ANNUAL REPORT AND FINANCIAL STATEMENTS

2008

wellcome trust

CONTENTS

CHAIRMAN'S STATEMENT

In 1957, Dr Selwyn Baker from the Christian Medical College in Vellore received a Wellcome Trust grant – the first made by the Trust to support a researcher working in India. Since then, our commitment to making relevant, effective and long-lasting contributions to research capacity in developing countries has continued to grow. Now, some 50 years after the first Indian grant, 2007/08 sees a another 'first' for the Trust, the launch of a unique five-year partnership with the Indian Government, to which the Trust is contributing £40 million over five years.

This scheme, launched in September 2008, will provide fellowship programmes to support Indian researchers at three key career stages. In addition, we have funded three Strategic Awards in India, totalling £15 million. These include a partnership with the Public Health Foundation of India for the creation of new Indian Institutes of Public Health, and a multi-centre study spanning India and Africa to explore the health of new-born babies.

These are just some of the ways the Trust works in partnership with all kinds of institutions and bodies – including other charities, industry, research organisations and governments – to make a difference. The impact of a partnership often exceeds that of its individual members, and we recognise that our influence and reputation mean that our involvement in a project or initiative can encourage further partners to the table, including those who may not have necessarily committed themselves otherwise.

Other notable partnerships that have been undertaken this year include Project ENTHUSE, a £30 million partnership between the UK private, public and charitable sectors launched in March 2008. This scheme will provide much-needed training and development to UK science teachers, to help them inspire the next generation of scientists and engineers. For this scheme, the Trust provided £10 million of funding – matching the amount awarded both by the UK Government and by a consortium of business partners.

We have also played a pivotal role in the plans to create what should become Europe's leading centre for medical research – the UK Centre for Medical Research and Innovation (UKCMRI) in London. This unique £600 million partnership brings together the Trust and the Government-funded Medical Research Council, Cancer Research UK and University College London.

Funding

This year saw a substantial increase in the Trust's total charitable expenditure – up from £520 million in 2006/07 to £702 million in 2007/08. This was mainly due to significant increases in Strategic Awards and in Technology Transfer investment and £50 million of funds released from the special dividend agreed in 2007.

The majority of our funding is used to support research activities in the UK. During the year we have upped our commitment to the translation of research findings into health benefits by introducing the Medical Engineering initiative (to boost the development of innovative solutions for healthcare), and we announced plans to create with the Department of Health the Health Innovation Challenge Fund, which we hope will facilitate the National Health Service regaining its key role in the development of proven new clinical approaches to disease.

We continue to appreciate that flexible forms of funding are vital to support innovative and productive research, and have a made a number of Strategic Awards this year, across an astonishingly diverse range of areas.
The highlights include:

- The Trust's first major Medical Humanities grants: £2 million to Professor Brian Hurwitz at King's College London and around £1.9 million to Professor Martyn Evans at Durham University to establish centres of excellence in the medical humanities.
- A £4 million Strategic Translation Award to Dr Helen McShane to evaluate the tuberculosis vaccine candidate MVA85A in a Phase IIb study in South African infants.
- A £2.8 million renewal of funding for The Wellcome Trust Centre for Molecular Parasitology at the University of Glasgow.

Our long-term investments have continued to make excellent progress, particularly in the area of genomics. The Wellcome Trust Sanger Institute, largely funded by the Trust, has moved from identifying the genetic sequences of numerous species to unravelling the biological implications of these findings. In 2007/08, a total of £22.8 million was awarded to the Wellcome Trust Case Control Consortium and other genome-wide association studies to enable researchers to identify and characterise the genetic variants related to common, complex diseases.

Wellcome Collection has continued to enjoy incredible popularity, clocking up over 300,000 visitors in its first year. Among the highlights of the current year were two thought-provoking and fascinating temporary exhibitions, *Life Before Death* and *Skeletons*, which attracted unprecedented levels of interest, from the press and the general public alike.

Investments

Having indicated last year that we anticipated downturns in financial and economic markets, we continued to take decisive action to protect the value of the Trust's endowment on which it is entirely dependent to provide the funds to support its mission. The equity sale programme was extended from £3 billion to over £4.5 billion and the domestic bias to UK equities was eliminated. Further sales were made of commercial property and, early in the year, a partial sale of mature private equity interests was agreed. Liquidity levels were raised to record levels.

The depth of the financial crisis has exceeded our expectations. In 2007/08, we suffered a negative return of 11% compared with a 16% negative return for global equities and a 21% loss for UK equities. Over the past three years, a positive annual return of 6% has enabled us, however, to maintain our long-term record since the flotation of Wellcome plc in 1986 of returning 15% a year giving real returns of 12% per annum. The net value of the Trust's investment asset base was £13.1 billion at 30 September 2008.

Ten-year returns for equities have now fallen to the weakest level since the US War of Independence in the 1770s while returns for other 'real' asset classes are likely to continue to deteriorate. It is therefore likely that we shall, over the coming year, recycle monies into equities for the first time since 1986, while being very mindful of preserving adequate liquidity to support our charitable activities for several years without the need to sell liquid assets at depressed prices.

We continue to develop our investment team and have invested our portfolio in expectation of turbulent times. We are well positioned to take advantage of the substantial long-term investment opportunities which are being presented.

Governance

This year has seen significant changes in the governance of the Trust. In February 2008 we were much saddened by the death of Alastair Ross Goobey, who had been a Governor of the Wellcome Trust for six years. In spite of significant suffering, he supported the Trust to the last and his financial wisdom has been extraordinarily helpful in maintaining the value and security of the Trust's endowment over recent years.

During the year we appointed a breadth of new experience to the Trust. In January 2008 we welcomed three new Governors: Professor Dame Kay Davies, a leader in genetic research and Director of the MRC Functional Genetics Unit at the University of Oxford; Professor Chris Fairburn, a leading research psychiatrist at the University of Oxford and Professor Peter Rigby, a leading cancer researcher and Chief Executive of the Institute of Cancer Research, London.

In February 2008, Rod Kent, who has considerable experience in banking and investment, joined the Board. Baroness Manningham-Buller, who recently joined the House of Lords following her distinguished leadership of the UK's security services, became a Governor in August 2008.

Future challenges

Science has always been one of the foundations underlying humankind's ability to develop and advance. Today, this has not changed, and the numerous and complex challenges currently facing the world demand significant attention from world leaders, policymakers and grantmakers alike. With issues as diverse as energy and biofuels, intellectual property, genetically modified organisms, and information and communication technology among those we must tackle, it is clear that advances in science and technology will undoubtedly play a significant part in how we move forward as a global community, making the Trust's global presence more important than ever.

During the year, we have made important progress in building our international influence, in terms of both examining how we contribute to the significant medical challenges facing the world, and how we grasp the opportunities new technologies bring to tackle these issues.

In particular, we recognise the substantial challenge of global climate change and the potential impact of this on, among others, health, agriculture, migration, infrastructure and water supplies. Through a Frontiers Meeting (an expert meeting that explores the current state of science in a particular field) we have identified a number of areas that will form an important part of our agenda over the coming years. In addition, we have moved our partnership focus to see how we can contribute to the nutrition debate, particularly by looking at undernutrition and overnutrition, which are, paradoxically, both growing challenges faced by India and China.

I would like to end by thanking our Director Mark Walport, our Governors and our staff for their excellent work over the past year.

Bill Castell

Sir William Castell
16 December 2008

TRUSTEE'S REPORT
for the year ended 30 September 2008

Objects

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

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

Mission and Aims

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

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

Review of Activities

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

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

The charitable activities of the Trust, as detailed in note 6 to the Financial Statements, often cover more than one of the Trust's aims. More information is available on the Wellcome Trust web site www.wellcome.ac.uk or the *Annual Review* when it is published in early 2009.

Advancing knowledge

The Trust is committed to supporting research to increase understanding of health and disease in today's society. The majority of the Trust's funding is spent on supporting research institutions – primarily UK universities – through its Science Funding activity. For the year ended 30 September 2008, 208 project grants (totalling £60 million) and 49 programme grants (totalling £63 million) were made through the five Science Funding streams: Immunology and Infectious Disease, Populations and Public Health, Neuroscience and Mental Health, Physiological Sciences, and Molecules, Genes and Cells.

Strategic Awards provide flexible forms of support for research and/or training that 'add value' to excellent research groups. A number of key Strategic Awards were made this year through the Science Funding activity, across a variety of subject areas and geographical locations. Recipients included Professor Steve McMahon at King's College London for the London Pain Consortium. At the European Bioinformatics Institute (EBI), located on the Wellcome Trust Genome Campus in Hinxton, Dr Ewan Birney has received a Strategic Award to support the 1000 Genome Project, which will involve sequencing the DNA of at least 1,000 people from around the world.

The KEMRI-Wellcome Trust Research Programme, one of the Trust's Major Overseas Programmes, which is based in Kenya, received funding of just under £16 million in total in 2007/08 through the Science Funding activity. This funding was made across a number of different grant types, including those to support training at the Master's and post-doctoral level.

The Trust also directs a substantial proportion of its funding to medical humanities, through its Medicine, Society and History activity. This year saw the Trust make its first major Medical Humanities grants. Professor Brian Hurwitz at King's College London received around £2 million and Professor Martyn Evans at Durham University around £1.9 million to establish centres of excellence in the medical humanities at each institution.

Three Strategic Awards were made for biomedical ethics. The recipients included Professor Julian Savulescu, Director of the Oxford Uehiro Centre for Practical Ethics, who will look at neuroethics – the examination of problems for ethics, research and clinical practice in areas such as addiction, criminal responsibility and enhancing normal cognitive capacity.

Wellcome Trust Sanger Institute and Wellcome Trust Genome Campus, Hinxton

The Wellcome Trust Genome Campus in Hinxton received £77.2 million funding from the Trust in 2007/08, the majority of which funds the Wellcome Trust Sanger Institute, helping to ensure that it continues to produce high-quality, high-impact research from the cutting edge of genetic and genomic research. The spectacular productivity seen in 2006/07 has continued this year, with the Sanger Institute publishing a number of top quality papers in major scientific journals.

In July 2008, the Sanger Institute reported the sequencing of the equivalent of 300 human genomes in just over six months – which means it produces as much sequence data every two minutes as was deposited in the first five years of the international DNA sequence databases, which started in 1982. Among other notable work underway there is the Cancer Genome Project. Established by Professor Mike Stratton eight years ago, this project has become a cornerstone of the International Cancer Genome Consortium, which aims to define the key genetic changes that occur in 50 different types of cancer.

The Trust funds programmes of Advanced Courses, Conferences and Retreats at the Wellcome Trust Conference Centre, Hinxton on a range of biomedical topics. A variety of international events were also held throughout the year, including workshops in Africa and Latin America.

Using knowledge

As well as supporting basic research that improves understanding of health and disease, the Trust, through its Science Funding activity, funds projects and initiatives that develop and use knowledge to produce a tangible health benefit.

To encourage applications in particular areas of research, the Trust publishes a series of 'highlight areas'. For example, among those funded under the highlight area of 'vaccine adjuvants' were Professor Willem van Eden at University of Utrecht and Professor Paul Lehner at the University of Cambridge, who received a joint programme grant to study the molecular mechanisms by which a particular protein triggers immune responses.

The Technology Transfer division provides funding to bridge the gap between fundamental research and commercial application. This year, Technology Transfer awarded £26 million on grants.

Early-stage drug discovery is being supported through Technology Transfer's five-year, £91 million Seeding Drug Discovery Initiative. Recipients of funding included Professor Jonathan Seckl and Professor Brian Walker at the University of Edinburgh, who will select a clinical candidate from their series of inhibitors of an enzyme involved in age-related memory loss and obesity. San Francisco-based Achaogen Inc. was awarded a Programme related investment of $8 million (£4.1 million) to develop novel antibiotics against multi-drug resistant bacteria.

Also through Technology Transfer, Professors Christofer Toumazou and Chris McLeod at the Institute of Biomedical Engineering, Imperial College London, were awarded a Translation Award to develop a wireless device that can be permanently implanted in the heart to allow continuous blood pressure monitoring.

The Trust also supports projects that create health benefits overseas. Three Strategic Awards in India, totalling £15 million, were made in the year through the Science Funding activity. These awards included a partnership with the Public Health Foundation of India to establish links between the Foundation's planned new institutes and UK centres of excellence in public health to facilitate the training of researchers.

Engaging society

Through the Engaging Science programme, the Trust offers over £3 million per year to support projects that inform and inspire the public about biomedical science and its social contexts. Funded activities include directly commissioned work and partnerships with other organisations.

TRUSTEE'S REPORT
for the year ended 30 September 2008 (continued)

A series of Medicine, Society and History Capital Awards were made to support public science centres and museums: the Science Museum, London; At-Bristol, Bristol; and the Science Gallery, Dublin (who received the first major award made by the Trust for public engagement with science in the Republic of Ireland).

The Trust's continued dedication to increasing the quality, quantity and visibility of biomedical content in the mass media was augmented in the year by the launch of the Broadcast Development Awards. This funding supports the best early-stage ideas for TV, radio or new media projects. One of the first planned films funded through this scheme, *Fireworks*, won the grand prize at the American Screenwriters Association International Screenplay Competition.

Wellcome Collection, which houses a number of galleries, exhibition spaces and a café, as well as the Wellcome Library and Wellcome Collection Conference Centre, celebrated its first birthday in June 2008. It has welcomed some 300,000 visitors in its first year, and has attracted extensive press coverage, particularly through its often sold-out events and thought-provoking temporary exhibitions, including *Sleeping & Dreaming, From Atoms to Patterns, Life Before Death* and *Skeletons*.

Developing people

The Trust supports the development of researchers across a number of key career stages: from PhD studentships to the most prestigious personal awards offered, Principal Research Fellowships (PRFs). In 2007/08, £26 million of PRF awards were made, and £32 million of Senior Research Fellowship awards were made.

This year, there has been a particular emphasis on supporting scientists and clinicians at the early stages of their careers. Among the suite of schemes introduced in 2007/08 are the Wellcome Trust/National Institutes of Health Four-year PhD Studentships and Starter Grants for Clinical Lecturers, to support research costs for clinical lecturers. We have also introduced the Wellcome Trust and Howard Hughes Medical Institute (HHMI) Exchange Programe to promote international collaborations among scientists funded by the Trust or the HHMI. In 2007/08 – the second year of the Sir Henry Wellcome Fellowships – 17 new awards, each worth £250,000, were made.

Supporting translational research also remains a priority for the Trust. In 2007/08, four institutions and their industry partners were awarded funds to establish Interdisciplinary Training Programmes for Clinicians in Translational Medicine and Therapeutics – a major new opportunity for clinicians to train in leading-edge translational research environments, in academic institutions and in industry. The programmes are based at the University of Cambridge, the University of Newcastle, Imperial College London and a Scottish consortium (led by the University of Edinburgh). The industrial partners include GlaxoSmithKline, Wyeth Research, Roche, AstraZeneca, Sanofi-Aventis, Sirtris Pharmaceuticals and PTC Therapeutics.

In 2007/08, Strategic Awards totalling £20 million were awarded to ensure that African scientists will remain in, or return to, Africa to build and lead sustainable research programmes. Among the recipients was Professor Brian Greenwood from the London School of Hygiene and Tropical Medicine, who was awarded over £7 million to support training for African scientists to undertake malaria research in African universities.

Facilitating research

Through the Science Funding activity, just under £30 million of Capital Awards were made in 2007/08, after the introduction of the scheme in 2007. In all, nine UK universities received funding of at least £1 million to support large-scale new build or refurbishment projects that will facilitate leading-edge biomedical research.

Among the awards made to help facilitate research is a Strategic Award of just under £5 million to Professor Janet Thornton at the European Bioinformatics Institute (EBI). This will be used to make a number of databases from a drug discovery company, Galapagos NV, part of the EBI's open-access resources, which should prove invaluable for researchers developing new drugs.

The cataloguing and preservation of medical history collections is vital to ensure researchers can benefit fully from these resources, today and in the future. The Trust has funded a series of such projects in UK libraries and archives through its Research Resources in Medical History scheme, extended in 2006 to run until 2011. Among these is a project to be carried out at the University of Bath to catalogue the archive of Nobel Prize-winning physiologist Professor Bernard Katz, a particularly rich source of information on the history of medicine, especially neurophysiology.

The Wellcome Library continues to be one of the world's major resources for the study of medical history, holding over 750,000 books and journals, an extensive range of manuscripts, archives and films, and more than 250,000 pictures. Among notable acquisitions are the personal papers of the late Sir Bernard Spilsbury, the 'father of modern forensics'. Meanwhile, the Wellcome Image Awards garnered extensive interest in the national press.

Influencing policy remains a key activity of the Trust, which worked closely with a number of stakeholders to support certain aspects of the Human Fertilisation and Embryology Bill to ensure that UK stem-cell research is undertaken within a robust regulatory environment that carries public support. The Trust's activities included hosting a debate about the Bill in Wellcome Collection in May 2008, which brought together religious leaders, scientists, ethicists and philosophers.

The Trust is also involved in exploring issues of personal information and data sharing, including working with GPs to create guidance for the use of patient medical records in research.

A report into the economic benefits of UK charitable and public investment in health research, commissioned by the Trust and other research organisations, has recently been published. The findings are the first quantitative estimates of such benefits, and have opened up many new questions about how to assess the impacts of research in the UK on different parts of the world, and vice versa.

Future Plans

Over the coming years, the Trust will continue to support the best scientists, clinicians and researchers across a wide variety of subject areas and specialities, and at all career stages.

There will be a particular focus on schemes that encourage interdisciplinary research. In partnership with the Medical Research Council, the Trust will fund a number of Strategic Awards to fund consortia of leading research groups – potentially including international partners and those from the pharmaceutical industry – to investigate the biological processes underlying neurodegenerative diseases. The Trust will contribute £20 million to the scheme, and the Medical Research Council £10 million.

The Trust will continue to work with the Medical Research Council, Cancer Research UK and University College London to develop the UK Centre for Medical Research and Innovation in London.

To continue its support of translational and clinical research, the Trust will provide up to £50 million over five years to a matched fund with the Department of Health to create a new Health Innovation Challenge Fund. This funding will be used to support work that accelerates the development of innovative technologies, devices and clinical procedures of relevance to the National Health Service.

Also on the theme of translational research, the Trust has launched its Postdoctoral Training Fellowships for MB/PhD graduates, which give the most promising newly qualified MB/PhD graduates an opportunity to make an early start in developing independent research careers.

Capacity building in low-income countries remains a key priority for the Trust. Among such activities is the Trust's collaboration with the Alliance for Health Policy and Systems Research to fund groups that are working to apply research evidence in policy making.

The African Institutional Initiative has been introduced to strengthen African higher education and research institutes in a number of ways. These include building a critical mass of local research capacity geared to national priorities, creating equitable and sustainable networks and partnerships between institutions through South-South and North-South linkages, and supporting research leaders to enthuse young scientists to develop research careers. Also in the international arena, the Trust is working with international partners, including the World Health Organisation, to devise a research roadmap for pandemic flu.

For 2008/09, the Trust committed £1 million to meet open access fees, part of its on-going effort to ensure that all Trust-funded publications are made available through the PubMed Central and UK PubMed Central databases within six months of final publication.

The first ever winner of the Wellcome Trust Book Prize, which awards £25,000 for the best new fiction or non-fiction book on the theme of health, illness or medicine will be announced in late 2009 by the chair of the judges, comedienne Jo Brand. The digitisation of Wellcome Library's collections continues, opening up these valuable resources to more people.

A major programme of education and public engagement events to commemorate the 200th anniversary of the birth of Charles Darwin are planned for 2009. Wellcome Collection will continue to host themed series of events and exhibitions, as well as developing its online presence at www.wellcomecollection.org. Major exhibitions for 2009 include *War* and *Medicine* and *Madness* and *Modernity*.

TRUSTEE'S REPORT
for the year ended 30 September 2008 (continued)

Financial Review

Figure 1: Summary financial information

	2008 £m	2007 £m
Statement of Financial Activities		
Investment activities		
Total (loss)/return from investment activities	(1,539)	2,246
Costs of investment activities		
Management fees and other costs	(59)	(47)
Interest payable on bond liability	(26)	(26)
Interest payable on finance leases	(2)	(2)
Net (loss)/return on investments	**(1,626)**	**2,171**
Charitable activities		
Charitable income	14	11
Other income	9	6
	23	**17**
Charitable resources expended		
Grants	(525)	(359)
Direct	(133)	(117)
Allocated support	(44)	(44)
	(702)	**(520)**
Net charitable activities	**(679)**	**(503)**
Other activities		
Governance	(2)	(2)
Actuarial (loss)/gain on pension schemes	(26)	16
Net other activities	**(28)**	**14**
Net movement in fund	**(2,333)**	**1,682**
Summary of net assets		
Investment		
Net investment assets	13,074	15,173
Other items*	(40)	(51)
	13,034	**15,122**
Charitable		
Tangible fixed assets	424	432
Other assets	31	21
	455	**453**
Grant liability	(1,260)	(1,040)
Finance lease creditor	(86)	(87)
Other charitable liabilities	(43)	(43)
	(1,389)	**(1,170)**
Net charitable liabilities	**(934)**	**(717)**
Defined benefit pension scheme deficit	**(68)**	**(40)**
Net assets including pension deficit	**12,032**	**14,365**

* Other items above comprise £17 million relating to programme related investments (2007: £2 million) which do not form part of the Investments portfolio and a £57 million adjustment to the bond liability which is stated at market value (2007: £53 million) whereas the bond liability is stated at amortised cost in figure 5 on page 10.

Investment Summary

2007/08 was an extremely difficult year across asset classes. The US and European financial system was so seriously tested by events that a number of leading institutions (AIG, Lehman Brothers, Washington Mutual, Fannie Mae, Freddie Mac, HBoS, Lloyds TSB, Royal Bank of Scotland, Bradford & Bingley, Northern Rock) had to be rescued using government monies or allowed to fail.

Credit markets, including the inter-bank market, seized up as the appetite for risk collapsed. Activity in the commercial and residential property markets slowed dramatically as banks sought to reduce lending. Private equity transactions ground to a halt as debt became unavailable. Many hedge funds were unable to withstand the joint pressures of falling markets and substantial redemptions.

Activity in the real economy slowed sharply, especially in the final quarter. The US, UK, European and Japanese economies headed into recession although interest rates were cut and Government spending was increased. Commodity prices, which had been unsustainably strong earlier in the year, fell rapidly. Equity markets sold off sharply. With the UK economy highly exposed to the downturn, Sterling declined by 13% against the US Dollar, by 12% against the Euro and by 20% against the Yen.

Against this backdrop, the Trust's portfolio recorded a 10.8% decline in value over the year. The net value of its assets declined to £13,074 million.

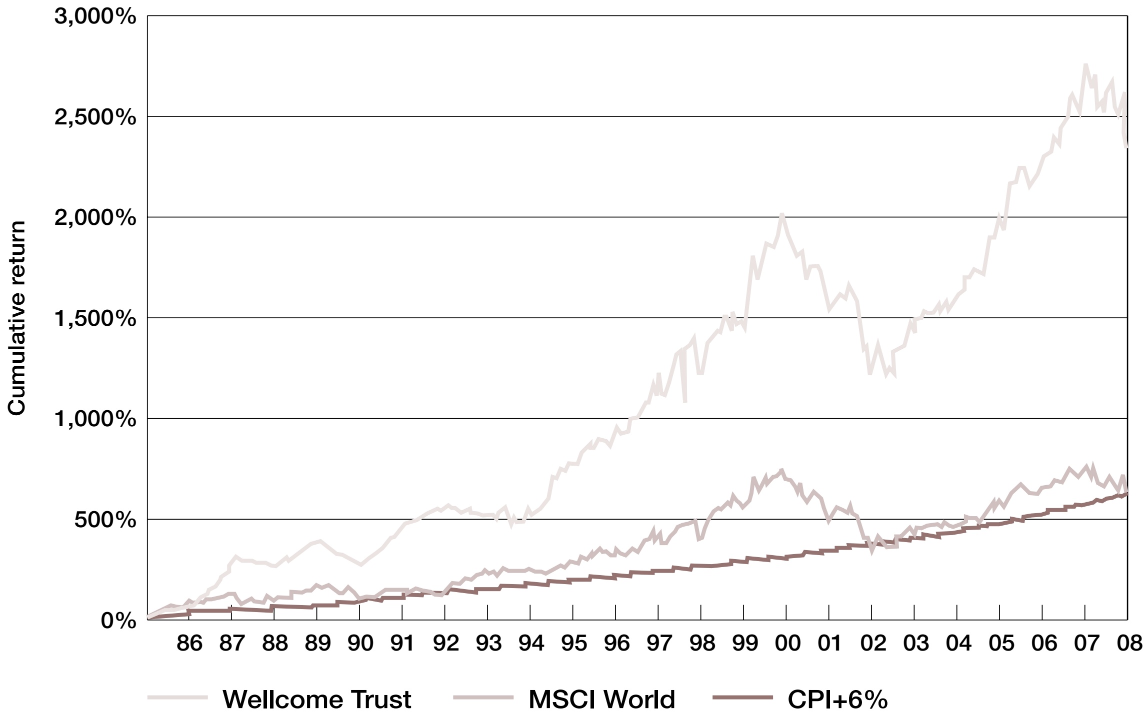
The decline would have been significantly greater had the Trust not acted to reduce its exposure to riskier assets. Between March 2006 and May 2008, the Trust sold in excess of £4.5 billion of equities, reducing its equity exposure from 69% of the total portfolio in September 2005 to 38% in September 2008. In particular, it removed its bias to UK equities, selling over 80% of its UK equity portfolio to reduce it from 32% to 5% of the total portfolio over the period.

It also reduced its exposure to commercial property and sold a $250 million portfolio of mature private equity buyout fund interests in early 2008.

Liquidity levels were raised to recent high levels; holdings of short-term cash and bonds were increased from 5% to 9% of the portfolio. The weakness of the US Dollar in 2007 and early 2008 was used to acquire US Dollar assets at favourable exchange rates, exposure to which was only partially hedged.

Figure 2: Total portfolio cumulative returns since 1986 (Sterling) annualised

Wellcome Trust Performance (1986–2008)



Over three years, the Trust's portfolio has recorded 18% appreciation despite stagnant equity markets. Nominal and real returns have been creditable over five and ten year periods.

Since inception of the investment portfolio on the flotation of Wellcome plc in October 1985, annualised returns have been 15%, exceeding both the global equity index (MSCI World) and the Trust's targeted return (6% real) by over 6% per annum.

Investment performance

Figure 3: Total portfolio returns (Sterling) annualised

	Nominal Return %	UK CPI %	Real Return %
1 year	(10.8)	3.1	(14.0)
3 years	5.7	2.6	3.1
5 years	10.0	2.2	7.8
10 years	6.5	1.7	4.8
Since Oct 1985	14.9	2.9	12.0

The past ten years have been a barren decade for global equity markets which have returned just 3.7% a year (nominal) over the period. The tech bubble, the property bubble and the credit bubble have all burst while the dismantling of the Anglo-American funded corporate pension model and historically low savings rates have all contributed to a severe misallocation of financial resources. Economic travails in Japan and the Asian crisis imposed further downward pressure. 2007/08 marked a further very difficult year.

Despite its extensive equity sale programme, the approximately 20% decline in the value of the Trust's remaining portfolio in 2007/08 accounted for the whole of its negative return. In Sterling terms, creditably small losses were recorded in its equity long/short hedge funds and its property portfolio.

High levels of liquidity provided a bulwark against falling markets and ensured that the Trust will be able to meet both financial and charitable commitments without having to sell real assets at distressed prices. Positive returns over three years were recorded through its extensive diversification into credit funds, multi-strategy hedge funds, private equity buyouts, healthcare and venture investments.

TRUSTEE'S REPORT

for the year ended 30 September 2008 (continued)

The Trust's focus on avoiding investments in assets which would be especially exposed to a reversal of appetite for credit and leverage and its access to the best managers has been rewarded. In the past three years, positive returns have been achieved for nine of its ten major asset classes (equities, equity long/short hedge funds, bonds and cash, buyouts, multi-strategy, credit, healthcare and venture funds, commercial and residential property).

Investment Activity

Figure 4: Evolution of asset allocation

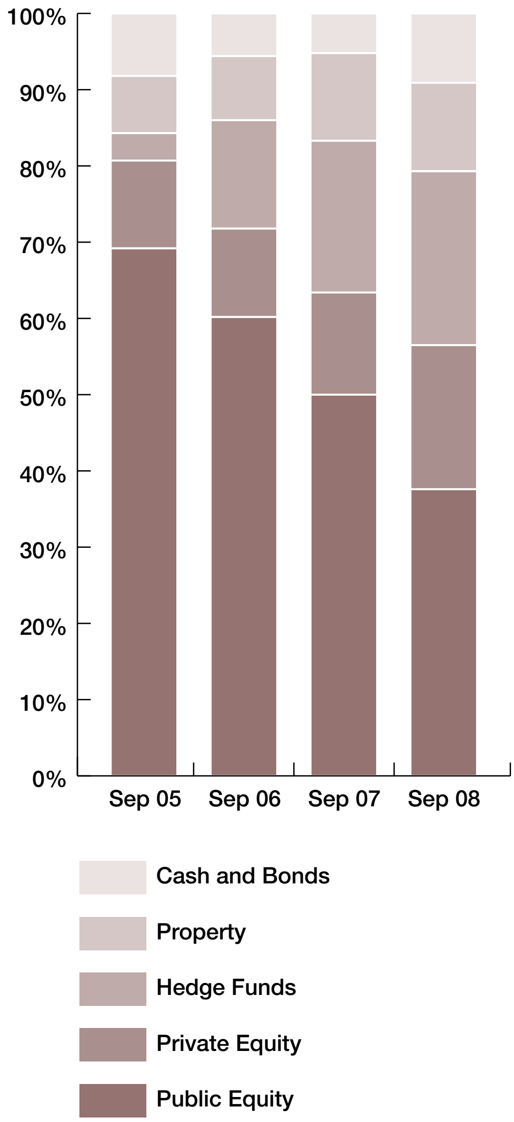


Figure 5: Asset allocation – September 2008

	Market Value £m	Allocation as at 30/09/08 %	Allocation as at 30/09/07 %	Change in Allocation %
Equity & Equity Long/Short	**6,522**	**48.1**	**57.9**	**(9.8)**
Long Only Equities	**5,031**	**37.1**	**49.4**	**(12.3)**
UK	751	5.5	14.6	(9.1)
Europe	433	3.2	7.7	(4.5)
Global	946	7.1	6.1	1.0
US	899	6.6	7.2	(0.6)
Japan	436	3.2	2.8	0.4
Asia Pacific ex Japan	670	4.9	5.4	(0.5)
Emerging Markets	790	5.8	5.6	0.2
Passive Equity Index Exposure	106	0.8	–	0.8
Equity Long/Short Hedge Funds	**1,491**	**11.0**	**8.5**	**2.5**
Bonds & Cash	**1,264**	**9.3**	**5.2**	**4.1**
Absolute Return & Buy-Outs	**3,208**	**23.6**	**19.6**	**4.0**
Buy-Out Funds	1,412	10.4	7.7	2.7
Credit Funds – Drawdown	287	2.1	1.2	0.9
Multi Strategy Hedge Funds	1,090	8.0	6.8	1.2
Credit Hedge Funds	263	1.9	1.4	0.5
Active Currency	156	1.2	2.5	(1.3)
Healthcare & Venture	**1,242**	**9.3**	**6.2**	**3.1**
Healthcare Equity	171	1.3	0.9	0.4
T Rowe Price	13	0.1	0.2	(0.1)
Venture Capital Funds	731	5.4	3.8	1.6
Healthcare Hedge Funds	157	1.2	0.9	0.3
Direct Investments	117	0.9	0.4	0.5
Direct – Technology	37	0.3	–	0.3
Financial Services	16	0.1	–	0.1
Property & Infrastructure	**1,618**	**11.9**	**11.4**	**0.5**
Commercial Property	211	1.6	2.0	(0.4)
Residential Property	900	6.6	4.2	2.4
Geared Property Vehicles	507	3.7	5.2	(1.5)
Currency overlay	**(293)**	**(2.2)**	**(0.3)**	**(1.9)**
Total Assets	**13,561**	**100.0**	**100.0**	**–**
Wellcome Trust Bond Liability*	**(487)**			
Total Assets including Bond Liability	**13,074**			

* The Wellcome Trust Bond is stated at market value above. The bond value is stated at amortised cost in the Financial Statements. Investment values exclude programme related investments.

The Trust continued to make significant changes to its investment portfolio in 2007/08 in anticipation of recessionary economic conditions. Using intermittent rallies in equity markets between September 2007 and May 2008, equities were sold to reduce the weighting in the portfolio from 50% in September 2007 to 38% in September 2008. Domestic UK bias was eliminated as the UK equity weighting was reduced from 15% to 5% and the perceived vulnerability of Continental European companies to a recession was reflected in the sale of European equities from 8% to 3% of the portfolio.

After the aggressive sell-off in equity markets late in the year, the valuation of equities has again become attractive for long-term investors and the Trust has become a selective buyer of equities.

In particular, as operating leverage becomes as serious a threat as financial leverage to the viability of companies' business models, mega-cap global companies (companies with a market capitalisation above $50 billion), the valuations of which have been substantially de-rated over the past decade, have become increasingly defensive and attractive. The Trust noting a dearth of high quality external managers for mega-cap equities, began to invest directly towards the end of the year in a pre-selected basket of 34 mega-cap equities, collectively representing 25% of global market capitalisation with turnover equivalent to 6% of global GDP. The recycling of investment towards this basket should reverse the overall bias in the whole portfolio towards economically more vulnerable smaller companies and improve overall risk/return characteristics.

Amidst uncertainty, the Trust built its holdings of cash and short-term bonds to £1.3 billion by the end of the year. These holdings give it confidence that it has ample liquidity in challenging times.

The Trust's private equity portfolio was initiated in the early 1990s and is now mature. As with other parts of the portfolio, it is important to manage these interests actively, using the growing secondary market. Accordingly, $250 million of mature buyout fund interests were sold during the financial year and the Trust continues to monitor prices both as a buyer and a seller. Strong underlying performance, continued commitments and US Dollar strength have increased the overall portfolio weighting towards both buyouts and venture. The Trust remains confident that it is partnered with the strongest managers.

Commercial property investments were reduced as yields became unsustainably low and remaining interests are concentrated in strategic long-term investments. Over 70% of the Trust's property interests are now held in long-term residential assets.

Investment risk management

The Trust continues to invest significant resources in risk management including the appointment of a new Head of Investment Risk and Performance, reporting directly to the Director. Diversification of the portfolio away from equities tends to reduce expected portfolio volatility, but over the past year, this has been more than offset by the dramatic increase in asset volatility. As a consequence, the trailing 3 year volatility (standard deviation) has risen above 9% (annualised) as shown in figure 6 and the potential for loss may, on a short-term basis, exceed the 15% Value at Risk (VAR)[1] cap which the Trust targets. Significant emphasis has been placed on managing and forecasting liquidity given the complexity of cash flows that the Trust's activities naturally create.

1 VAR is a measure that estimates the probability and extent of losses based on statistical analysis of historical returns and volatilities.

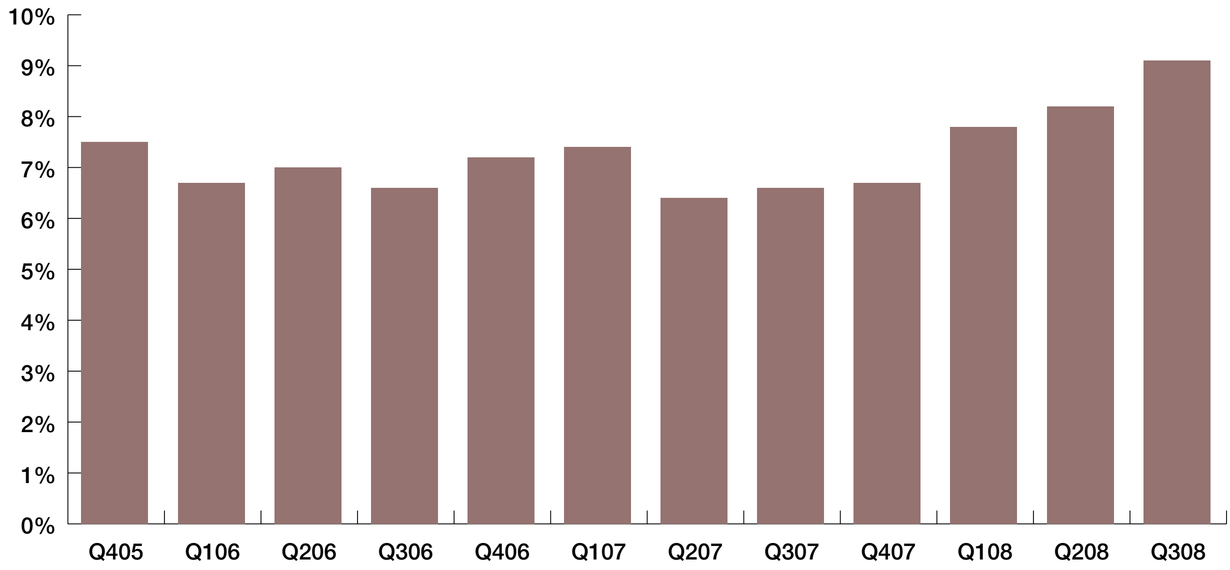
TRUSTEE'S REPORT

for the year ended 30 September 2008 (continued)

Figure 6: Volatility (Standard Deviation) of Sterling returns

Standard Deviation Period to 30 September 2008	Trailing 1 Year Annualised	Trailing 3 Year Annualised	Trailing 5 Year Annualised	Since Inception Annualised
	12.8%	9.7%	8.5%	12.2%

Trailing 3 year Standard Deviation[1]



Investment Philosophy

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

1) Sufficient liquidity must be maintained to avoid the forced sale of assets at distressed prices. However, real assets offer the best long-term growth prospects and provide protection against inflationary pressures.

2) In order to maximise investment returns from global economic activity, the portfolio should be very broadly diversified with no innate geographical bias.

3) The Trust seeks to utilise the advantages of its long-term investment horizon, its ability to tolerate high levels of short-term volatility, its AAA balance sheet and its proactive governance structure in its investment portfolio.

4) The best returns will be driven by combining aligned partnership with the strongest external managers and building in-house resource to own selected assets directly.

5) The Trust is generally flexible as to the nature of the vehicles in which it invests, whether public companies or private partnerships.

1 The Standard Deviation is a measure of volatility and is a statistical measure describing the spread of returns.

Equities

Figure 7: Public equity annual returns (Sterling) annualised

Period to 30 September 2008

	Return %
1 year	(19.6)
3 years	1.3
5 years	7.4
10 years	4.2
Since Jan 1993	7.5

Figure 8: Equity allocation by manager strategies

As at 30 September

	2008		2007	
	Value £m	Number of managers	Value £m	Number of managers
UK	672	3	2,285	5
US	899	4	1,125	4
Japan	542	3	442	4
Europe	433	2	1,201	2
Asia Pacific	670	3	850	3
Emerging Markets	790	4	873	4
Global	891	3	948	3
Healthcare	171	2	139	2
Direct Public	133	–	–	–
Total	**5,201**	**24**	**7,863**	**27**

The 20% decline in the value of the Trust's equity portfolio was disappointing. According to some statistics, 10-year UK equity market returns fell to their lowest level since the 1770s. As other assets became increasingly illiquid, sellers were forced to use their equity portfolios to raise funds despite increasing volatility in equity markets.

Differentiation in regional returns was largely driven by currency movements as US and Japanese assets performed less badly than European, UK and Asian equities. Despite their greater financial and operating leverage, small and mid-cap companies fared as well as very large companies with global reach and strong balance sheets, which were easier to sell.

Passive equity exposure in the portfolio was greatly reduced; one European and one Japanese external manager were replaced and one other Japanese manager was terminated. The Global component of the equity portfolio (including Direct Public) was increased from 12% to 20%.

In 2008/09, the number of external managers will again be reduced. Global equities, whether managed externally or through direct holdings, are likely to continue to become more prominent.

Hedge funds

Figure 9: Hedge fund (net of fees) annual returns (Sterling)

Period to 30 September 2008

	Annualised Return %		
	1 year	3 years	5 years
Equity Long/Short	(0.9)	4.2	5.6
Multistrategy	2.9	4.1	4.9
Credit	2.8	3.6	6.8
Healthcare	13.7	6.7	–
Active Currency	(17.1)	–	–

Figure 10: Hedge fund allocation by funds

As at 30 September

	2008		2007	
	Value £m	Number of managers	Value £m	Number of managers
Equity Long/ Short	1,491	30	1,323	32
Multistrategy	1,090	8	1,070	10
Credit	263	7	212	7
Healthcare	156	4	138	4
Active Currency	156	2	396	3
Total	**3,156**	**51**	**3,139**	**56**

Hedge funds had a very difficult year with many recording significant losses in local currency terms. Very volatile markets, regulatory intervention, problems with prime brokers, deleveraging and substantial redemptions combined to create an *annus horribilis*.

TRUSTEE'S REPORT
for the year ended 30 September 2008 (continued)

The Trust maintained the value of its hedge fund portfolio at £3.2 billion as relatively robust performance by its managers was flattered by the 13% decline in the value of Sterling against US Dollar. The Trust's healthcare hedge fund managers performed most strongly, although there were creditable positive performances from selected multi-strategy, credit and equity long/short managers.

Most reassuringly, the Trust managed to avoid investments with any manager who was forced to close their business through redemptions, whose business had significant involvement with Lehman or who had terminal losses. Approximately a fifth of funds provided positive returns in local currency; another fifth lost between approximately 20% and 35% and the remainder recorded losses of up to 20%. The number of managers was reduced by five over the year. Investment in actively-managed currency funds was discontinued as currency market volatility increased.

The Trust's hedge fund portfolio was designed to provide greater stability for returns, to permit alternative sources of liquidity and to enable aligned partnership with talented investors. As such, it remains an important element of the portfolio.

Private equity

Figure 11: Private equity performance

Period to 30 September 2008

	Local currency	Sterling
Net IRRs (from 1994)*		
Buy-outs	11.6%	11.6%
Venture	65.6%	65.8%
Total private equity	**18.1%**	**17.9%**

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

Figure 12: Private equity investments by funds/companies

As at 30 September

	2008		2007	
	£m	Number of funds	£m	Number of funds
Buy-outs	1,699	203	1,394	262
Venture	731	242	612	230
Direct (companies)	154	28	91	23
Total	**2,584**	**473**	**2,097**	**515**

The Trust's private equity portfolio continued to grow in 2007/08. Given market conditions and the maturity of the portfolio, the Trust has become a more active manager; US Dollar strength has reinforced this attitude. The number of private equity buyout funds was reduced by a fifth as older and smaller positions were sold selectively, while larger commitments to a more select group of managers allowed the average size of the Trust's buyout investments to rise by more than 40%.

Particular emphasis has been paid to broadening the scope of the portfolio. Total buyout commitments in 2007/08 were similar to levels in 2006/07; however, only 30% were made to general funds with the majority of commitments made to funds specialising in particular sectors (energy, healthcare, financial services) or regions (Africa, Scandinavia, Eastern Europe, Latin America).

Respectable performance by many of the underlying companies owned by private equity funds and US Dollar strength was reflected in the modest appreciation in the value of the buyout portfolio in 2007/08. Since inception, the buyout portfolio's annual Internal Rate of Return (IRR) has been 11.6% in Sterling terms, about 6% above the return delivered by public equity markets.

The Trust's portfolio of venture funds is also maturing. The portfolio delivered a creditable 11% Sterling return in 2007/08 despite a market background that precluded opportunities to float companies in public markets. New investments were made in ten funds and four small direct investments in healthcare and technology. The overall 66% annual IRR since inception reflects the continued ability of the Trust to access the best venture partners.

As the private equity portfolio matures, its cash flow characteristics become less negative. Although outstanding private equity and venture commitments total about £2.2 billion, the Trust's base case assumptions are that this portion of the portfolio will be broadly cash flow neutral over the next three years assuming no further net commitments. New commitments will be funded from other areas of the portfolio.

Property and infrastructure

Figure 13: Property annual returns (Sterling)

Period to 30 September 2008

	1 year	3 years	5 years	10 years	Since inception (1994)
Ungeared Residential	(4.1)	16.8	16.0	17.0	17.8
Ungeared Commercial	(13.8)	2.4	10.1	9.6	9.5
Geared Residential					3.7
Geared Commercial					7.1
Property Composite	(6.8)	10.3	12.9	13.5	12.6

Figure 14: Property allocation (Sterling)

As at 30 September

	2008 Value £m	2007 Value £m
Residential Property	1,180	1,284
Commercial Property	439	498
Total	**1,619**	**1,782**

Although around 70% of the Trust's property portfolio is located in the UK, the returns from its investments have been much stronger than that of the widely used IPD All Property UK index. This index recorded an 18% decline over 1 year, 2% annual growth over 3 years and 8% annual growth over 5 years.

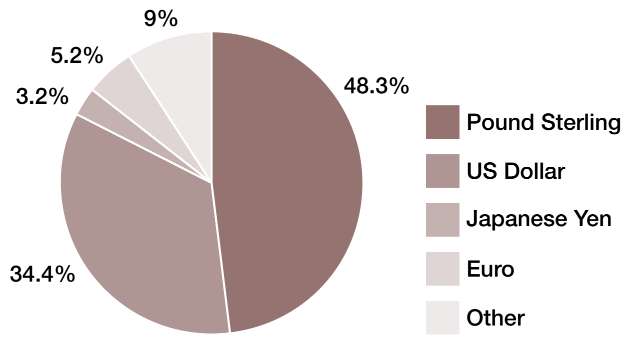
Over the past two years, the Trust has been a seller of commercial property, especially in the UK, where prices became significantly overheated. Remaining direct interests are largely in strategic properties, such as those in the Euston Road, or specialist areas, such as secure data centres. It has been a buyer of residential property, especially in Germany and New York. Exchange rates have been favourable and large high-quality estates have become available which offer attractive long-term cash flow characteristics. As a consequence, residential property has grown from 60% in September 2006 to 73% of the Trust's property interests.

Economic recession and the destruction of value in leveraged property vehicles will present attractive selected long-term opportunities. In 2007/08, the Trust was again unable to find attractive infrastructure investments, but forced sellers may enable adequate returns to become available in 2008/09.

Figure 15: Currency Exposure (net of currency hedging)

As at September 2008

Asset Allocation by Currency



The absence of a domestic bias in the Trust's investment policy requires the Trust to be proactive in its management of currency risk given that its return target, its risk controls and its liquidity profile are based in its base currency, Sterling.

Sterling risk assets, principally in its property portfolio, make up less than 20% of its total portfolio. However, liquidity is largely held in short-term Sterling bonds and Sterling cash. At the end of September 2008, about 30% of its non-Sterling assets were hedged back into, with different long-term hedging ratios being used for Euro, US Dollar and Japanese Yen assets. As a consequence, 48% of its portfolio was exposed to Sterling, 35% to US Dollar and 17% to other currencies. In 2007/08, Sterling weakness created significant net Sterling gains for the Trust's portfolio.

Financial risk management

The Group (as defined on page 31) is exposed to market price risk, credit risk, liquidity risk, currency risk, cash flow and interest rate risk arising from the financial instruments it holds. These risks are summarised in note 23 of the Financial Statements.

TRUSTEE'S REPORT
for the year ended 30 September 2008 (continued)

Investment Update

The Financial Statements have been prepared during an exceptional period of market uncertainty. Valuations included in this report represent the Trust's best estimate of fair value based on a combination of sources of information. Since the end of the financial year, markets have continued to be volatile, with significant movements in asset values and exchange rates. The known fall in marked to market asset values in local currency suffered since the end of the financial year has been largely offset by gains made as a result of the depreciation of Sterling, the base currency of the fund. Since the end of the financial year the Trust suspended its securities lending programme. No information has been received since the year end that would require any further adjustments to the amounts that should be included in this report. Information on unquoted parts of the portfolio and property is usually gathered from external managers quarterly, so the performance of this illiquid part of the portfolio since 30 September is not known at the date of issue of this report. The Trust will continue to manage this situation closely.

The change in value of the investment portfolio as a whole since the start of the new financial year has not been sufficiently material to warrant an adjustment to the spending plans approved by the Board of Governors in October 2008. The budget for 2008/09 represents a commitment level some 5% below the 2007/08 financial year, before taking account of additional commitments from the £500 million special dividend fund, which will continue as planned. Spending plans for the financial year 2009/10 and beyond will be reviewed, as has always been the case, during 2009.

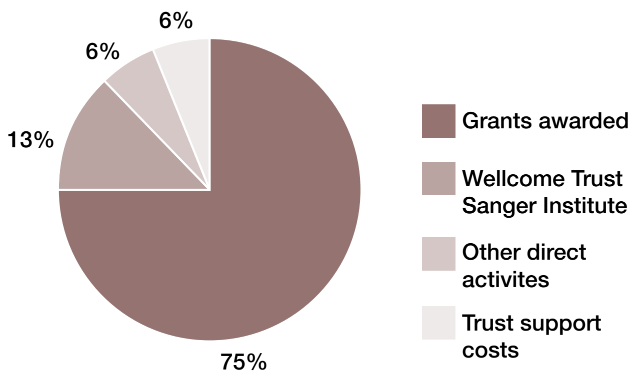
Charitable outgoing resources

Total charitable expenditure for the year was £702 million (2007: £520 million), an increase of £182 million. This increase was mainly due to significant increases in Strategic Awards and increased Technology Transfer activity.

Figure 16 below analyses the Trust's charitable expenditure as a percentage of total charitable resources expended.

Key activities have been discussed in the Review of Activities on pages 4 to 7.

Figure 16: Charitable resources expended



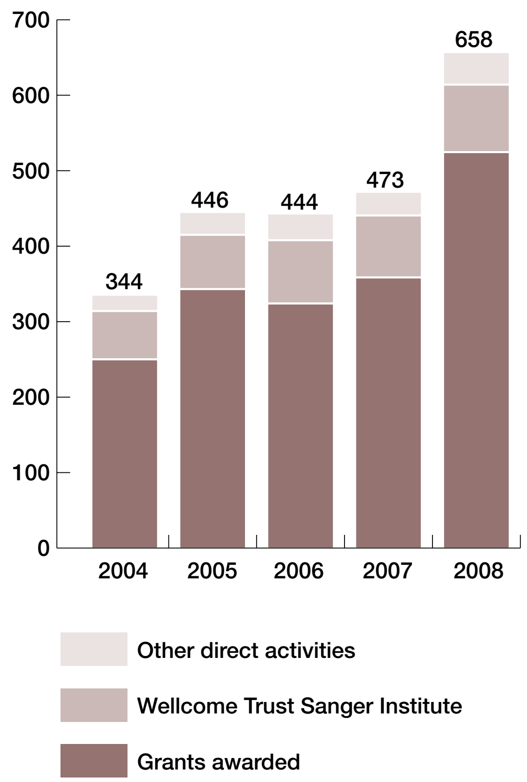
Grant expenditure

In the year to 30 September 2008, grants totalling £525 million were awarded by the Group (2007: £359 million) (figure 17). This was an increase of £166 million (46%). Awards to recipients in the United Kingdom totalled £471 million (90%) (2007: £315 million (88%)).

The increase of £166 million was mainly due to the increase in Strategic Award activity and new initiatives during the year made possible by the special dividend announced in 2006/07.

The number of grants awarded during the year was 1,131 (2007: 893), an increase of 238 (27%). The number of applications received was 2,999 (2007: 2,603), an increase of 396 (15%).

Figure 17: Grants and other direct expenditure (£ million)



Direct expenditure

Expenditure on the activities managed directly by the Trust increased by £19 million in 2008 to £133 million (2007: £114 million). This was mainly due to increased activity at the Wellcome Trust Genome Campus, and in particular the Wellcome Trust Sanger Institute, which accounted for £97 million (2007: £82 million) of the Trust's £133 million total direct expenditure.

Direct expenditure also increased due to further programme related investments by the Technology Transfer division.

Wellcome Collection and other Public Engagement activities by the Medicine, Society and History division also kept expenditure at a similar level to last year with £17 million attributable to direct expenditure (2007: £18 million).

Support and governance expenditure

The grant funding, Wellcome Trust Sanger Institute and other and direct activities require a variety of support activities, on which £44 million was spent during the year (2007: £47 million).

Governance costs, which include Trustee and audit fees, have remained stable at just under £2 million.

Since the end of the year, the status of the project to deliver an automated grant processing system was reviewed and as a consequence the supply contract was ended and the project terminated. Costs of £5.8 million were written off in the year to 30 September 2008 (2007: £6.0 million).

Defined benefit pension schemes

The FRS 17 'Retirement benefit' actuarial valuation of Wellcome Trust's and Genome Research Limited's Pension Plans at 30 September 2008, showed a combined funding deficit of £68.2 million (2007: £40.4 million), see note 11 (d) (ii). This deficit represents the difference between an assessment of the liabilities of the pension funds and the current value of their underlying assets. The amount of the deficit is subject to considerable variability because it depends on a valuation of assets at the year end date and a range of actuarial assumptions including interest and inflation rates, which change annually.

Full independent actuarial valuations were last performed on 1 January 2008 for the Wellcome Trust Pension Plan, and 1 January 2007 for the Genome Research Limited Pension Plan. Approximate funding assessments are provided to report to each Trustees meeting an estimate of the funding positions for the pension schemes. In 2007, the Wellcome Trust provided a commitment to the Wellcome Trust Pension Plan that it will make good any funding deficits over a period of five years or less. The Wellcome Trust has also provided a commitment relating to the Genome Research Limited Pension Plan to make good any funding deficits.

The valuation of the Wellcome Trust Pension Plan at 1 January 2008 identified a £10 million shortfall in funding, which the Trustees of the Plan have agreed with the Trust that the Trust will make good over the next five years. The valuation confirmed the funding rate of 22.4% in place in prior years should continue.

Following an actuarial valuation in 2007, The Genome Research Limited Pension Plan valuation showed a surplus of £5.8 million.

TRUSTEE'S REPORT
for the year ended 30 September 2008 (continued)

Cash flow payments

Charitable activities and governance

Figure 18: Charitable activities and governance payments

	2008 £m	2007 £m
Grants paid	306	336
Wellcome Trust Genome Campus – revenue	77	59
Wellcome Trust Genome Campus – capital	14	16
Programme related investments	31	13
Purchases of Trust tangible fixed assets	4	9
Other direct	20	19
Trust support and governance	37	37
Charitable activities and governance payments	**489**	**489**

These payments were funded by investment income and realisation of £468 million, and charitable income of £21 million.

Grant and Wellcome Trust Genome Campus cash expenditure

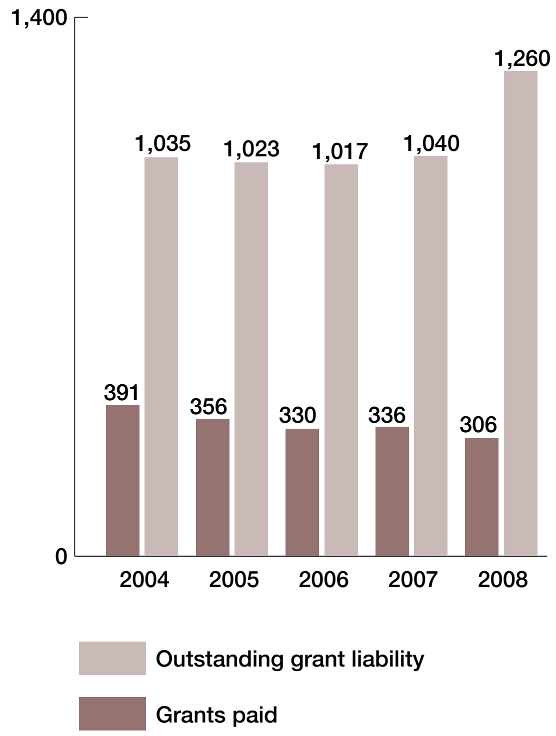
Total grant cash expenditure was £306 million (2007: £336 million), a decrease of £30 million. A change in the way grant recipients were reimbursed for expenditure increased the cash outflow in 2007.

There are normally significant timing differences between when grants are awarded, and payments are made to the recipients. Therefore, the increase in grant funding commitments over the past year has yet to be reflected in higher cash out flows and there is a marked increase in the outstanding grant liability at year end (see figure 19). Cash out flows are expected to increase over the next year.

Wellcome Trust Genome Campus cash expenditure was £77 million (2007: £59 million), an increase of £18 million as genomic research activities increased.

Programme related investments cash expenditure increased to £31 million (2007: £13 million), an increase of £18 million. The increase was mainly due to cash expenditure on the UK Centre for Medical Research and Innovation ("UKCMRI") project.

Figure 19: Grants paid and outstanding grant liability (£ million)



Capital expenditure

There were two main areas of capital cash expenditure:

Buildings: £3 million was spent during the year (2007: £9 million). The expenditure this year relates mainly to the final payments in relation to the refurbishment of 183 Euston Road, in which Wellcome Collection opened in June 2007.

Research facilities: Capital expenditure at the Wellcome Trust Sanger Institute amounted to £9 million (2007: £9 million) as the Trust continues to ensure that high-quality IT and research facilities and capital resources are available at this important research institute.

Policy

Grant-making policy

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

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

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

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

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

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

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

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

Reserves policy

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

Expenditure policy

The annual expenditure budget is normally set by reference to a three-year weighted average of the historic value of the investment assets in order to smooth the effect of short-term volatility in investment values.

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

Investment Policy

The Trust's assets are invested in accordance with the wide investment powers set out in its Constitution and within its Investment Policy. The Investment Policy was amended in February 2006 (and further reviewed in April 2008) to adopt a risk-based approach to investment rather than to make use of strategic asset allocation targets. The Trust's overall investment objective is to seek total return in inflation-adjusted terms over the long term of at least 6% per annum. The objective is to provide for real increases in annual expenditure while preserving at least the Trust's capital base in real terms.

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

Investments are made through a variety of arrangements, including direct investments managed by the Trust's investment team, outsourced managers who invest on the Trust's behalf, and investments in collective investment vehicles of various kinds.

TRUSTEE'S REPORT
for the year ended 30 September 2008 (continued)

The Trust currently allows its discretionary managers who invest on the Trust's behalf to use derivatives under certain prescribed conditions, which are specified in the investment management agreement. In line with the Constitution, the Trust and selected managers are permitted to use options, futures (including future foreign exchange contracts), swaps and contracts for differences, for portfolio and risk management. The Trust adopts a policy of hedging up to 70% of its currency exposure to US Dollar, Euro and Japanese Yen assets using a passive currency overlay although the actual percentage hedged varies from time to time.

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

Structure, governance and management

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

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

The Trustee and the Board of Governors

The sole trustee (the "Trustee") of the Wellcome Trust is The Wellcome Trust Limited, a company limited by guarantee (registration number 2711000), whose registered office is 215 Euston Road, London NW1 2BE. The Trustee is governed by its memorandum and articles of association. The directors of the Trustee (known as Governors), the Company Secretary of the Trustee, the Executive Board and other administrative details are shown on pages 72 to 74.

The incumbent Governors make appointments to the Board of Governors, after advertisement and consultation. The Trust undertakes a comprehensive induction programme for all new Governors, which includes a detailed induction notebook and meetings with members of senior management. In addition, training is available to all Governors.

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

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

The Board is responsible for ensuring that the Trust's charitable objects are being met. The Board sets strategy, decides priorities, establishes funding policies and allocates budgets. It develops and agrees the overall scientific strategy and policies related to biomedical science grant activities, and monitors and reviews progress and policies.

During the year there have been several changes to the Board of Governors. The Trust was extremely saddened by the death of Alastair Ross Goobey in February 2008 following a long illness. Mr Ross Goobey was an outstanding Governor and extraordinary friend of the Trust. A Governor since 2002, his advice was instrumental in helping to develop the investments of the Trust. Patricia Hodgson's term as a Governor came to an end in May 2008.

Five Governors joined the Board during the financial year. Professor Dame Kay Davies, Dr Lee's Professor of Anatomy at the University of Oxford and Director of the MRC Functional Genetics Unit, Professor Christopher Fairburn, Wellcome Trust Principal Research Fellow at the University of Oxford's Department of Psychiatry, and Professor Peter Rigby, Chief Executive of The Institute of Cancer Research, joined the Board in January 2008. Mr Rod Kent, former Chairman of Bradford & Bingley, joined the Board in February 2008. Baroness Manningham-Buller (Eliza) joined the Board in August 2008; she had been Director-General of the Security Service (MI5) between 2002 and 2007.

During 2007/08 the Board of Governors met nine times, including a two-day residential strategic review meeting and two private meetings. For details of the attendance by Board members, please see figure 20.

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

Statement of Trustee's responsibilities

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

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

The Trustee:

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

Committees of the Board of Governors

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

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

The Strategic Awards Committee, of which all Governors and three senior executives are members, makes funding decisions on proposals or initiatives that fall outside of established review, decision-making or funding mechanisms and delegations, and that require strategic, scientific or academic appraisal. In addition, when a proposal falls within the remit of one of the four departments in Science Funding, the head of that department is a member of the Committee for consideration of that proposal. The Committee brings in external experts to discuss with the applicants and the Committee members the merits of an initiative or proposal. The Committee then makes the funding decisions. The Committee meets as required and during 2007/08 it met seven times.

Details of the membership of these committees are given on page 73. During the year, there were changes to the membership of the Audit Committee, the Investment Committee, the Remuneration Committee, the Nominations Committee and the Strategic Awards Committee.

The Audit Committee met three times during the year. The Investment Committee held five regular meetings during the year, and held three additional meetings, which were called at short notice. The Remuneration Committee met twice during the year.

The Nominations Committee met three times during the year. Following the process described in the 2007 *Annual Report*, three new Governors were appointed in January 2008 and one in February 2008. In addition, the Nominations Committee used external search consultancies and open advertising to identify a further candidate for Board appointment and one more Governor was appointed in August 2008.

TRUSTEE'S REPORT
for the year ended 30 September 2008 (continued)

For details of the attendance by committee members, please see the table below.

Figure 20: Attendance by board members

	Board	Strategic Awards Committee	Audit Committee	Investment Committee	Remuneration Committee	Nominations Committee
Sir William Castell	8/9	6/7	–	5/5	2/2	3/3
Professor Adrian Bird	9/9	7/7	–	–	2/2	3/3
Professor Kay Davies	7/8	4/5	–	–	–	–
Professor Christopher Fairburn	8/8	5/5	–	–	–	–
Dame Patricia Hodgson	5/6	4/4	–	–	2/2	–
Professor Richard Hynes	8/9	4/7	–	–	–	3/3
Mr Roderick Kent	5/6	3/5	–	2/3	–	–
Baroness Manningham-Buller	1/1	1/1	–	–	–	–
The late Mr Alastair Ross Goobey	1/2	–	–	1/2	–	–
Professor Peter Rigby	6/8	3/5	–	–	–	–
Professor Peter Smith	9/9	7/7	3/3	–	–	–
Mr Edward Walker-Arnott	9/9	6/7	3/3	–	2/2	3/3
Dr Mark Walport	–	7/7	–	4/5	–	–
Mr David Phillipps	–	–	–	3/5	–	–
Mr Danny Truell	–	–	–	5/5	–	–
Mr Peter Pereira Gray	–	–	–	5/5	–	–
Mr Nicholas Moakes	–	–	–	5/5	–	–
Dr Ted Bianco	–	6/7	–	–	–	–
Ms Clare Matterson	–	6/7	–	–	–	–
Mr Philip Johnson	–	–	2/2	–	–	–
Mr Simon Leathes	–	–	3/3	–	–	–
Mr Nicholas Temple	–	–	3/3	–	–	–
Mr Tim Church	–	–	–	5/5	–	–
Mr Peter Davies	–	–	–	5/5	–	–
Mr Naguib Kheraj	–	–	–	5/5	–	–
Mr Stewart Newton	–	–	–	5/5	–	–
Mr Hugh Stevenson	–	–	–	3/5	–	–

In its grant-funding and direct charitable activities, the Board of Governors is also assisted by a number of decision-making or advisory committees, on some of which Governors also sit. The committees assess, review and decide which grant applications to fund and also advise on policy issues in various fields.

The Board of Governors is also assisted by a number of Strategy Committees, each of which has Governor representation, and which advise on strategy for the Trust's various charitable activities. These committees make recommendations to the Board of Governors. Most of these committees have an external chairman; all include experts from relevant fields.

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

Principles of governance

The Combined Code on Corporate Governance ("Combined Code"), revised in June 2008, contains principles of good governance and a code of best practice for companies whose shares are listed on the London Stock Exchange. The "Good Governance" code ("Voluntary Sector Code"), published in June 2005, contains principles of good governance for the voluntary and community sector and has been endorsed by the Charity Commission as a framework for registered charities.

Whilst there is no statutory or other requirement for the Trust to comply with either Code, the Board of Governors has conducted a review of compliance during 2007/08 with the Combined Code and the Voluntary Sector Code and has concluded that the Trust complied during the year with the main provisions of the Codes relevant to it.

Performance

The performance of the Board and the Trust was considered at a private meeting of the Board and the Director in April 2008. The Director withdrew from the part of the meeting during which his own performance was discussed. The Chairman's performance was considered in December 2007.

The Audit Committee, Investment Committee, Nominations Committee and Remuneration Committee were also reviewed during the year and each held informal discussions regarding its performance.

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

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

Internal control including risk management

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

The key elements of the system of internal control are:

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

Conflicts of interest

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

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

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

Health and safety

The Trust takes seriously its responsibilities for health and safety at its sites. The staff induction programme includes a health and safety session given by the Health, Safety, Security and Environment (HSSE) Manager to all new employees, ideally in the first two days of their employment, and the Trust's intranet is used to provide staff with the latest information and support on relevant health and safety issues. The Safety Committee, which covers both operational buildings, meets quarterly. Its membership includes full representation of staff and service partners; the Executive Board considers its minutes and annual report.

TRUSTEE'S REPORT
for the year ended 30 September 2008 (continued)

Occupational health support is provided to staff, and regular risk assessments are conducted to meet UK legislation in such areas as manual handling and display screen equipment. The Trust's Health and Safety Policy was last reviewed and updated in August 2008 and is disseminated to all staff via the intranet site.

An independent body, such as the British Safety Council, conducts a full health and safety audit on a regular basis, the next audit being due in March 2009. The Trust's accident rate is exceptionally low as a direct result of its insistence on rigorous health and safety management for all its activities as well as those of its contractors and suppliers.

Employment

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

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

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

Environment

The Trust recognises that pollution can be a trigger for those susceptible to certain illnesses. Additionally it recognises that there is a cost to the environment in the way it operates. It is the Trust's policy to conduct its business in an environmentally accountable manner and is committed to complying with all relevant environmental legislation. Just as the research it funds aims to improve human health and wellbeing, the Trust also seeks to conduct its activities so as to minimise their environmental impact.

The Wellcome Trust Sanger Institute

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

Auditors

Our auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office. The Board of Governors confirmed their reappointment on 16 December 2008.

The *Annual Report* was approved by The Wellcome Trust Limited, as Trustee, on 16 December 2008 and signed on its behalf by

Bill Castell

Sir William Castell
Chairman

INDEPENDENT AUDITORS' REPORT

to the Trustee of the Wellcome Trust

We have audited the Financial Statements of the Wellcome Trust for the year ended 30 September 2008, which comprise the Statement of Financial Activities and the Balance Sheet of the Trust and the Group, the Cash Flow Statement of the Group and the related notes. These Financial Statements have been prepared under the accounting policies set out therein.

Respective responsibilities of the Trustee and auditors

The responsibilities of the Trustee for preparing the Annual 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 Trustee's Responsibilities.

We have been appointed auditors under section 43 of the Charities Act 1993 and report in accordance with the Charities (Accounts and Reports) Regulations 2005 ("the 2005 Regulations") made under part VI 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). This report, including the opinion, has been prepared for and only for the charity's Trustee in accordance with paragraph 7(2) of the 2005 Regulations made under Part VI, Charities Act 1993 and for no other purpose. We do not, in giving this opinion, accept or assume any responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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

We read the other information contained in the Annual Report, and consider whether it is consistent with the audited Financial Statements. This other information comprises the Trustee's Report and the Chairman's Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Financial Statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

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

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

Opinion

In our opinion:

- The Financial Statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the affairs of the Trust and the Group at 30 September 2008 and of the net outgoing resources for the Trust and the Group and cash flows of the Group for the year then ended; and
- The Financial Statements have been properly prepared in accordance with the Charities Act 1993.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors London
16 December 2008

The Financial Statements are published on the Wellcome Trust website, www.wellcome.ac.uk, the maintenance and integrity of which is the responsibility of the Trust. The work we carry out as auditors does not involve consideration of the maintenance and integrity of the website and accordingly we accept no responsibility for any changes that may occur to the Financial Statements following their initial presentation on the website. Visitors to the website need to be aware that legislation in the United Kingdom governing the preparation and dissemination of the Financial Statements may differ from legislation in other jurisdictions.

CONSOLIDATED STATEMENT OF FINANCIAL ACTIVITIES

for the year ended 30 September 2008

	Note	2008 £m	2007 £m
INCOMING RESOURCES			
Investment income			
Dividends and interest	2	255.1	272.6
Rental income	3	26.6	29.3
		281.7	**301.9**
Other incoming resources			
Grants receivable	4(a)	14.3	10.5
Gains on disposal of fixed assets		–	0.1
Other income	4(b)	9.0	5.8
Total incoming resources		**305.0**	**318.3**
RESOURCES EXPENDED			
Costs of generating funds			
Management fees and other costs	5	59.3	47.5
Interest payable on bond liability		25.7	25.6
Interest payable on finance leases	22	2.3	2.2
Charitable activities	6	701.6	519.8
Governance costs	10	1.8	1.9
Total resources expended		**790.7**	**597.0**
Net outgoing resources before losses on investments		**(485.7)**	**(278.7)**
Realised and unrealised (losses)/gains on investments	15(e)	**(1,821.5)**	**1,944.5**
Actuarial (losses)/gains on defined benefit pension schemes	11(d)	**(25.9)**	**15.9**
Net movement in fund		**(2,333.1)**	**1,681.7**
Fund at start of year		14,364.8	12,683.1
Fund at end of year		**12,031.7**	**14,364.8**

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

The notes on pages 31 to 71 form part of the Financial Statements

CONSOLIDATED BALANCE SHEET

as at 30 September 2008

	Note	2008 £m	2007 £m
Tangible fixed assets	14(a)	**424.3**	**431.8**
Investment assets			
Quoted investments	15(a)	7,349.6	9,039.7
Unquoted investments	15(a)	4,334.2	3,962.9
Investment properties	15(a)	810.3	973.0
Derivative financial instruments	15(b)	11.2	34.6
Other investment assets	15(c)	1,522.8	1,914.2
Programme related investments	15(d)	17.1	1.5
		14,045.2	**15,925.9**
Current assets			
Debtors	16	16.2	12.5
Cash at bank and in hand		15.1	8.5
		31.3	**21.0**
Creditors falling due within one year	17	**(1,070.5)**	**(763.7)**
Net current liabilities		**(1,039.2)**	**(742.7)**
Total assets less current liabilities		**13,430.5**	**15,615.0**
Creditors falling due after one year	17	**(1,321.7)**	**(1,201.1)**
Provision for liabilities and charges	18	**(8.7)**	**(8.7)**
Net assets representing unrestricted funds excluding pension deficit		**12,099.9**	**14,405.2**
Defined benefit pension scheme deficit	11(d)	**(68.2)**	**(40.4)**
Net assets representing unrestricted funds including pension deficit		**12,031.7**	**14,364.8**

The Consolidated Financial Statements were approved by The Wellcome Trust Limited, as Trustee, on 16 December 2008 and signed on its behalf by

Bill Castell

Sir William Castell

Professor Adrian Bird

The notes on pages 31 to 71 form part of the Financial Statements

STATEMENT OF FINANCIAL ACTIVITIES OF THE TRUST

(excluding subsidiary undertakings) for the year ended 30 September 2008

	Note	2008 £m	2007 £m
INCOMING RESOURCES			
Investment income			
Dividends and interest	2	212.3	246.6
Rental income	3	25.9	29.3
		238.2	**275.9**
Other incoming resources			
Gains on disposal of fixed assets		–	0.1
Other income	4(b)	19.9	17.7
Total incoming resources		**258.1**	**293.7**
RESOURCES EXPENDED			
Costs of generating funds			
Management fees and other costs	5	57.6	44.5
Interest payable on finance leases	22	2.3	2.2
Charitable activities	6	680.7	511.3
Governance costs	10	1.7	1.8
Total resources expended		**742.3**	**559.8**
Net outgoing resources before losses on investments		**(484.2)**	**(266.1)**
Realised and unrealised gains/(losses) on investments	15(e)	**(1,817.5)**	**1,928.7**
Actuarial (losses)/gains on defined benefit pension schemes	11(d)	**(16.7)**	**9.4**
Net movement in fund		**(2,318.4)**	**1,672.0**
Fund at start of year		14,243.5	12,571.5
Fund at end of year		**11,925.1**	**14,243.5**

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

The notes on pages 31 to 71 form part of the Financial Statements

BALANCE SHEET OF THE TRUST

(excluding subsidiary undertakings) as at 30 September 2008

	Note	2008 £m	2007 £m
Tangible fixed assets	14(b)	**287.8**	**296.0**
Investment assets			
Quoted investments	15(a)	6,861.5	8,205.4
Unquoted investments	15(a)	3,898.1	3,512.5
Investment properties	15(a)	790.3	958.7
Derivative financial instruments	15(b)	7.1	34.6
Other investment assets	15(c)	1,245.9	1,852.6
Subsidiary and other undertakings	20(b)	695.9	817.5
Programme related investments	15(d)	17.1	1.5
		13,515.9	**15,382.8**
Current assets			
Debtors	16	6.6	11.0
Cash at bank and in hand		7.6	2.2
		14.2	**13.2**
Creditors falling due within one year	17	**(1,062.6)**	**(751.2)**
Net current liabilities		**(1,048.4)**	**(738.0)**
Total assets less current liabilities		**12,755.3**	**14,940.8**
Creditors falling due after one year	17	**(779.4)**	**(662.0)**
Provision for liabilities and charges	18	**(8.7)**	**(8.7)**
Net assets representing unrestricted funds excluding pension deficit		**11,967.2**	**14,270.1**
Defined benefit pension scheme deficit	11(d)	**(42.1)**	**(26.6)**
Net assets representing unrestricted funds including pension deficit		**11,925.1**	**14,243.5**

The Trust Financial Statements were approved by The Wellcome Trust Limited, as Trustee, on 16 December 2008 and signed on its behalf by

Bill Castell

Sir William Castell

Professor Adrian Bird

The notes on pages 31 to 71 form part of the Financial Statements

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 30 September 2008

	Note	2008 £m	2007 £m
Net cash outflow from operating activities	21(a)	**(177.1)**	**(210.2)**
Capital expenditure and financial investment			
Proceeds from sales of investment assets	21(b)	8,395.1	10,953.8
Purchase of investment assets	21(b)	(8,118.4)	(10,457.4)
Net cashflow upon settlement of derivative financial instruments	21(b)	(296.7)	274.5
Purchase of tangible fixed assets		(17.8)	(24.5)
Proceeds from sale of tangible fixed assets		–	0.2
Net cash (outflow)/inflow from capital expenditure and investing activities		**(37.8)**	**746.6**
Management of liquid resources			
Decrease/(increase) in deposits held by fund managers	21(d)	221.5	(533.3)
(Increase) in term deposits	21(d)	(1.0)	(0.1)
Net cash inflow/(outflow) from management of liquid resources		**220.5**	**(533.4)**
Increase in cash during the year	21(d)	**5.6**	**3.0**

The notes on pages 31 to 71 form part of the Financial Statements

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 September 2008

1(a). ACCOUNTING POLICIES

Basis of preparation and accounting convention

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

The Financial Statements have been prepared under the historical cost convention, as modified by the revaluation of investments.

Basis of consolidation

The Trust's subsidiary undertakings are considered to be wholly-owned by virtue of control by the Trust, and their assets, liabilities and results have therefore been consolidated with those of the Trust.

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

The Trust consolidates four types of subsidiary undertakings:

(i) charitable subsidiary undertakings formed to pursue charitable objects closely allied to those of the Trust;

(ii) non-charitable subsidiary undertakings formed to hold investments and freehold property on behalf of the Trust;

(iii) a non-charitable subsidiary undertaking formed to issue listed debt to finance Group activities; and

(iv) trading subsidiary undertakings to conduct non-primary purpose trading.

Further detail on the Trust's subsidiary undertakings is provided in note 20.

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

The Group undertakes joint ventures for charitable and investment purposes. Joint ventures undertaken in the pursuit of the Group's charitable objects are Programme related investments and accounted for in the consolidated Financial Statements of the Group using the gross equity method if the impact is material. Joint ventures undertaken in pursuit of investment returns are accounted for within the main investment portfolio as investments.

Accounting policies

Accounting policies have been reviewed in accordance with Financial Reporting Standards ("FRS") 18 'Accounting policies'. The Trust and the Group have adopted FRS 29 'Financial Instruments: Disclosures' for the first time this year. The adoption of FRS 29 requires additional new disclosures, which are included in note 23 to the Financial Statements. As a result, comparative figures in note 23 have also been represented.

The Trust and the Group have recognised the cash collateral held under the securities lending programme and the obligation to return the cash collateral to the lender for the first time this year. As a result, comparative figures in note 15 (c) and 17 have been represented.

Incoming resources

Incoming resources are recognised in the Statement of Financial Activities in the period in which the Trust and the Group are entitled to receipt, any conditions are met and where the amount can be quantified with reasonable certainty. Dividends including any recoverable tax are credited to the Statement of Financial Activities, from the ex-dividend date when it becomes receivable.

Resources expended

All resources expended are recognised on an accruals basis, with the exception of grants as noted below.

The costs of generating funds relate to the management of the investment portfolio and include the allocation of the Trust's support cost relating to this activity.

Charitable expenditure is analysed between grant funding and the cost of activities performed directly by the Trust and the Group together with the associated support cost. Where possible, expenditure incurred that relates to more than one activity is apportioned. The method of apportionment uses the most appropriate basis for each cost type, the most common being by direct analysis of the expenditure incurred.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 September 2008 (continued)

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

Costs that relate to the general running of the charity, as opposed to those costs associated with administering investments or charitable activities, have been allocated to Governance costs as detailed in note 10.

Fund accounting

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

Tangible fixed assets

Tangible fixed assets excluding land, held by the Group and the Trust are stated at cost less accumulated depreciation. Land is stated at cost.

Depreciation is calculated using the straight-line method to allocate the cost of each asset less its residual value over its estimated useful life. Depreciation commences from the date an asset is brought into service. No depreciation is charged during the year on assets in the course of construction.

The useful lives for depreciation purposes for the principal categories of assets are:

	Years
Buildings	50
Finance leased plant and equipment	10 to 30
Other plant and equipment, furniture, fixtures and fittings	3 to 15
Computer equipment and motor vehicles	3 to 5

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

Leased assets

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

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

Quoted investments

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

Unquoted investments

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

Unquoted hedge funds

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

Unquoted active currency funds

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

Private equity funds and property funds

The vast majority of private equity and property fund investments are held through funds managed by private equity and property groups. No readily identifiable market price is available for these unquoted funds. These funds are included at the most recent valuations from their respective managers.

In addition, some early stage investments will be held at cost where the managers have yet to provide a valuation.

Where the managers do not provide a fair value of a fund, the Trust is unable to obtain a reliable fair value, and therefore these investments are held at cost less any known impairment.

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

Direct investments and Programme related investments

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

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

Investment properties

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

Derivative financial instruments

The use of directly held derivative financial instruments comprises:

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

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

Other investment assets and other investment liabilities

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

Bond liability

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

Securities lending programme

The Group undertakes securities lending arrangements whereby securities are loaned to external counterparties for a set period of time ("the loan period"). The Group receives cash collateral of greater value than the securities loaned from each counterparty for the duration of the loan period and the Group receives a share of the interest earned on the cash collateral held. Under the terms of the securities lending agreements, the Group retains substantially all the risks and rewards of ownership of the loaned securities, and also retains contractual rights to any cash flows relating to the securities. Therefore, the loaned securities are not derecognised on the Group's and Trust's Balance Sheet. The Group obtains substantially all the risks and rewards of ownership of the cash collateral held. Therefore, the cash collateral held is recognised in the Group's and Trust's Balance Sheet, within other investment assets and the obligation to return the cash collateral to the lender as a liability in the Group's and Trust's Balance Sheet, within creditors.

Provisions

Provisions are recognised when the Group and the Trust have a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are discounted to present value where the effect is material.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 September 2008 (continued)

Foreign currencies

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

Retirement benefits

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

The schemes' liabilities are measured at discounted present value and the schemes' assets are stated at bid price. Any deficit identified is recognised as a liability on the balance sheet. Any surplus is recognised as an asset, though only to the extent that it can be used to reduce future contributions to the scheme. The operating and financing costs of such schemes are charged to Resources Expended on the Statement of Financial Activities based on the activity to which the staff relate.

The operating cost represents both the current and past service costs and is allocated over the service lives of employees. The net financing costs are recognised in the period in which they arise. The costs of individual events such as past service benefit enhancements, settlements, curtailments, and variations from expected costs, arising from the experience of the schemes or changes in actuarial assumptions resulting in actuarial gains and losses are recognised in the Statement of Financial Activities in the period in which they arise.

Taxation

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

The income of Wellcome Trust Investment Limited Partnership and Wellcome Trust Scottish Limited Partnership are treated for UK tax purposes as the income or gains of the partners, the Wellcome Trust and Wellcome Trust GP Limited, in the proportions specified in the partnership's agreement.

Wellcome Trust GP Limited and the Trust's remaining subsidiary undertakings are non-charitable subsidiaries and are subject to UK corporation tax, but as a result of Gift Aid donations to the Trust no corporation tax arises.

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

1(b). UNCERTAINTY OF INVESTMENT VALUATIONS

The extreme volatility in global financial and banking sectors has created a significant degree of uncertainty in all markets. Investment markets have been volatile during the year and have continued to be volatile since the year end. Thus there is more uncertainty than usual regarding valuations of unlisted assets such as unquoted investments and investment properties, where valuation is more subjective and judgemental. These valuations are included in note 15 (a).

It is clear that market values have continued to move since the year end. However, in accordance with UK accounting standards, post balance sheet date changes in valuations have not been incorporated into the year end investment valuations.

2. DIVIDENDS AND INTEREST

	Group		Trust	
	2008 £m	2007 £m	2008 £m	2007 £m
Dividends from quoted UK equities	42.2	77.1	41.8	77.1
Dividends from quoted overseas equities	97.2	90.7	91.9	81.6
Interest from UK fixed interest securities	52.8	43.8	35.9	43.5
Interest from overseas fixed interest securities	25.2	11.0	17.0	7.9
Income from unquoted investments	25.3	32.6	15.0	27.7
Interest on cash and cash deposits	6.0	15.7	4.3	7.1
Securities lending income	6.4	1.7	6.4	1.7
	255.1	**272.6**	**212.3**	**246.6**

3. RENTAL INCOME

	Group		Trust	
	2008 £m	2007 £m	2008 £m	2007 £m
Rental income	**26.6**	**29.3**	**25.9**	**29.3**

4. OTHER INCOMING RESOURCES

(a) Grants receivable

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

	Group		Trust	
	2008 £m	2007 £m	2008 £m	2007 £m
Grants receivable	**14.3**	**10.5**	**–**	**–**

(b) Other income

	Group		Trust	
	2008 £m	2007 £m	2008 £m	2007 £m
Other income	**9.0**	**5.8**	**19.9**	**17.7**

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 September 2008 (continued)

Included in other income above for the Trust are Gift Aid donations totalling £16.9 million (2007: £14.0 million) from the following Trust subsidiary undertakings:

	2008 £	2007 £
W.T. Construction Limited	–	36,000
Wellcome Trust Trading Limited	842,000	282,000
Wellcome Trust Finance plc	6,200,000	6,500,000
Wellcome Trust GP Limited	1,000	1,000
Wellcome Trust Investments 1 Unlimited	300,000	–
Wellcome Trust Investments 3 Unlimited (formerly WT European Investments Limited)	166,000	4,500,000
Wellcome Trust Residential 1 Unlimited	9,300,000	2,700,000
Wellcome Trust Residential 2 Unlimited	89,000	22,000
	16,898,000	**14,041,000**

5. MANAGEMENT FEES AND OTHER COSTS

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

	Group		Trust	
	2008 £m	2007 £m	2008 £m	2007 £m
External investment management fees	47.6	38.2	46.1	35.3
Internal investment administration costs	7.3	5.4	7.1	5.3
Other investment costs	1.1	1.2	1.1	1.2
Investment support cost allocation	3.3	2.7	3.3	2.7
	59.3	**47.5**	**57.6**	**44.5**

6. CHARITABLE ACTIVITIES

Group

	Grant funding £m	Direct £m	Allocated support £m	Total 2008 £m	Total 2007 £m
Science Funding	456.8	7.2	22.2	486.2	356.6
Medicine, Society and History	38.3	17.3	13.6	69.2	42.8
Technology Transfer	30.2	11.0	3.5	44.7	30.1
Wellcome Trust Genome Campus	–	97.0	4.5	101.5	90.3
	525.3	**132.5**	**43.8**	**701.6**	**519.8**

Trust

	Grant funding £m	Direct £m	Allocated support £m	Total 2008 £m	Total 2007 £m
Science Funding	456.8	7.2	22.2	486.2	356.6
Medicine, Society and History	38.3	17.1	13.6	69.0	42.7
Technology Transfer	26.2	11.0	3.5	40.7	30.1
Wellcome Trust Genome Campus	77.2	6.1	1.5	84.8	81.9
	598.5	**41.4**	**40.8**	**680.7**	**511.3**

7. GRANTS AWARDED

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

Grants awarded during the year are analysed by recipient as follows. The grants included within ‘Grants to other institutions’ totalled less than £3.5 million in value for each institution.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 September 2008 (continued)

7. GRANTS AWARDED (continued)

Group	Science Funding £m	Medicine, Society and History £m	Technology Transfer £m	Wellcome Trust Genome Campus £m	Total 2008 £m	Total 2007 £m
University of Oxford	72.5	1.4	4.3		78.2	65.4
Imperial College London	44.6	–	2.3		46.9	21.1
University of Cambridge	46.5	0.4	–		46.9	40.7
University College London	31.4	0.6	2.1		34.1	34.9
King's College London	20.8	3.9	0.9		25.6	11.8
University of Edinburgh	23.0	–	1.8		24.8	19.0
London School of Hygiene and Tropical Medicine	19.8	0.3	–		20.1	7.2
University of Dundee	17.5	–	–		17.5	19.3
Kenya Medical Research Institute, Kenya*	15.9	0.0	–		15.9	3.3
University of Newcastle upon Tyne	14.4	0.2	–		14.6	4.4
Liverpool School of Tropical Medicine	13.2	0.1	–		13.3	–
European Molecular Biology Laboratory	12.6	0.5	–		13.1	–
University of Glasgow	12.6	0.1	–		12.7	5.3
University of Manchester	9.1	0.5	0.4		10.0	13.8
Myscience.Co Ltd (National Science Learning Centre)	–	10.0	–		10.0	–
University of Bristol	9.6	–	0.2		9.8	6.6
University of Leicester	7.7	–	0.4		8.1	4.6
University College Dublin	7.8	–	–		7.8	–
Academy of Medical Sciences	5.5	2.2	–		7.7	–
University of Nottingham	3.6	0.1	3.1		6.8	2.0
University of Exeter	5.2	0.9	–		6.1	1.1
University of St Andrews	6.0	–	–		6.0	3.1
International Development Research Council, Canada	5.1	–	–		5.1	–
Public Health Foundation of India, India	5.0	–	–		5.0	–
University of Warwick	3.0	1.3	–		4.3	1.5
Medical Research Council	4.2	–	–		4.2	4.0
University of Cape Town, South Africa	4.2	–	–		4.2	0.8
Massachusetts General Hospital, USA	–	–	4.0		4.0	–
Cardiff University	4.0	–	–		4.0	4.0
University of Leeds	4.0	–	–		4.0	3.1
University of Sheffield	4.0	–	–		4.0	3.4
University of Liverpool	3.6	–	0.2		3.8	8.1
Diamond Light Source Ltd	3.6	–	–		3.6	1.8
Grants to other institutions	43.7	15.8	10.5		70.0	79.8
Total grants (excluding supplementations and grants no longer required)	**483.7**	**38.3**	**30.2**	**–**	**552.2**	**370.1**
Grant supplementations	4.7	–	–	–	4.7	11.5
Less: grants awarded in previous years no longer required	(31.6)	–	–	–	(31.6)	(22.4)
Grants awarded by the Group	**456.8**	**38.3**	**30.2**	**–**	**525.3**	**359.2**
of which						
United Kingdom	408.5	36.6	25.6	–	470.7	315.1
Directly funded international	48.3	1.7	4.6	–	54.6	44.1
Grants awarded by the Group	**456.8**	**38.3**	**30.2**	**–**	**525.3**	**359.2**

*The amount awarded includes funding payable directly via the Trust's Major Overseas Programme in Kenya.

Trust	Science Funding £m	Medicine, Society and History £m	Technology Transfer £m	Wellcome Trust Genome Campus £m	Total 2008 £m	Total 2007 £m
Grants awarded by the Group	**456.8**	**38.3**	**30.2**	**–**	**525.3**	**359.2**
Plus: Grants awarded to subsidiary undertakings	–	–	–	77.2	77.2	74.1
Less: Grants awarded by subsidiary undertakings	–	–	(4.0)	–	(4.0)	–
Grants awarded by the Trust	**456.8**	**38.3**	**26.2**	**77.2**	**598.5**	**433.3**

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

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

Professor Adrian Bird – *University of Edinburgh*

Professor Dame Kay Davies – *University of Oxford (Governor from 1 January 2008)*

Professor Christopher Fairburn – *University of Oxford (Governor from 1 January 2008)*

Dame Patricia Hodgson – *University of Cambridge (retired as Governor on 31 May 2008)*

Professor Peter Rigby – *Institute of Cancer Research (Governor from 1 January 2008)*

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 September 2008 (continued)

8. GRANTS AWARDED BUT NOT YET PAID

	Group		Trust	
	2008 £m	2007 £m	2008 £m	2007 £m
Liability at 1 October	1,040.2	1,017.4	1,040.2	1,017.4
Grants awarded during the year	525.3	359.2	598.5	433.3
Grants paid during the year	(305.9)	(336.4)	(383.1)	(410.5)
Liability as at 30 September	**1,259.6**	**1,040.2**	**1,255.6**	**1,040.2**

Of which				
Falling due within one year (note 17)	566.1	468.2	565.1	468.2
Falling due after one year (note 17)	693.5	572.0	690.5	572.0
Liability as at 30 September	**1,259.6**	**1,040.2**	**1,255.6**	**1,040.2**

9. SUPPORT COSTS

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

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

In order to reflect better the nature of the activities at the Wellcome Trust Genome Campus, certain costs previously included in support expenditure have been reclassified as direct expenditure. Therefore comparative figures have been restated by £3.5 million.

Group	Costs of generating funds £m	Science Funding £m	Medicine, Society and History £m	Technology Transfer £m	Trust Genome Campus £m	Total 2008 £m	Total 2007 £m	Allocation method used
Funding administration	–	7.7	0.9	1.7	0.1	10.4	9.9	Directly attributed
Support of scientific research	–	–	–	–	3.0	3.0	3.0	Directly attributed
Resources	2.7	9.6	12.1	1.4	0.5	26.3	26.4	Headcount/building usage
Other	0.6	4.9	0.6	0.4	0.9	7.4	7.0	Expenditure
	3.3	**22.2**	**13.6**	**3.5**	**4.5**	**47.1**	**46.3**	

Trust	Costs of generating funds £m	Science Funding £m	Medicine, Society and History £m	Technology Transfer £m	Trust Genome Campus £m	Total 2008 £m	Total 2007 £m	Allocation method used
Funding administration	–	7.7	0.9	1.7	0.1	10.4	9.9	Directly attributed
Resources	2.7	9.6	12.1	1.4	0.5	26.3	26.4	Headcount/building usage
Other	0.6	4.9	0.6	0.4	0.9	7.4	7.0	Expenditure
	3.3	**22.2**	**13.6**	**3.5**	**1.5**	**44.1**	**43.3**	

10. GOVERNANCE COSTS

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

	Group		Trust	
	2008 £m	2007 £m	2008 £m	2007 £m
Trustee fees and expenses	0.8	0.8	0.8	0.8
Auditors' remuneration:				
Parent company and consolidation	0.2	0.2	0.2	0.2
Audits of subsidiary undertakings	0.1	0.1	–	–
Internal audit	0.3	0.3	0.3	0.3
Other costs	0.4	0.5	0.4	0.5
	1.8	**1.9**	**1.7**	**1.8**

In addition to the above, in 2008 total fees of £214,000 (2007: £81,000) excluding VAT were payable to the Group's auditors PricewaterhouseCoopers LLP or associated firms in respect of taxation services.

11. EMPLOYEE INFORMATION

(a) Staff costs

	Group		Trust	
	2008 £m	2007 £m	2008 £m	2007 £m
Salaries and benefits in kind	47.8	46.0	23.4	22.9
Social Security costs	3.9	3.6	2.1	1.9
Pension costs and other benefits	13.8	15.1	6.7	7.8
	65.5	**64.7**	**32.2**	**32.6**

(b) Employee numbers

	Average		As at 30 September	
	2008	2007	2008	2007
Trust	497	505	505	498
Subsidiary undertakings	801	797	835	816
Total for the Group	**1,298**	**1,302**	**1,340**	**1,314**
Analysed by				
Investments	28	24	31	25
Direct activities	897	902	937	919
Support	372	375	371	369
Governance	1	1	1	1
Total for the Group	**1,298**	**1,302**	**1,340**	**1,314**
Analysed by				
Investments	28	24	31	25
Direct activities	145	155	148	152
Support	323	325	325	320
Governance	1	1	1	1
Total for the Trust	**497**	**505**	**505**	**498**

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 September 2008 (continued)

11. EMPLOYEE INFORMATION (continued)

(c) Emoluments of employees

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

			Group	
			2008	2007
£60,000	–	£69,999	24	24
£70,000	–	£79,999	13	13
£80,000	–	£89,999	9	5
£90,000	–	£99,999	7	10
£100,000	–	£109,999	5	7
£110,000	–	£119,999	9	4
£120,000	–	£129,999	3	2
£130,000	–	£139,999	2	2
£140,000	–	£149,999	4	–
£150,000	–	£159,999	1	1
£160,000	–	£169,999	2	1
£170,000	–	£179,999	1	4
£180,000	–	£189,999	2	–
£190,000	–	£199,999	1	1
£200,000	–	£209,999	3	–
£260,000	–	£269,999	–	2
£280,000	–	£289,999	–	1
£300,000	–	£309,999	–	1
£320,000	–	£329,999	1	–
£350,000	–	£359,999	1	–
£580,000	–	£589,999	1	–

The highest paid employee in the current year was the Chief Investment Officer and in the prior year was the Director. The remuneration of the Director included in the table above totalled £328,991 (2007: £305,905). Pension benefits have been accruing under the defined benefit schemes for all of the Group's employees included in the above bandings.

Certain members of the Investment Division participate in Long Term Incentive Plans. First payments under these plans will be made in the year ended 30 September 2009 based on performance in the three years to 30 September 2008 and are included in the bandings above. The total amount provided in the current financial year is £389,000 and relates to eight employees. Depending on the performance of the investment portfolio, further payments under these arrangements may become due annually in future years, with potential payments due in respect of the three years ended 30 September 2010 and beyond based on the performance over each of the preceding three year periods.

(d) Retirement benefits

The Group sponsors two funded defined benefit schemes, the Wellcome Trust Pension Plan and the Genome Research Limited Pension Plan. In addition, the Trust provides unfunded defined benefit pensions to 19 (2007: 19) employees and former employees as well as post retirement medical benefits to 40 former employees (2007: 41). Together these are the Total Group Retirement Benefits.

The unfunded defined benefit pension and the post retirement medical benefits are included in provisions for liabilities and charges (see note 18). Operating and finance charges are split across the charitable activities within the Statement of Financial Activities, with the actuarial loss for the year separately identified. To produce these statements, the most recent actuarial valuation has been updated by an independent qualified actuary, with assumptions disclosed below.

The Director has an accrued pension of £60,622 as at 30 September 2008 (2007: £45,644). The transfer value of his pension benefits was £681,000 (2007: £761,000). Mainly as a result of the higher discount factor applying in 2008 on transfer value calculations, the transfer value net of the Trust's contributions made in the year decreased by £106,000.

Pension funds

The Wellcome Trust Pension Plan was last assessed by independent consulting actuaries as at 1 January 2008 using the projected unit credit method. The valuation identified a £10 million shortfall in funding which the Trustee's of the Plan agreed to make good over five years as detailed below. The Trust's funding arrangements for normal contributions have however, remained unchanged to that adopted on 1 October 2007 at 22.4% of pensionable pay for members who joined prior to 1 April 2005 or for those joining after that date who elect to accrue benefits on 1/80ths. For members who joined on or after 1 April 2005 and elect to accrue benefits on 1/60ths the funding rate is 22.4% less 5% normal employee contributions. In addition, insurance premiums for death-in-service benefits are also paid. The next actuarial assessment is due as at 1 January 2011.

The Genome Research Limited Pension Plan was last assessed by independent consulting actuaries as at 1 January 2007 using the projected unit credit method. On the basis of the actuarial report, the funding rate is 16% of pensionable pay (less ordinary employee contributions for those members that joined the Plan after 1 April 2005 and elect to accrue benefits on 1/60ths) plus insurance premiums for death-in-service benefits and the expenses of running the scheme.

The contributions made by the employer over the financial year into the Wellcome Trust Pension Plan were £6.6 million (2007: £4.4 million), including the £2.3 million as part of a five year plan to make good the funding deficit. Contributions made by the employer into the Genome Research Limited Pension Plan were £3.5 million (2007: £4.3 million).

Other retirement benefits

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

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

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

	30 September 2008	30 September 2007
Inflation	3.7% p.a	3.4% p.a
Salary increases	5.7% p.a	5.4% p.a
Rate of discount	6.3% p.a	5.9% p.a
Allowance for pension in payment increases of RPI or 5% p.a. if less	3.7% p.a	3.4% p.a
Allowance for revaluation of deferred pensions of RPI or 5% p.a. if less	3.7% p.a	3.4% p.a
Allowance for commutation of pension for cash at retirement	Nil	Nil
Rate of increase of healthcare costs	6.0% p.a	5.5% p.a

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

	2008	2007
Male currently age 40	29.4 years	27.9 years
Female currently age 40	31.7 years	30.7 years
Male currently age 60	28.1 years	26.7 years
Female currently age 60	30.6 years	29.6 years

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 September 2008 (continued)

11. EMPLOYEE INFORMATION (continued)

(i) Charge to the Statement of Financial Activities

	Group		Trust			
	Pension and other retirement benefits		Pension Fund		Other retirement benefits	
	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m
Operating finance charge						
Current service cost	13.5	14.5	5.8	6.7	0.5	0.5
Past service cost	–	0.1	–	0.1	–	–
	13.5	**14.6**	**5.8**	**6.8**	**0.5**	**0.5**
Other finance income						
Expected return on pension schemes' assets	(9.7)	(7.6)	(6.3)	(4.8)	–	–
Interest on pension schemes' liabilities	10.1	8.2	6.2	5.1	0.4	0.3
Total finance charges	**0.4**	**0.6**	**(0.1)**	**0.3**	**0.4**	**0.3**
Actuarial losses/(gains)	**25.9**	**(15.9)**	**16.5**	**(9.7)**	**0.2**	**0.3**
Total charge to the Statement of Financial Activities	**39.8**	**(0.7)**	**22.2**	**(2.6)**	**1.1**	**1.1**

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

	Assets		Liabilities		Deficit	
	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m
Wellcome Trust Pension Plan	65.9	76.5	108.0	103.1	(42.1)	(26.6)
Genome Research Limited Pension Plan	35.1	42.1	61.2	55.9	(26.1)	(13.8)
Total pension funds	**101.0**	**118.6**	**169.2**	**159.0**	**(68.2)**	**(40.4)**
Unfunded liabilities	–	–	5.0	4.2	(5.0)	(4.2)
Post retirement medical benefits	–	–	1.6	1.5	(1.6)	(1.5)
Total other retirement benefits	**–**	**–**	**6.6**	**5.7**	**(6.6)**	**(5.7)**
Total Group benefits	**101.0**	**118.6**	**175.8**	**164.7**	**(74.8)**	**(46.1)**

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

	Group		Trust	
	2008 £m	2007 £m	2008 £m	2007 £m
Scheme liabilities at start of period	**164.7**	**156.5**	**108.8**	**104.9**
Current service cost	13.5	14.5	6.3	7.2
Interest cost	10.1	8.2	6.6	5.4
Contributions by scheme participants	0.4	0.3	0.2	0.2
Actuarial gains	(10.2)	(12.7)	(5.4)	(7.0)
Net benefits paid, death in service insurance premiums and expenses	(2.7)	(2.2)	(1.9)	(2.0)
Past service costs	–	0.1	–	0.1
Scheme liabilities at end of period	**175.8**	**164.7**	**114.6**	**108.8**

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

	Group		Trust	
	2008 £m	2007 £m	2008 £m	2007 £m
Fair value of scheme assets at start of period	118.6	100.3	76.5	66.4
Expected return on scheme assets	9.7	7.6	6.3	4.8
Actuarial (losses)/gains	(36.1)	3.2	(22.1)	2.4
Contributions by employer	11.1	9.4	6.9	4.7
Contributions by scheme participants	0.4	0.3	0.2	0.2
Net benefits paid, death in service insurance premiums and expenses	(2.7)	(2.2)	(1.9)	(2.0)
Fair value of scheme assets at end of year	**101.0**	**118.6**	**65.9**	**76.5**

The actual return on the scheme assets over the period ending 30 September 2008 for the Group was a loss of £26.4 million (2007: gain of £11.1 million).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 September 2008 (continued)

11. EMPLOYEE INFORMATION (continued)

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

Group

	2008 £m	2007 £m	2006 £m	2005 £m	2004 £m
Fair value of assets	101.0	118.6	100.3	83.8	36.0
Present value of scheme liabilities	(175.8)	(164.7)	(156.5)	(127.9)	(57.6)
Deficit in total benefits	**(74.8)**	**(46.1)**	**(56.2)**	**(44.1)**	**(21.6)**
Experience adjustment on scheme liabilities	2.2	(1.0)	(0.9)	(3.3)	(0.1)
Experience adjustment on scheme assets	(36.1)	3.2	3.3	9.3	1.5
Effects of changes in the demographic and financial assumptions underlying the present value of the scheme liabilities	8.0	13.7	(11.6)	(8.9)	(9.9)

Trust

	2008 £m	2007 £m	2006 £m	2005 £m	2004 £m
Fair value of assets	65.9	76.5	66.4	57.3	18.0
Present value of scheme liabilities	(114.6)	(108.8)	(104.9)	(89.2)	(28.8)
Deficit in total benefits	**(48.7)**	**(32.3)**	**(38.5)**	**(31.9)**	**(10.8)**
Experience adjustment on scheme liabilities	3.4	(1.0)	(0.9)	(2.8)	–
Experience adjustment on scheme assets	(22.1)	2.4	2.0	6.1	1.3
Effects of changes in the demographic and financial assumptions underlying the present value of the scheme liabilities	2.0	8.0	(5.9)	(6.0)	(6.1)

(vi) Estimate of contributions to be paid to scheme

The best estimate of contributions to be paid by the employer to the Wellcome Trust scheme for the period beginning after 30 September 2008 is £4.3 million.

The best estimate of contributions to be paid by the employer to the Genome Research Limited scheme for the period beginning after 30 September 2008 is £3.4 million.

12. REMUNERATION OF GOVERNORS

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

	2008 £	2007 £
Current Governors (in office during the year)		
Sir William Castell *(Chairman)*	133,177	132,175
Professor Adrian Bird *(Deputy Chairman)*	99,883	82,690
Professor Dame Kay Davies *(from 1 January 2008)*	49,984	–
Professor Christopher Fairburn *(from 1 January 2008)*	49,984	–
Dame Patricia Hodgson *(resigned 31 May 2008)*	44,277	66,088
Professor Richard Hynes	66,589	49,647
Mr Roderick Kent *(from 1 February 2008)*	44,450	–
Baroness Eliza Manningham-Buller *(from 1 August 2008)*	11,127	–
Professor Peter Rigby *(from 1 January 2008)*	49,984	–
The late Mr Alastair Ross Goobey *(to 2 February 2008)*	22,139	66,088
Professor Peter Smith	66,589	66,088
Mr Edward Walker-Arnott	66,589	66,088
Former Governors		
Professor Martin Bobrow *(previous Deputy Chairman retired 31 March 2007)*	–	49,319
Professor Sir Leszek Borysiewicz *(resigned 30 September 2007)*	–	66,088
Professor Ronald Plasterk *(resigned 15 February 2007)*	–	24,702
Professor Dame Jean Thomas *(retired 30 September 2007)*	–	66,088
Total remuneration	**704,772**	**735,061**

In addition to the above, the Chairman received estimated benefits-in-kind relating to travel costs of £38,202 (2007: £36,340). No other benefits or pension contributions are paid in respect of the other Governors.

During the year expenses in respect of travel, subsistence, telephone and other expenses in the course of their duties were incurred by the Governors which amounted to £89,255 (2007: £95,393), of which £46,382 (2007: £85,805) was paid directly by the Trust and £42,873 (2007: £9,588) was paid by the Governors and directly reimbursed to them.

The Governors were included in the Directors' and Officers' liability insurance in the year to 30 September 2008, which cost in total £50,160 (2007: £44,625).

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

Under the Constitution of the Trust, the Governors were entitled to receive remuneration from the Trustee at the rate of £57,100 per annum from 1 April 2000, adjusted with effect from 1 April each year by an amount equal to the percentage increase recommended by the Review Body on Senior Salaries in respect of the minima and maxima of the salary pay bands of the Senior Civil Service. The recommended percentage increase for the twelve months beginning 1 April 2008 was 0.52% (2007: 1.00%).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 September 2008 (continued)

12. REMUNERATION OF GOVERNORS (continued)

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

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

	12 months beginning 1 April 2008 £	12 months beginning 1 April 2007 £	12 months beginning 1 April 2006 £
Chairman	133,522	132,832	131,518
Deputy Chairman	100,141	99,624	98,638
Governor	66,761	66,416	65,759

13. TAXATION

The estimated cost of irrecoverable Value Added Tax suffered by the Group in the year was £7.1 million (2007: £9.0 million).

14. TANGIBLE FIXED ASSETS

(a) Group

	Freehold land and buildings £m	Long leasehold land and buildings £m	Finance leased buildings £m	Finance leased plant and equipment £m	Other plant, equipment, fixtures and fittings £m	Assets in course of construction £m	Total £m
Cost as at 1 October 2007	343.9	1.5	20.8	64.0	139.8	0.9	570.9
Additions	1.6	–	–	–	10.6	2.9	15.1
Transfers from assets in course of construction	0.2	–	–	–	–	(0.2)	–
Disposals	(4.8)	–	–	–	(9.4)	–	(14.2)
Cost as at 30 September 2008	**340.9**	**1.5**	**20.8**	**64.0**	**141.0**	**3.6**	**571.8**
Depreciation as at 1 October 2007	43.5	1.5	1.2	8.7	84.2	–	139.1
Net charge for the year	6.3	–	0.4	3.1	12.6	–	22.4
Disposals	(4.8)	–	–	–	(9.2)	–	(14.0)
Depreciation as at 30 September 2008	**45.0**	**1.5**	**1.6**	**11.8**	**87.6**	**–**	**147.5**
Net Book Value as at 30 September 2008	**295.9**	**–**	**19.2**	**52.2**	**53.4**	**3.6**	**424.3**
Net Book Value as at 30 September 2007	300.4	–	19.6	55.3	55.6	0.9	431.8

(b) Trust

	Freehold land and buildings £m	Long leasehold land and buildings £m	Finance leased buildings £m	Finance leased plant and equipment £m	Other plant, equipment, fixtures and fittings £m	Assets in course of construction £m	Total £m
Cost as at 1 October 2007	210.4	1.5	20.8	64.0	42.0	–	338.7
Additions	0.2	–	–	–	1.5	–	1.7
Disposals	–	–	–	–	(0.3)	–	(0.3)
Cost as at 30 September 2008	**210.6**	**1.5**	**20.8**	**64.0**	**43.2**	**–**	**340.1**
Depreciation as at 1 October 2007	21.1	1.5	1.2	8.7	10.2	–	42.7
Net charge for the year	3.3	–	0.4	3.1	3.1	–	9.9
Disposals	–	–	–	–	(0.3)	–	(0.3)
Depreciation as at 30 September 2008	**24.4**	**1.5**	**1.6**	**11.8**	**13.0**	**–**	**52.3**
Net Book Value as at 30 September 2008	**186.2**	**–**	**19.2**	**52.2**	**30.2**	**–**	**287.8**
Net Book Value as at 30 September 2007	189.3	–	19.6	55.3	31.8	–	296.0

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 September 2008 (continued)

15. INVESTMENTS

(a) Investment assets

Group

(i) Fair value

	Fair value 1 October 2007 £m	Purchases £m	Sales proceeds £m	Total gains/ (losses) £m	Fair value 30 September 2008 £m
UK	1,838.2	906.7	1,022.5	(347.4)	1,375.0
Overseas	7,201.5	6,114.5	6,453.1	(888.3)	5,974.6
Total quoted	**9,039.7**	**7,021.2**	**7,475.6**	**(1,235.7)**	**7,349.6**
UK	486.7	132.5	237.3	(53.2)	328.7
Overseas	3,476.2	930.2	471.0	70.1	4,005.5
Total unquoted	**3,962.9**	**1,062.7**	**708.3**	**16.9**	**4,334.2**
UK	973.0	10.9	110.5	(63.1)	810.3
Total property	**973.0**	**10.9**	**110.5**	**(63.1)**	**810.3**
Total	**13,975.6**	**8,094.8**	**8,294.4**	**(1,281.9)**	**12,494.1**

(ii) Reconciliation to book cost

	1 October 2007 £m	Purchases £m	Sales proceeds £m	Total gains/ (losses) £m	30 September 2008 £m
Book cost and realised gains					
Quoted investments	7,671.7	7,021.2	7,475.6	280.2	7,497.5
Unquoted investments	4,096.2	1,062.7	708.3	52.1	4,502.7
Investment properties	416.7	10.9	110.5	66.0	383.1
Market value adjustment					
Unrealised gains/(losses)	1,791.0	–	–	(1,680.2)	110.8
Total	**13,975.6**	**8,094.8**	**8,294.4**	**(1,281.9)**	**12,494.1**

The investments at fair value in the Trust and the Group include securities on loan at year end with fair value of £68.5 million (2007: £130.6 million), the Trust held £74.4 million (2007: £137.2 million) as collateral in respect of these securities. The Trust recognises the cash collateral held asset and a liability to return the cash collateral to the borrowers as disclosed in note 15(c) and note 17. During the year the maximum aggregate fair value of securities on loan was £192.6 million (2007: £385.5 million) and the Trust held £200.9 million (2007: £404.7 million) as collateral in respect of these securities. The income receivable due to securities lending activities is disclosed in note 2. No loaned securities were re-called but not obtained during the year and therefore no collateral was retained. The securities lending programme was suspended after year end.

Trust

(i) Fair value

	Fair value 1 October 2007 £m	Purchases £m	Sales proceeds £m	Total gains/ (losses) £m	Fair value 30 September 2008 £m
UK	1,398.8	908.5	996.7	(341.0)	969.6
Overseas	6,806.6	4,572.7	4,625.5	(861.9)	5,891.9
Total quoted	**8,205.4**	**5,481.2**	**5,622.2**	**(1,202.9)**	**6,861.5**
UK	486.7	132.5	237.3	(53.2)	328.7
Overseas	3,025.8	890.3	458.5	111.8	3,569.4
Total unquoted	**3,512.5**	**1,022.8**	**695.8**	**58.6**	**3,898.1**
UK	958.7	9.2	110.5	(67.1)	790.3
Total property	**958.7**	**9.2**	**110.5**	**(67.1)**	**790.3**
Total	**12,676.6**	**6,513.2**	**6,428.5**	**(1,211.4)**	**11,549.9**

(ii) Reconciliation to book cost

	1 October 2007 £m	Purchases £m	Sales proceeds £m	Total gains/ (losses) £m	30 September 2008 £m
Book cost and realised gains					
Quoted investments	6,874.6	5,481.2	5,622.2	261.3	6,994.9
Unquoted investments	3,676.4	1,022.8	695.8	47.9	4,051.3
Investment properties	402.3	9.2	110.5	66.1	367.1
Market value adjustment					
Unrealised gains/(losses)	1,723.3	–	–	(1,586.7)	136.6
Total	**12,676.6**	**6,513.2**	**6,428.5**	**(1,211.4)**	**11,549.9**

The unquoted valuation in the Trust and the Group above includes private equity funds of £279.4 million (2007: £584.7 million) and direct investments of £147.3 million (2007: £61.5 million) for which the valuation used is equal to cost less any impairment. For these investments the fair value cannot be reliably measured and therefore they are held at cost less any impairment.

Investment properties in the Trust and the Group have been valued at market value in accordance with the Valuation and Appraisal Manual of the Royal Institution of Chartered Surveyors. The valuations were carried out by Gerald Eve, Savills (L and P) Limited and CB Richard Ellis.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 September 2008 (continued)

15. INVESTMENTS (continued)

(b) Derivative financial instruments

(i) Fair value

	Group		Trust	
	2008	2007	2008	2007
	£m	£m	£m	£m
Derivative financial instrument asset positions	**11.2**	**34.6**	**7.1**	**34.6**

Derivative financial instrument liabilities of £309.9 million (2007: £44.8 million) are included within creditors falling due within one year, disclosed in note 17.

The Trust's use of derivative financial instruments comprises:

Forward currency contracts

Forward currency contracts are used to translate investment assets denominated in foreign currency into Pounds Sterling. As at 30 September 2008, the notional value of open forward contracts amounted to £3,947.4 million (2007: £3,055.7 million).

Financial futures

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

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

As at 30 September 2008, the notional value of open futures positions, held by the Trust's discretionary managers, amounted to £210.9 million (2007: £1,134.2 million). Open futures positions are covered by cash as reflected in note 15 (c).

Options

The use of options constitutes part of the Trust's long term investment return strategy. These derivative financial instruments are entered into with the expectation of realising gains. As at 30 September 2008, the notional value of open options positions amounted to £64.8 million (2007: £64.8 million).

(c) Other investment assets

	Group		Trust	
	2008	2007	2008	2007
	£m	£m	£m	£m
Investment cash and certificates of deposit	1,369.4	1,590.9	1,103.4	1,569.5
Cash collateral held	74.4	137.2	74.4	137.2
Accrued income from investments	16.6	19.2	11.6	13.8
Proceeds receivable on sale of investments	50.8	151.5	45.4	118.3
Other investment debtors	11.6	15.4	11.1	13.8
Total other investment assets	**1,522.8**	**1,914.2**	**1,245.9**	**1,852.6**

Certain comparative amounts have been adjusted due to the recognition of the cash collateral held in relation to the securities lending programme, resulting in an adjustment of £137.2 million.

(d) Programme related investments

Group and Trust

(i) Fair value

	Fair value 1 October 2007 £m	Purchases £m	Transfers on conversion £m	Total losses £m	Fair value 30 September 2008 £m
Freehold land	–	14.0	–	–	14.0
Loans	1.3	12.0	(0.1)	(10.4)	2.8
Equities	0.2	4.2	0.1	(4.2)	0.3
Total	**1.5**	**30.2**	**–**	**(14.6)**	**17.1**

(ii) Reconciliation to book cost

	1 October 2007 £m	Purchases £m	Transfers on conversion £m	Total realised losses £m	30 September 2008 £m
Freehold land	–	14.0	–	–	14.0
Loans	13.6	12.0	(1.4)	(0.2)	24.0
Equities	1.7	4.2	1.4	(4.2)	3.1
Total	**15.3**	**30.2**	**–**	**(4.4)**	**41.1**

During the year, the Trust purchased for £14 million an 18.5% share of the proposed building site in London for UKCMRI shown as freehold land in tables (i) and (ii) above. The remaining share of the land is owned by the other UKCMRI funders.

As part of its Technology Transfer activities, the Trust has provided funding to 28 (2007: 21) early stage companies to carry out biomedical research projects with potential to deliver health benefits. Together these Programme related investments form a portfolio managed separately from the Trust's other investments. These investments are not intended to be held for the longer term. Consequently, these investments are, as permitted by FRS 9, held at cost less provision for impairment rather than treated as associated companies. The £10.4 million loss is to reflect the Trust's policy of writing off 90% of the convertible loans issued to these early stage companies due to the low rate of success of these technology transfer activities. In view of the immateriality of the value of these investments at 30 September 2008, further details of individual companies have not been disclosed.

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

(iii) Programme related joint venture

During the year, UKCMRI Construction Limited was incorporated and the Trust and each of the three other UKCMRI funders obtained a 25% equity interest in it. The equity interest gives each UKCMRI partner equal voting rights, the right to veto and the ability to appoint one director. Therefore, UKCMRI Construction Limited is a joint venture entity, jointly controlled by the Trust and the other UKCMRI funders. The joint venture is undertaking the design and build of the UKCMRI build project.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 September 2008 (continued)

15. INVESTMENTS (continued)

In addition, the Trust has provided loan funding to UKCMRI Construction Limited of £0.5 million, included in Loans in tables (i) and (ii) above. The Trust is committed to providing loan financing to UKCMRI Construction Limited equal to 18.5% of the joint venture's cash flow requirements. The Trust is entitled to receive a charitable donation under gift aid equal to 18.5% of joint venture's taxable profits.

The Trust's 18.5% share of the results of the activities of this joint venture are not considered to be material to the consolidated Financial Statements of the Group and therefore the gross equity method of accounting has not been applied to this joint venture (see the disclosure in the tables (iii) (a) and (iii) (b) below). The joint venture's first accounting reference date will be 31 March 2009. Management accounts of the joint venture have been used to prepare these disclosures.

(iii) (a) Share of net assets	**As at 30 September 2008 £m**
Share of current assets	1.2
Share of gross assets	1.2
Share of creditors falling due within one year	(1.2)
Share of gross liabilities	(1.2)
Share of net assets	**–**

(iii) (b) Share of profit and loss items	**Period to 30 September 2008**
Share of turnover	0.5
Share of operating profit	–

(e) Realised and unrealised (losses)/gains on investments

		Group		**Trust**	
	Note	**2008 £m**	**2007 £m**	**2008 £m**	**2007 £m**
Quoted investments	15(a)	(1,235.7)	1,148.2	(1,202.9)	1,103.6
Unquoted investments	15(a)	16.9	410.7	58.6	390.6
Investment properties	15(a)	(63.1)	176.9	(67.1)	177.0
Derivative financial instruments:					
Passive currency overlay	15(b)	(366.7)	76.1	(366.7)	76.1
Other derivative financial instruments	15(b)	(218.6)	136.4	(132.4)	138.2
Shares in subsidiary undertakings		–	–	(121.3)	46.7
Foreign exchange		45.7	(3.8)	14.3	(3.5)
		(1,821.5)	**1,944.5**	**(1,817.5)**	**1,928.7**

Losses relating to derivative financial instruments includes £366.7 million (2007: gain of £76.1 million) relating to the passive currency overlay, which comprises forward currency contracts to hedge the Group and Trust exposure to foreign currency assets. The remaining losses of £218.6 million (2007: gain of £136.4 million) relate to losses on other forward currency contracts, financial futures and options. The Trust adopts a policy of hedging up to 70% of its currency exposure to US Dollar, Euro and Japanese Yen assets using a passive currency overlay although the actual percentage hedged varies from time to time. The gains and losses relating to the passive currency overlay are therefore offsetting foreign exchange gains and losses on the foreign currency assets within quoted and unquoted investments. The Group and Trust's exposure to foreign currency is detailed in note 23 (c) (ii).

(f) Reconciliation to Trustee's Report

The presentation of investment balances in note 15 and 17 is in accordance with the SORP. However, the investment portfolio is structured differently for strategic management and management reporting. The distinct classes of assets used and reported on within the Trustee's Report are: equity; hedge funds; private equity; and property and infrastructure.

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

Fair value

	Note	30 September 2008 £m
Equity & Equity Long/Short		**6,522.4**
Long Only Equities		**5,031.1**
UK		751.4
Europe		433.3
Global		946.2
US		898.5
Japan		436.2
Asia Pacific ex Japan		670.1
Emerging Markets		789.8
Passive Equity Index Exposure		105.6
Equity Long/Short Hedge Funds		**1,491.3**
Bonds and Cash		**1,263.5**
Absolute Return & Buy-outs		**3,208.1**
Buy-out Funds		1,412.0
Credit Funds – Drawdown		286.9
Multi Strategy Hedge Funds		1,090.3
Credit Hedge Funds		262.8
Active Currency		156.1
Healthcare & Venture		**1,241.5**
Healthcare Equity		171.1
T Rowe Price		13.2
Venture Capital Funds		731.4
Healthcare Hedge Funds		156.5
Direct Investments		117.2
Direct – Technology		36.6
Financial Services		15.5
Property & Infrastructure		**1,618.3**
Commercial Property		211.2
Residential Property		899.7
Geared Property Vehicles		507.4
Currency overlay		**(292.7)**
Total Assets		**13,561.1**
Represented by:		
Investment assets	15(a)	12,494.1
Derivative financial instrument asset positions	15(b)	11.2
Other investment assets	15(c)	1,522.8
Derivative financial instrument liabilities	17	(309.9)
Other investment liabilities	17	(157.1)
		13,561.1

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 September 2008 (continued)

15. INVESTMENTS (continued)

(g) Foreign exchange

In the financial year to 30 September 2008 there were foreign exchange gains on monetary transactions of £14.3 million in the Trust (2007: losses of £3.5 million) and foreign exchange gains on monetary transactions of £45.7 million in the Group (2007: losses of £3.8 million).

16. DEBTORS

	Group		Trust	
	2008 £m	**2007 £m**	**2008 £m**	**2007 £m**
Amounts due from subsidiary undertakings	–	–	1.9	7.8
Other debtors	10.2	6.5	2.4	0.6
Prepayments	6.0	6.0	2.3	2.6
	16.2	**12.5**	**6.6**	**11.0**

17. CREDITORS

	Group		Trust	
	2008 £m	**2007 £m**	**2008 £m**	**2007 £m**
Falling due within one year				
Amounts due to subsidiary undertakings	–	0.1	31.3	21.9
Grant liability (note 8)	566.1	468.2	565.1	468.2
Bond liability	4.7	4.7	–	–
Finance lease creditor	0.6	0.9	0.6	0.9
Amount payable on acquisition of investments	59.4	51.8	58.3	45.8
Cash collateral creditor	74.4	137.2	74.4	137.2
Deferred Income from investments	5.6	6.4	5.2	6.4
Other investment liabilities	17.7	20.2	17.3	17.9
Derivative financial instrument liabilities	309.9	44.8	303.3	44.8
Trade creditors	10.8	4.8	1.0	1.2
Other creditors	5.1	5.8	1.0	1.7
Accruals and deferred income	16.2	18.8	5.1	5.2
Total falling due within one year	**1,070.5**	**763.7**	**1,062.6**	**751.2**
Falling due between one and five years				
Grant liability (note 8)	672.4	550.7	669.4	550.7
Finance lease creditor	0.7	1.0	0.7	1.0
Other creditors	1.9	2.1	1.9	2.1
	675.0	**553.8**	**672.0**	**553.8**
Falling due after five years				
Grant liability (note 8)	21.1	21.2	21.1	21.2
Bond liability	539.3	539.1	–	–
Finance lease creditor	84.7	84.6	84.7	84.6
Other creditors	1.6	2.4	1.6	2.4
	646.7	**647.3**	**107.4**	**108.2**
Total falling due after one year	**1,321.7**	**1,201.1**	**779.4**	**662.0**

Certain comparative amounts have been adjusted, resulting in a reclassification of £44.8 million from derivative financial instruments for the Group and Trust to creditors, £78.3 million for the Group and £70.1 million for the Trust from other investment assets to creditors and, due to the recognition of the cash collateral creditor in relation to the securities lending programme, an adjustment of £137.2 million.

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

The Bond liability is the amortised cost, using the effective interest method, of the £550 million 4.625 per cent Guaranteed Bonds due 2036, issued by Wellcome Trust Finance plc (a subsidiary undertaking of the Trust) on 25 July 2006. The liability is guaranteed by the Wellcome Trust. The Bond liability falling due within one year is the unpaid coupon interest accrued for the period to 30 September 2008. The interest payment to the Bondholders is at a fixed rate of 4.625% per annum and is paid in arrears on 25 July each year until repayment of the Bond principal. In the table above, no amounts fall due between one and five years because the remainder of the Bond liability at the balance sheet date is the amortised cost of the amount due to be repaid upon expiry of the 30-year term on 25 July 2036 and therefore falling due after five years. The fair value of the Bond liability as at 30 September 2008 was £482.5 million (2007: £491.5 million).

The Trust has a finance arrangement with Assetfinance December (P) Limited, a subsidiary of HSBC Bank plc, which involves the lease and leaseback of the office building at 215 Euston Road, London. The total related finance lease creditor outstanding is £48.3 million. The financing period outstanding at 30 September 2008 is 21 years and 1 month.

In addition, the Trust has a finance arrangement with Assetfinance December (P) Limited, which involves a lease and leaseback of part of the research facility at the Wellcome Trust Genome Campus in Hinxton, Cambridgeshire. The total related finance lease creditor outstanding is £37.6 million. The financing period outstanding at 30 September 2008 is 21 years and 10 months.

18. PROVISIONS FOR LIABILITIES AND CHARGES

Group and Trust

	Employment related provisions £m	Other provisions £m	Total £m
As at 1 October 2007	6.6	2.1	8.7
Charge for the year	1.2	1.8	3.0
Utilised in year	(0.9)	(2.1)	(3.0)
As at 30 September 2008	**6.9**	**1.8**	**8.7**

Employment provisions relate to unfunded defined benefit pension benefits, post retirement medical benefits and the restructure of the Trust's funding divisions and grants management department. Other provision of £1.7 million relates to a provision for the Trust's share of the decommissioning costs for Diamond Light Source Limited.

19. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Investments

The Trust has entered into commitments to invest in private equity funds. At the balance sheet date, outstanding commitments amounted to £2,203.8 million (2007: £1,767.1 million). The Trust models its expected cash flows based on the year of the original commitment and historic trends. In a normal economic environment, the Trust would expect to invest £753.0 million (34%) of its outstanding commitments in one year, £1,431.6 million (65%) in between one to five years, and £19.2 million (1%) in five years.

(b) Programme related investments

The Trust has an outstanding commitment of £8.6 million as part of the second construction phase of the Diamond Light Source Limited synchrotron project (2007: £12.5 million). The Trust has also agreed to fund 14% of the annual operating budget of £32 million for the Diamond Light Source Limited year ending 31 March 2009. Of this, £19.9 million is still outstanding. See note 15 (d).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 September 2008 (continued)

19. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

Programme related convertible loans have been made over a series of years, of which £8.5 million remains yet to be drawn down and is contingent upon specific milestones being achieved.

The Trust has continued its involvement in the UK Centre for Medical Research and Innovation during the year. The Trust has committed to £2.2 million of which £1.7 million is still outstanding.

(c) Grant funding activities

During the current and prior years, the Technology Transfer Division has made Seeding Drug Discovery awards of £43.2 million, of which £22.8 million is contingent upon specific funding related milestones being met and has therefore not been included within grant liabilities.

During the year, a conditional award of up to £2.5 million was made under the Capital Awards in Biomedical Science initiative. This award has not been recognised in grant liabilities because the Trust retains discretion to decide whether the specific conditions attached are met, before finalising the award.

During the year, the Trust and the Department of Biotechnology, India agreed to set up a not for profit entity which in turn will make fellowship grants in India. The Trust will be contributing £40 million over five years.

(d) Direct activities

As at 30 September 2008, Genome Research Limited had a capital commitment of £1.1 million (2007: £3.0 million) which relates to the purchase of scientific equipment as a one-off investment in new sequencing technologies.

20. GROUP UNDERTAKINGS

(a) Summary of activities of subsidiary undertakings

Company	Country of incorporation	Activities	Legal relationship
Genome Research Limited	England	Medical research, primarily in the field of genomics	The Wellcome Trust Limited and Wellcome Trust Nominees Limited are equal members
Hinxton Hall Limited	England	Provision of conference facilities and site services at the Wellcome Trust Genome Campus, Hinxton	The Wellcome Trust Limited and Genome Research Limited are equal members
Wellcome Trust Trading Limited	England	Trading company	The Wellcome Trust Limited is the sole shareholder
Catalyst BioMedica Limited	England	Holding Programme related investments	The Wellcome Trust Limited is the sole shareholder
W.T. Construction Limited	England	Property construction company	The Wellcome Trust Limited is the sole shareholder
Wellcome Trust Director Limited	England	Corporate directorships	The Wellcome Trust Limited is the sole shareholder
Mkono Ya Bahari Limited	Kenya	Property holding company	The Wellcome Trust Limited and Wellcome Trust Nominees Limited are equal shareholders
Wellcome Trust GP Limited	England	Acts as a general partner to Wellcome Trust Investment Limited Partnership	The Wellcome Trust Limited is the sole shareholder
Wellcome Trust Finance plc	England	To issue and invest in financial instruments	The Wellcome Trust Limited and Wellcome Trust Nominees Limited are the shareholders
Wellcome Trust Investments 1 Unlimited	England	Investment holding company (Sterling investments)	The Wellcome Trust Limited and Wellcome Trust Nominees Limited are the shareholders
Wellcome Trust Investments 2 Unlimited	England	Investment holding company (US Dollar investments)	The Wellcome Trust Limited and Wellcome Trust Nominees Limited are the shareholders
Wellcome Trust Investments 3 Unlimited (Formerly WT European Investments Limited)	England	Investment holding company (Euro investments)	The Wellcome Trust Limited and Wellcome Trust Nominees Limited are the shareholders
Wellcome Trust Residential 1 Unlimited	England	Investment holding company	The Wellcome Trust Limited and Wellcome Trust Nominees Limited are the shareholders
Wellcome Trust Residential 2 Unlimited	England	Investment holding company	The Wellcome Trust Limited and Wellcome Trust Nominees Limited are the shareholders
Trident Holdings Limited	Cayman Islands	Investment holding company	The Wellcome Trust Limited is the sole shareholder
Wellcome Trust Investment Limited Partnership	England[1]	Investment holding partnership	The Wellcome Trust Limited is the limited partner and Wellcome Trust GP Limited is the general partner
Wellcome Trust Scottish Limited Partnership	Scotland[1]	Investment holding partnership	The Wellcome Trust Limited is the limited partner and Wellcome Trust GP Limited is the general partner

[1] Country of registration

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 September 2008 (continued)

20. GROUP UNDERTAKINGS (continued)

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

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

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

Trident Holdings Limited has a financial year end of 31 December and unaudited interim accounts have been drawn up to 30 September 2008 for consolidation purposes.

Subsidiary undertakings that are dormant have been excluded from the table on the previous page.

(b) Summary financial information

(i) Charitable subsidiary undertakings

	Genome Research Limited		Hinxton Hall Limited	
	2008 £m	2007 £m	2008 £m	2007 £m
Incoming resources	90.8	83.9	15.8	13.4
Resources expended	(93.5)	(79.6)	(15.4)	(14.1)
Actuarial (loss)/gain on defined benefit pension scheme	(9.2)	6.5	–	–
Net movements in funds	**(11.9)**	**10.8**	**0.4**	**(0.7)**
Assets	135.4	126.9	27.2	26.7
Liabilities	(22.3)	(14.2)	(2.8)	(2.7)
Defined benefit pension scheme deficit	(26.1)	(13.8)	–	–
Net assets	**87.0**	**98.9**	**24.4**	**24.0**

(ii) Non-charitable operating subsidiary undertakings

	W.T. Construction Limited		Catalyst BioMedica Limited		Wellcome Trust Trading Limited	
	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m
Turnover	3.4	7.4	–	–	1.6	0.8
Expenditure	(3.4)	(7.4)	–	–	(1.6)	(0.8)
	–	**–**	**–**	**–**	**–**	**–**
Tangible fixed assets	–	–	–	–	0.1	0.1
Current assets	3.9	3.9	0.8	0.8	1.4	0.5
Total assets	3.9	3.9	0.8	0.8	1.5	0.6
Liabilities	(3.9)	(3.9)	–	–	(1.3)	(0.4)
Net assets	**–**	**–**	**0.8**	**0.8**	**0.2**	**0.2**

(iii) Non-charitable investment subsidiary undertakings

	Wellcome Trust Investment Limited Partnership 2008 £m	Wellcome Trust Investment Limited Partnership 2007 £m	Wellcome Trust Scottish Limited Partnership 2008 £m	Wellcome Trust Scottish Limited Partnership 2007 £m	Wellcome Trust GP Limited 2008 £m	Wellcome Trust GP Limited 2007 £m
Turnover	31.6	19.3	1.4	0.1	–	–
Expenditure	(33.1)	(33.8)	–	–	–	–
(Losses)/gains	(91.7)	40.5	2.9	4.1	–	–
	(93.2)	**26.0**	**4.3**	**4.2**	**–**	**–**
Investment assets	545.8	865.6	22.4	26.3	–	–
Current assets	276.4	47.3	8.6	0.4	0.3	–
Total assets	822.2	912.9	31.0	26.7	0.3	–
Liabilities	(690.5)	(688.0)	–	–	(0.3)	–
Net assets	**131.7**	**224.9**	**31.0**	**26.7**	**–**	**–**

	Wellcome Trust Investments 1 Unlimited 2008 £m	Wellcome Trust Investments 1 Unlimited 2007 £m	Wellcome Trust Investments 2 Unlimited 2008 £m	Wellcome Trust Investments 2 Unlimited 2007 £m	Wellcome Trust Investments 3 Unlimited 2008 £m	Wellcome Trust Investments 3 Unlimited 2007 £m
Turnover	–	–	–	–	0.4	4.7
Expenditure	(0.3)	–	–	–	(0.6)	(4.8)
(Losses)/gains	(4.4)	–	–	–	1.7	4.7
	(4.7)	**–**	**–**	**–**	**1.5**	**4.6**
Investment assets	20.3	–	21.8	–	41.9	34.3
Current assets	–	–	–	–	10.1	14.6
Total assets	20.3	–	21.8	–	52.0	48.9
Liabilities	–	–	(0.2)	–	(0.1)	(4.3)
Net assets	**20.3**	**–**	**21.6**	**–**	**51.9**	**44.6**

	Wellcome Trust Residential 1 Unlimited 2008 £m	Wellcome Trust Residential 1 Unlimited 2007 £m	Wellcome Trust Residential 2 Unlimited 2008 £m	Wellcome Trust Residential 2 Unlimited 2007 £m	Trident Holdings Limited 2008 £m	Trident Holdings Limited 2007 £m
Turnover	9.5	0.7	0.1	–	1.3	1.5
Expenditure	(9.4)	(2.7)	(0.1)	–	–	(0.8)
(Losses)/gains	(34.0)	10.7	(0.3)	0.1	–	2.1
	(33.9)	**8.7**	**(0.3)**	**0.1**	**1.3**	**2.8**
Investment assets	294.7	333.6	3.0	3.4	–	35.8
Current assets	12.3	0.7	0.1	–	0.1	13.3
Total assets	307.0	334.3	3.1	3.4	0.1	49.1
Liabilities	(9.3)	(2.7)	(0.1)	(0.1)	(0.1)	(1.1)
Net assets	**297.7**	**331.6**	**3.0**	**3.3**	**–**	**48.0**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 September 2008 (continued)

20. GROUP UNDERTAKINGS (continued)

(iv) Non-charitable financing subsidiary undertakings

	Wellcome Trust Finance plc	
	2008 £m	2007 £m
Turnover	32.1	32.2
Expenditure	(32.1)	(32.2)
	–	–
Current assets	681.9	681.5
Total assets	681.9	681.5
Liabilities	544.4	544.0
Net assets	**137.5**	**137.5**

The fair value of shares in subsidiary and other undertakings of £695.9 million (2007: £817.5 million) is equal to the sum of the net assets of the entities shown in tables (ii)–(iv). The net loss in subsidiary undertakings including foreign exchange gains and losses on translation amounts to £121.3 million (2007: net gain of £46.7 million).

21. CONSOLIDATED CASH FLOW

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

	2008 £m	2007 £m
Incoming resources	305.0	318.3
Decrease in accrued income	2.6	5.9
(Decrease)/increase in deferred income	(0.8)	0.4
Increase in debtors	1.0	(5.5)
Gain on disposal of fixed assets	–	(0.1)
Exchange gains/(losses)	45.7	(3.8)
Income received	**353.5**	**315.2**
Grants awarded	(525.3)	(359.2)
Increase in commitments	219.4	22.8
Grants paid	**(305.9)**	**(336.4)**
Other resources expended	(263.4)	(194.0)
Increase/(decrease) in creditors and provisions	29.5	(1.0)
Provision for Programme related investments	14.6	11.9
Loss on disposal of fixed assets	0.2	0.5
Depreciation	22.4	21.4
Other operating costs	**(196.7)**	**(161.2)**
Returns on investments and servicing of finance	**(28.0)**	**(27.8)**
Net cash outflow from operating activities	**(177.1)**	**(210.2)**

(b) Reconciliation of investment sales and purchases

	2008 £m	2007 £m
Proceeds on sale of quoted investments	7,475.6	9,908.8
Proceeds on sale of unquoted investments	708.3	847.3
Proceeds on sale of investment property	110.5	146.6
Decrease in proceeds receivable on sale of investments	100.7	51.1
Proceeds from sales of investments	**8,395.1**	**10,953.8**
Purchase of quoted investments	7,021.2	8,656.8
Purchase of unquoted investments	1,062.7	1,605.3
Purchase of investment property	10.9	50.1
(Increase)/decrease in amounts payable on acquisition of investments	(7.6)	162.4
Transfer of fixed asset to investment property portfolio	–	(29.8)
Purchase of Programme related investments	31.2	12.6
Purchases of investments	**8,118.4**	**10,457.4**
(Loss)/gain on derivative financial instruments	(585.3)	212.5
Decrease in derivative financial assets	23.5	17.2
Increase in derivative financial liabilities	265.1	44.8
(Purchases)/proceeds from derivative financial instruments	**(296.7)**	**274.5**

(c) Issue of corporate bonds

In July 2006 Wellcome Trust Finance plc (a subsidiary of the Wellcome Trust) issued £550 million 4.625 per cent, Guaranteed Bonds due 2036. During the year Wellcome Trust Finance plc paid interest on the Bonds amounting to £25.4 million (2007: £25.4 million).

(d) Movement in cash and liquid resources

	30 September 2008 £m	Cash flows £m	1 October 2007 £m
Cash and certificates of deposits held by fund managers	1,369.4	(221.5)	1,590.9
Term deposits	1.1	1.0	0.1
Liquid resources	1,370.5	(220.5)	1,591.0
Cash at bank and in hand	14.0	5.6	8.4
Total cash and liquid resources	**1,384.5**	**(214.9)**	**1,599.4**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 September 2008 (continued)

22. MAJOR NON-CASH TRANSACTIONS

The Trust has finance lease arrangements with a total capital value of £85.9 million as at 30 September 2008 (2007: £86.5 million). Interest charges of £2.3 million (2007: £2.2 million) were added to the financing balance.

23. FINANCIAL RISK MANAGEMENT

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

(a) Credit risk

Credit risk is the risk that a counterparty to a financial asset will cause a financial loss for the Group by failing to discharge an obligation to the Group.

Credit risk exposure

The Group's credit risk is spread between its debtors and assets held by counterparties and is particularly concentrated on investment cash balances and interest bearing assets due to the significant value of these balances. The following table details the Group's maximum exposure to credit risk as at 30 September:

	Value as at 30 September 2008 £m	**Value as at 30 September 2007 £m**
Interest bearing securities	152.9	306.9
Derivative financial instrument asset positions	11.2	34.6
Investment cash balances and certificates of deposit	1,369.4	1,590.9
Cash collateral held	74.4	137.2
Accrued income from investments	16.6	19.2
Proceeds receivable on sale of investments	50.8	151.5
Other investment debtor balances	11.6	15.4
Other debtors	10.2	6.5
Term deposits and cash	15.1	8.5
	1,712.2	**2,270.7**

None of the Group's financial assets are past their due date or impaired during the year. The following details the credit quality of the various financial assets exposed to credit risk:

- Interest bearing investments: where the investment manager makes an investment in a bond, corporate or otherwise, the credit rating of the issuer is taken into account so as to minimise the risk to the Group of default. In addition, investments in quoted bonds are made across a variety of industry sectors, and issuers, so as to avoid concentrations of credit risk;
- Derivative financial instruments: transactions involving derivative financial instruments are entered into only with banks, the credit ratings of which are taken into account so as to minimise the risk to the Group of default;
- Proceeds receivable on sale of investments: direct investment transactions are carried out with a small number of brokers, whose credit-standing forms part of the initial review by the investment manager;
- Direct cash management mandate is limited to the use of deposits with reputable banks and the purchase of short dated UK government securities.

Risk management policies and procedures

The objective of managing credit risk is to avoid counterparty default on the Group's financial assets causing financial loss to the Group. The credit risk exposure is mitigated by the selection and monitoring of counterparties including the setting of appropriate exposure limits and maturities. Counterparties are selected based on their financial rating, regulatory environment, and specific circumstances.

The policy and procedures have been approved and applied from 1 October 2007. None of the Group's financial assets are secured by collateral or other credit enhancements except securities loaned (see note 15 (a)).

(b) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulties raising cash to meet its commitments when they fall due.

Liquidity risk exposure

This is a risk to the Group, given the value of the Group's commitments to charitable and investment activities. However, this risk is mitigated by the Group's significant holdings in liquid assets (such as directly held quoted investments and cash and cash equivalents). The Group's commitments, include annual Bond interest payments of £25.4 million, payments of grants and of committed investments and standard operational expenditure.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 September 2008 (continued)

23. FINANCIAL RISK MANAGEMENT (continued)

The following table details the maturity of the Group's undiscounted contractual payments as at 30 September:

Group

	2008				2007			
	3 months or less £m	Not more than 1 year £m	More than 1 year £m	Total £m	3 months or less £m	Not more than 1 year £m	More than 1 year £m	Total £m
Contractual payments falling due within one year								
Bond liability	–	4.7		4.7	–	4.7		4.7
Finance lease creditor	0.5	0.2		0.7	0.6	0.3		0.9
Derivative financial instrument liabilities	309.9	–		309.9	44.8	–		44.8
Collateral liability	74.4	–		74.4	137.2	–		137.2
Amount payable on acquisition of investments	59.4	–		59.4	58.3	–		58.3
Other investment liabilities	17.7	–		17.7	20.2	–		20.2
Trade creditors	10.8	–		10.8	4.8	–		4.8
Other creditors	5.1	–		5.1	5.8	–		5.8
Accruals and deferred income	16.2	–		16.2	18.8	–		18.8
	494.0	**4.9**		**498.9**	**290.5**	**5.0**		**295.5**
Grant liability	216.2	349.9		566.1	179.2	289.0		468.2
	710.2	**354.8**		**1,065.0**	**469.7**	**294.0**		**763.7**
Contractual payments falling due between one and five years								
Finance lease creditor			0.7	0.7			1.0	1.0
Other creditors			1.9	1.9			2.1	2.1
			2.6	**2.6**			**3.1**	**3.1**
Grant liability			672.4	672.4			550.7	550.7
			675.0	**675.0**			**553.8**	**553.8**
Contractual payments falling due after five years								
Bond liability			539.3	539.3			539.1	539.1
Finance lease creditor			84.7	84.7			84.6	84.6
Other creditors			1.6	1.6			2.4	2.4
			625.6	**625.6**			**626.1**	**626.1**
Grant liability			21.1	21.1			21.2	21.2
			646.7	**646.7**			**647.3**	**647.3**
Total	**710.2**	**354.8**	**1,321.7**	**2,386.7**	**469.7**	**294.0**	**1,201.1**	**1,964.8**

The grant liability is a non-contractual payment and the expected maturity of this liability is based on historic payment profiles.

Risk management policies and procedures

The Group's liquidity requirements are managed through an appropriate holding in very liquid assets of £1,260.9 million as at 30 September 2008 (2007: £817.0 million), which comprise cash and cash equivalents and interest bearing securities. The level of very liquid assets held is set and regularly reviewed by senior management. Liquidity and cash forecasts are reviewed by the Investment Committee and Board of Governors on a quarterly basis. Short term operational cash flow forecasts are produced weekly. The Group's exposure to liquidity risk is also mitigated by the investment in quoted securities of £6,463.1 million (2007: £8,680.0 million) that are readily realisable.

(c) Market risk – Price, currency and interest rate risks

Market risk is the risk that the fair value or future cash flows of the Group's financial instruments will fluctuate because of changes in market prices. It comprises three types of risks: other price risk, interest rate risk, and currency risk.

The Group uses an externally supplied Value-at-Risk (VAR) model to manage market risk of the investments portfolio. VAR measures the worst expected loss under normal market conditions over a specific time interval at a given confidence level.

The Monte Carlo Simulation method is applied in the model to estimate VAR by simulating 10,000 random scenarios and revaluing all positions in the portfolio for each trial. The method assumes lognormal price distributions of underlying risk factors but accounts for all the portfolio positions that are not linear as well as taking volatilities and corrections into account. The lognormal distribution is the single-tailed probability distribution of any random variable whose logarithm is normally distributed. The method also provides a full distribution of potential portfolio gains and losses but does not take into account any underlying factors that are not normally distributed such as fat-tails and mean-reversion. A fat-tail is a property of probability distributions exhibiting extremely large variance due to infrequent extreme deviations particularly relative to ubiquitous normality. Mean reversion means a stock's price will tend to reverse to an average price over time.

The one year 95% VAR was 11.3% as at 30 September 2008 (2007: 9.4%) compared with the Trust's targeted maximum of 15%.

The results from the Monte Carlo Simulation method are also compared to Parametric Modelling and Historical Simulation to test for reasonableness. The Group uses stress tests of VAR as sensitivity analysis for each type of market risk, which reflects interdependencies between risk variables such as price, interest rates, and exchange rates.

The Trust has developed and begun to use proprietary risk analytics during 2007/08. These will be the main method of risk measurement from the next financial year onwards. This model uses a similar framework to the external model, but has an additional module which evaluates the risks associated with private equity and property funds.

(i) Other price risk

Other price risk is the risk that the value of an asset or liability will fluctuate due to changes in market price, caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. This is a key risk for the Group, because its ability to fund research over the long term is dependent on maintaining the purchasing power of the asset base. The Group's expenditure is predominantly discretionary and the Governors and senior management monitor cash expenditure, commitments and the endowment performance throughout the year to manage the balance between funding charitable activities and maintaining the purchasing power of the asset base.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 September 2008 (continued)

23. FINANCIAL RISK MANAGEMENT (continued)

Other price risk exposure

The maximum asset and liability value exposed to other price risk at 30 September is the value of the traded investment assets and liabilities as detailed in the following table:

	Value as at 30 September 2008 £m	Value as at 30 September 2007 £m
Quoted investments	7,349.6	9,039.7
Unquoted investments	4,334.2	3,962.9
Investment properties	810.3	973.0
Derivative financial instrument asset positions	11.2	34.6
Assets exposed to risk	**12,505.3**	**14,010.2**
Derivative financial instrument liability positions	309.9	44.8
Liabilities exposed to risk	**309.9**	**44.8**

Concentration of exposure to other price risk

An analysis of the Group's investment portfolio is shown in note 15 (a). This shows that the majority of the investments' value is in overseas companies in both quoted and unquoted investments. There is a high level of diversification by market including emerging markets within the long only equity portfolio as it is the Group's policy to have no constraint on non-UK equity exposure. It is recognised that an investment's country of domicile or of listing does not necessarily equate to its exposure to the economic conditions in that country.

Risk management policies and procedures

The Investment Committee monitors the other price risk inherent in the investment portfolios by ensuring full and timely access to relevant information from the Investment Managers. The Board of Governors reviews the other price risk quarterly. The Board and the Investment Committee meet regularly and at each meeting review investment performance. The Board takes overall responsibility for investment strategy and asset allocation, particularly across regions and asset classes.

(ii) Currency risk

Currency risk is the risk that the value of an asset or liability will fluctuate due to changes to foreign currency exchange rates. The currency of the majority of the Group's expenditure and the functional currency of the Group is Sterling. However, the Group has investment assets denominated in currencies other than Sterling and is impacted by fluctuations in foreign currency exchange rates.

The Group has no significant financial liabilities denominated in currencies other than Sterling. However, the Group has outstanding commitments for private equity funds and property funds of $1,507.1 million, £96.6 million, and €490.0 million as at 30 September 2008 (2007: $1,145.4 million, £120.1 million, and €469.7 million).

Currency risk exposure

Currency exposure especially to the US Dollar is a key component of the total risk of the Group. The Group has a heavy exposure to non Sterling denominated assets. As at 30 September 2008, 51% of the Group's investment assets are non Sterling denominated, after including the impact of passive currency overlay.

The following table details the asset value exposed to currency risk as at 30 September:

	Value as at 30 September 2008 (Currency, m)	Value as at 30 September 2008 £m	Value as at 30 September 2007 (Currency, m)	Value as at 30 September 2007 £m
Traded investment assets				
US $	$12,302.9	6,902.2	$13,220.4	6,488.9
Euro	€1,592.2	1,254.7	€2,525.3	1,762.7
Japanese Yen	¥81,500.5	430.7	¥123,071.3	525.2
Other		1,162.2		1,553.8
Other investment debtors balances				
US $	$318.2	178.5	$224.6	110.2
Euro	€290.2	228.7	€130.1	90.8
Japanese Yen	¥5,057.2	26.7	¥3,850.8	16.5
Other		17.1		21.7
Other investment creditors balances				
US $	($42.4)	(23.8)	($29.0)	(14.2)
Euro	(€4.7)	(3.7)	(€17.9)	(12.5)
Japanese Yen	(¥5,073.2)	(26.8)	(¥1,073.2)	(4.6)
Other		(10.4)		(13.8)
Forward currency contracts				
US $	($5,305.3)	(2,969.0)	($4,205.6)	(2,065.6)
Euro	(€1,009.4)	(796.0)	(€887.4)	(620.3)
Japanese Yen	¥8,066.5	42.7	(¥46,288.8)	(198.4)
Other		2.9		(8.1)
Total value exposed to currency risk		**6,416.7**		**7,632.3**

Risk management policies and procedures

The Investment Managers monitor the Group’s exposure to foreign currencies on a daily basis and report to the Investment Committee on a quarterly basis. The Risk Manager measures the risk to the Group of the foreign currency exposure by considering the effect on the Group’s net asset value of a movement in the key rates of exchange to which the Group‘s assets and income are exposed.

Foreign currency contracts are used to limit the Group‘s exposure to future changes in exchange rates which might otherwise adversely affect the value of the portfolio of investments. Where appropriate, they are also used to achieve the portfolio characteristics that assist the Group in meeting its investment objectives. The Board of Governors have agreed to an operational hedge (a passive currency overlay) of up to a maximum of 70% of the Group’s currency exposure for US Dollar, Euro, and Japanese Yen denominated assets.

Income denominated in foreign currencies is generally converted to Sterling on receipt unless immediate reinvestment plans are being made. The Group does not use financial instruments to mitigate the currency exposure in the period between the time that income is included in the Financial Statements and its receipt.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 September 2008 (continued)

23. FINANCIAL RISK MANAGEMENT (continued)

(iii) Interest rate risk

Interest rate risk arises from the risk that the value of an asset or liability will fluctuate due to changes in interest rates (i.e. for fixed interest rate assets or liabilities) or that future cash flows will fluctuate due to changes in interest rates (i.e. for variable rate assets or liabilities).

Interest rate exposure

The following table details the values of interest bearing securities and liabilities exposed to interest rate risk as at 30 September:

Interest bearing financial securities and liabilities	Weighted average interest rate	Value as at 30 September 2008 £m	Weighted average interest rate	Value as at 30 September 2007 £m
Interest bearing securities				
Maturing within one year				
Fixed rate	4.250%	1.3	–	–
Floating rate	n/a	5.0	n/a	3.4
Maturing between two and five years				
Fixed rate	5.025%	87.0	5.445%	232.5
Floating rate	n/a	23.3	n/a	21.9
Maturing after five years				
Fixed rate	6.375%	3.2	6.375%	3.5
Floating rate	n/a	33.1	n/a	45.6
Total interest bearing securities		**152.9**		**306.9**
Interest bearing liabilities				
Maturing after five years				
Fixed rate – Bond liability	4.625%	(544.0)	4.625%	(543.8)
Floating rate – finance lease creditor	n/a	(85.9)	n/a	(86.5)
Total interest bearing liabilities		**(629.9)**		**(630.3)**

In addition to the interest bearing securities detailed in the table above, the Group holds investment cash and certificates of deposit of £1,369.4 million (2007: £1,590.9 million) and term deposits and cash of £15.1 million (2007: £8.5 million). These assets are interest bearing and the future cash flows from these assets will fluctuate with changes in market interest rates.

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

Interest rate sensitivity

The fair value of the investment assets will reduce by 0.1% if the interest rate falls by 50 basis points, and will increase by 0.1% if the interest rate increased by 50 basis points. A 0.1% change is equivalent to a £13.3 million variance in the fair value of investment assets. This dependency is based on the stress test result of using a Monte Carlo Simulation model. This level of change is considered to be reasonably possible based on observation of current market conditions. The sensitivity analysis is based on the Group's monetary financial instruments held at each balance sheet date, with all other variables held constant.

Risk management policies and procedures

The possible effects on fair value and cash flows that could arise as a result of changes in interest rates are taken into account when making investment decisions.

The Investment Committee monitors the Group's exposure to interest bearing assets, the Bond liability and the related finance costs regularly.

(d) Fair value of financial assets and liabilities

The fair values of the Group's financial assets and liabilities shown on the Balance Sheet are the same with the exception of the Bond liability which has a book value of £544.0 million.

Quoted investments, unquoted investments, investment properties, derivative financial instruments and Programme related investments are held at fair value. The book value of other investment balances (which comprises investment cash and other current investments debtors and creditors), other debtors, term deposits and cash, trade creditors and other creditors is equal to the fair value of these balances. The fair value of the Bond liability as at 30 September 2008 was £482.5 million (2007: £491.5 million) and is based on the market value of the Bonds at that date. The book value of the finance lease liability is updated for movements in interest rates and is therefore equal to fair value.

REFERENCE AND ADMINISTRATIVE DETAILS

Board of Governors

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

Professor Adrian Bird, CBE, FRS, FMedSci *(Deputy Chairman)*

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

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

Dame Patricia Hodgson *(retired 31 May 2008)*

Professor Richard Hynes, PhD, FRS

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

Baroness Manningham-Buller (Eliza), DCB *(from 1 August 2008)*

The late Mr Alastair Ross Goobey, CBE *(to 2 February 2008)*

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

Professor Peter Smith, CBE, DSc, HonMFPH, FMedSci

Mr Edward Walker-Arnott

Company Secretary

Mr John Stewart

Executive Board

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

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

Mr John Cooper *(Director of Resources)*

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

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

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

Dr Alan Schafer, PhD *(Head of Molecular and Physiological Sciences)*

Mr John Stewart *(Head of Legal)*

Mr Danny Truell *(Chief Investment Officer)*

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

COMMITTEES OF THE BOARD OF GOVERNORS

Audit Committee

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

Mr Philip Johnson *(from 1 January 2008)*

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

Professor Peter Smith

Mr Nicholas Temple

Remuneration Committee

Sir William Castell *(Chairman)*

Professor Adrian Bird

Dame Patricia Hodgson *(to 31 May 2008)*

Mr Roderick Kent *(from 14 April 2008)*

Mr Edward Walker-Arnott

Investment Committee

Sir William Castell *(Chairman)*

Mr Roderick Kent *(from 1 February 2008)*

The late Mr Alastair Goobey *(2 February 2008)*

Mr Tim Church *(from 1 November 2007)*

Mr Peter Davies

Mr Naguib Kheraj *(from 1 November 2007)*

Mr Stewart Newton

Mr Hugh Stevenson *(to 30 September 2008)*

Dr Mark Walport

Mr David Phillipps

Mr Danny Truell

Mrs Sarah Fromson *(from 2 September 2008)*

Mr Nicholas Moakes *(from 20 November 2007)*

Mr Peter Pereira Gray

Nominations Committee

Sir William Castell *(Chairman)*

Professor Adrian Bird

Professor Richard Hynes *(from 1 October 2007)*

Mr Edward Walker-Arnott

Strategic Awards Committee

Professor Adrian Bird *(Chairman)*

Sir William Castell

Professor Dame Kay Davies *(from 1 January 2008)*

Professor Christopher Fairburn *(from 1 January 2008)*

The late Mr Alastair Goobey *(2 February 2008)*

Dame Patricia Hodgson *(to 31 May 2008)*

Professor Richard Hynes

Mr Roderick Kent *(from 1 February 2008)*

Baroness Eliza Manningham-Buller *(from 1 September 2008)*

Professor Peter Rigby *(from 1 January 2008)*

Professor Peter Smith

Mr Edward Walker-Arnott

Dr Mark Walport

Dr Ted Bianco

Ms Clare Matterson

PRINCIPAL ADVISERS

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PricewaterhouseCoopers LLP

Bankers

HSBC Bank plc

Solicitors

CMS Cameron McKenna LLP

Proskauer Rose LLP

Global custodian bank

JP Morgan Chase Bank NA

BOARD OF GOVERNORS

EXECUTIVE MANAGEMENT

Executive Board

Dr Mark Walport
(Director)

Dr Ted Bianco

Mr John Cooper

Dr David Lynn

Ms Clare Matterson

Mr David Phillipps

Dr Alan Schafer

Mr John Stewart

Mr Danny Truell

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