>	<u>38</u>

An amount of £4.6 million disclosed as accrued income and an amount of £0.2 million disclosed as prepayments in the 2007 financial statements have been reclassified and shown within other investment balances (see note 9).

The loan receivable from the subsidiary undertaking is repayable on or before 28 February 2019. Interest is payable annually on the amount drawn at Bank of England base rate plus 1.75%. The loan facility is for an amount up to £2 million.

Notes to the Accounts

12. Creditors: amounts falling due within one year

	2008 £'000	2007 £'000
Grant commitments	21,224	25,876
Accruals	181	23
Trade and other creditors	324	138
Commitments due under finance leases	23	22
Total creditors falling due within one year	<u>21,752</u>	<u>26,059</u>

An amount of £1.5 million disclosed as accruals in the 2007 financial statements has been reclassified and shown within other investment balances (see note 9).

13. Creditors: amounts falling due after one year

	2008 £'000	2007 £'000
Grant commitments	5,682	3,870
Commitments due under finance leases	47	27
Total creditors falling due after one year	<u>5,729</u>	<u>3,897</u>

14. Provisions

	2008 £'000	2007 £'000
As at 1 January	-	-
Charge for the year	70	-
As at 31 December	<u>70</u>	<u>-</u>

The provision relates to a potential dilapidations liability due under the lease of the premises occupied by the Foundation.

15. Reserves

	2008 £'000	2007 £'000
As at 1 January	937,754	916,939
Net incoming/outgoing reserves	3,991	6,881
Gain/losses on investment assets	(216,941)	13,934
Net movement in funds in year	<u>(212,950)</u>	<u>20,815</u>
As at 31 December	<u>724,804</u>	<u>937,754</u>

Notes to the Accounts

16. Operating Leases

At 31 December 2008 the Foundation has lease agreements in respect of property for which payments extend over a number of years.

Annual commitments under non-cancellable operating leases expiring:

	2008 £'000	2007 £'000
After five years	409	-
Total annual operating lease commitments	<u>409</u>	<u>-</u>

17. Related Party Transactions

There were no related party transactions during the year other than those with subsidiary undertakings disclosed in note 2 and note 11.

18. Cash Flow

Reconciliation of statement of financial activities to operating cash flows

	2008 £'000	2007 £'000
Incoming resources	32,006	35,980
Decrease in accrued income	3,348	5,391
Incoming resources	<u>35,354</u>	<u>41,371</u>
Grants awarded	(21,484)	(23,272)
Decrease in grant commitments	(2,820)	(2,732)
Grants paid	<u>(24,304)</u>	<u>(26,004)</u>
Other resources expended	(4,733)	(6,881)
Increase in trade and other creditors	186	138
Increase in accrued expenses and prepayments	152	305
Increase in provision	70	-
Decrease in provision for bad debts	(97)	164
Depreciation charge for the year	118	116
Other operating costs	<u>(4,304)</u>	<u>(6,158)</u>
Net cash inflow from operating activities	<u>6,746</u>	<u>9,209</u>