Financial highlights

Income

Our total income grew by £9 million to £477 million. Fundraising income rose by 2% to £420 million, as detailed in Notes 2a and 2b to the accounts. Excluding National Events, voluntary income grew by 5%, driven by a £10 million increase in legacy income to £148 million. National Events income was down £5 million, as 665,000 women took part in Race for Life, compared with a record-breaking 740,000 in 2006/07. We were not helped by the cancellation of 29 races due to flooding. Donor marketing rose 4% to £94 million. Community fundraising decreased by £3 million in a year of transition from staff-led to volunteer-led fundraising. Income from trading remained flat at £78 million, as like-for-like growth of 4% in the sale of donated goods was offset by shop closures in the core retail chain.

Costs of generating funds

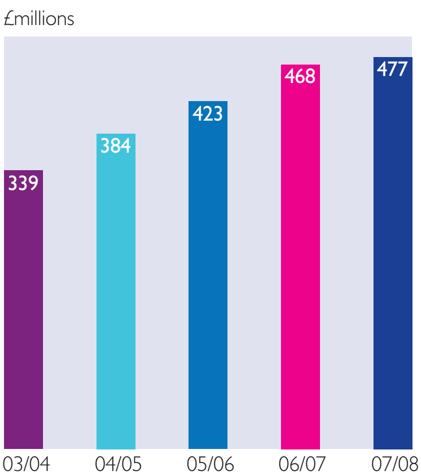
Our costs of generating funds increased by 2% to £130 million. The percentage of funds raised that are available to beat cancer was 81% excluding retail, which on a like-for-like basis is comparable with 2006/07. These costs include the first £2.5 million of investment in our 'Supporter Relationship Management' (SRM) programme, which will ultimately transform our supporter management strategy, processes, technology and relationships. This major programme is vital to support growth and improved efficiency in fundraising in order to meet our financial targets, and will continue to be developed over the next three years.

Costs of charitable activities

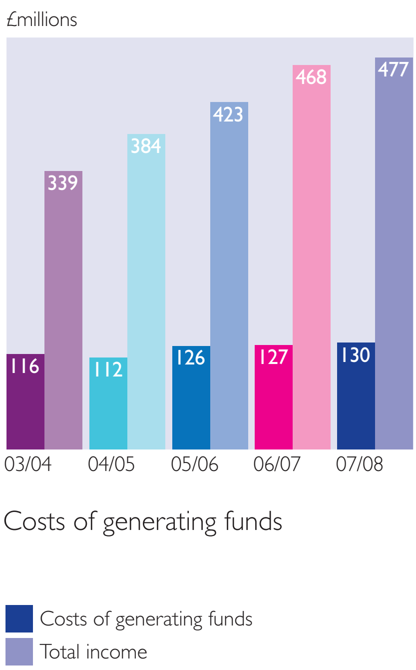
The costs of our charitable activities have grown by 6% to £344 million, excluding the 2006/07 exceptional item. Most of this is made up of research activities – up 6% to £333 million. Our information and advocacy work has continued to grow in scope and importance, increasing by 10% to £11 million.

In 2006/07 we reported an exceptional item as a result of changes in the way some of our research grants are administered (see also 'Grant funding of research' on pages 14 and 15). This had the effect of creating a significant timing difference between accounting for many grant costs and actually paying those grants, making the annual pattern of reported research costs more volatile, and different from either research payments made or cost of work actually done. Our cash outflows (i.e. payments) for charitable activities were significantly higher at £368 million (2006/07 £291m). The cost of work actually done in the year was £341 million (2006/07 £306m): this figure is further itemised under 'Research costs analysed' on page 14.

During the year we completed the transfer of certain research activities to various universities. As a result, we transferred 92 employees, made £1.6 million of pension top-up payments, and expensed as grants assets with a book value of £1.95 million (of which £1.2m was expensed in 2006/07). We continue to grant fund these activities.



Total income



Costs of generating funds

Net movement in funds

Net income was £10 million. However, after accounting for £40 million of unrealised losses (£35m on our investments and £5m actuarial losses on the pension fund), the net deficit for the year was £30 million. Our investment and pension fund assets are held for the long term, so we expect that these unrealised losses will be recovered.

Reserves

Our accounting treatment for grants means that we effectively fund a large proportion of grant obligations we will pay out in future years from income we have generated in the current year. This is why we have very small free reserves of £8 million at 31 March 2008 even though we hold significant cash and investments (£280m at 31 March 2008). In effect, the cash and investments are earmarked to cover the £250 million of grants that we have awarded but not yet paid. Our reserves policy allows us to manage this delicate balance: this is explained in more detail under 'Reserves policy' (page 18). The graph below relates our free reserves to our cash and investments, and our grant liabilities.

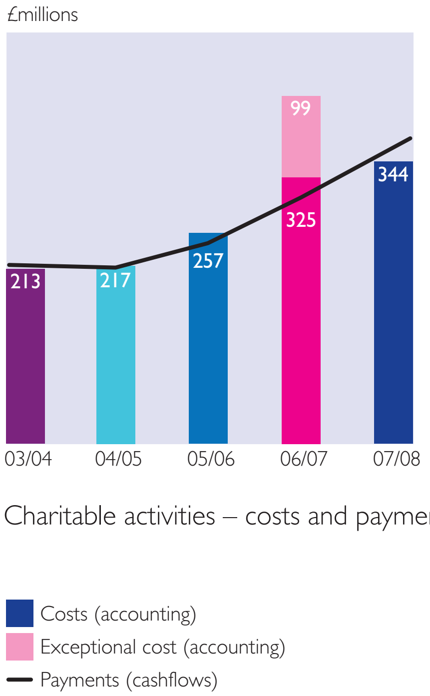
With our cash and investments already earmarked, each year we must start again from scratch to raise the funds that are essential to continue our work. In order to deliver the ambitions for our research portfolio in the coming years, and to ensure our goals for 2020 are achieved, it is clear that we will need to increase our fundraising efforts yet further. Research studies take many years to bear fruit.

So we must be committed to support research in the long term, to yield the greatest possible impact for people affected by cancer. The level of our grant commitments and liabilities (£546m at 31 March 2008) reflects this.

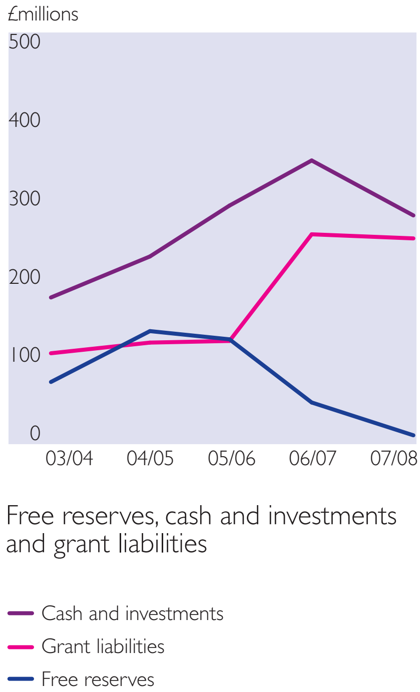
Fixed assets and investments

The £34 million additions to our fixed assets include £16 million of investment into two new research buildings at our Clare Hall site. The first is a new research facility which will be completed in 2008/09. The second is a new Biotherapeutics Development Unit, which should be licensed for operation by 2010.

During the year, we announced that our partnership with the MRC, University College London and the Wellcome Trust had successfully won a bid to buy a site in central London to develop the UKCMRI. At 31 March 2008, the partners had exchanged contracts with the site owner (the Department for Culture, Media and Sport) and we had paid our £1.8 million share of the deposit, which is included in debtors. The £16.1 million balance of our share of the purchase price was held on trust by the Wellcome Trust pending completion of the site purchase in June 2008, and is included in 'cash and short term deposits'. The building project will now take several years to complete. During 2008/09, the partners will undertake extensive preparatory work including scientific planning, creating a legal vehicle for the partnership, and selection of architects, contractors and engineers to design the centre. Work to quantify the scope and cost of the UKCMRI will also be undertaken. It is expected that associated future costs will be carried in the balance sheet as an investment in the special purpose vehicle to be set up by the partners.



Charitable activities – costs and payments



Free reserves, cash and investments and grant liabilities

Research costs analysed

Research costs analysed by cancer type

Some 40% of our research is basic research, which is not tumour specific. The remaining 60% can be analysed by specific cancer type. For clarity only the top 20 are given below.

Cancer type	2007/08 £000	2006/07 £000
Breast	44,395	46,101
Colon and rectal	30,184	23,473
Ovarian	14,713	12,075
Prostate	14,431	10,446
Leukaemia	13,497	8,453
Lung	13,202	13,521
Non-Hodgkins Lymphoma	8,464	5,862
Melanoma	7,320	4,944
Pancreatic	6,816	4,354
Bladder	6,515	5,140
Skin	4,950	7,360
Brain	4,670	3,372
Oesophageal	4,390	4,563
Cervical	3,564	4,370
Kidney	3,408	3,239
Sarcoma	2,739	2,571
Pharyngeal	2,511	3,362
Neuroblastoma	1,851	1,812
Oral cavity and lip	1,498	1,592
Laryngeal	1,153	2,183
Other	17,897	11,754
Total site specific research[1]	208,168	180,547
Total basic research	133,151	125,760
Total cost of research work done in the year[2]	341,319	306,307

This analysis uses the cost of work done as the measurement basis. As explained under 'Costs of charitable activities' on page 12, and 'Grant funding of research' on this and the following page, this differs slightly from research costs in the Statement of Financial Activities because of the accounting treatment of grants. The cost of work done basis is preferred here as it gives a fairer reflection of the actual research activity in the year, as opposed to funding awarded.

Grant funding of research

Our research is carried out in many institutes, universities and hospitals across the UK, both by our employees and by our grant-funded researchers – in many cases working closely together. Long-term investment is required for new ideas to produce significant output. Many of our programme grants are awarded for up to five years. These grants may be renewed to support the next stage in the research process. Clinical trials often take ten years or more. In all areas we carry out the same rigorous process of evaluating, reviewing and ensuring the highest standard of research, and this is a critical control in allocating funds. Committees of international experts in each research field review funding applications, including continuation of expiring awards, and monitor the research programmes.

It is important to understand the way we account for grants and the impact this has on the costs of charitable activities we report. We provide for the grants that we expect to pay up until their next scientific milestone review. During 2006/07 we made changes to the way in which certain grants are administered. Having identified those award types where it is beneficial to assess progress at longer intervals than annually, we set scientific milestone reviews at an interval determined by project type.

1. Site specific research includes an apportionment of research that is relevant to all sites. Wherever possible research is assigned to a specific cancer type; however, some research is neither basic nor can it be tied to an individual cancer, e.g. a project on pain control relevant to all cancer patients.

2. The figures include apportionment of uncoded work (totalling £40m in 2007/08), which cannot be tied specifically to one piece of research but underpins all areas of research.

£44.4m
was spent on breast cancer research this year

Although the accounting policy was unchanged, the process led to accounting for more of these grants earlier than when we actually pay them. For example, many of our five-year programme grants are now recognised in two tranches of three years and two years, rather than five annual tranches. The impact of the changes was to create a one-off exceptional accounting charge of £99 million in 2006/07, which increased our grant liabilities and reduced our reserves.

As we explained last year, the increased gap between the dates we provide for many grants and the dates we actually pay them can affect the picture of costs painted by our accounts over time. Where grants are recognised less frequently and in larger tranches, the pattern of research costs reported year-on-year can be more volatile than the underlying trend of grant funded research activity. This is why we have provided information on a 'cost of work done' basis under 'Research costs analysed' on page 14.

Subsidiaries and related parties

Activities in furtherance of our objectives

The principal activity of Cancer Research Technology Ltd (CRT) – a wholly-owned subsidiary – is to hold, develop and exploit intellectual property rights arising from research funded by Cancer Research UK and others to ensure that any discoveries that could lead to new drugs, diagnostics or vaccines reach the clinic by the most effective development route. These activities help us ensure our findings are used to improve the lives of cancer patients. CRT had another rewarding year, with revenues of £29 million (excluding Cancer Research UK grants to support the CRT development laboratories) and a profit on ordinary activities of £2 million. All CRT's taxable profits are returned to Cancer Research UK as a Gift Aid payment.

In addition, CRT enjoyed a number of strategic successes:

- Continued growth of the CRT laboratories, with the acquisition of additional space in London, and a new laboratory close to the Cambridge Research Institute.
- Formation of Cancer Therapeutics CRC Pty Ltd in Melbourne, Australia, which is now fully operational with six projects underway, including a collaboration with CRT on LIM kinase, and CRT as the consortium's commercialisation partner.
- A strong portfolio of drug discovery projects established in the CRT laboratories which should progress into licensable packages in 2008/09 and beyond.

CRT and its US subsidiary, CRT Inc, continue to be financially well placed to fulfil their aim of maximising cancer patient benefit flowing from publicly-funded research.

As explained in Note 16 to the accounts, the Beatson Institute for Cancer Research is treated as a subsidiary undertaking for accounting purposes from 14 June 2007, which is the date when representatives of Cancer Research UK became a majority of its board. The Institute has continued to pursue research into the causes and mechanisms of cancer, using the techniques of genetic and cell and molecular biology, again leading to numerous scientific publications. It is investing in a major expansion of research facilities, involving the construction of a new cancer research centre, which was completed in December 2007, and the renovation of existing laboratories. The Institute was able to resource the development of a further clinically-led research group and to recruit three further basic research groups during the year. The Institute generated a total of £14 million in incoming resources (£11.6m from Cancer Research UK), and spent a total of £10 million on its research activities. In accordance with accounting standards an amount equal to the value of the assets and liabilities at the date of acquisition has been recognised on the balance sheet as negative goodwill and is being amortised to the SOFA over a period of ten years.

The Gibb Research Fellowship Endowment Fund successfully supports two active research fellows. War on Cancer is reviewing its activities with a view to redeploying its funds in cancer research.

Cancer Research UK, together with the MRC and Department of Health (England), continues to support onCore UK – an associate undertaking – in recognition of the need to strengthen and improve translational research. Under its expanded remit, onCore UK, as a national resource, continues to work towards the facilitation of translational biomarker research through the provision of quality assured, clinically annotated patient samples. onCore UK is chaired by Professor Colin Bird, one of our Trustees.

Activities to generate income

Cancer Research UK Trading Ltd – a wholly-owned subsidiary – generates income through trading activity within the fundraising portfolio. The sale of bought-in goods and cards in the retail chain generated income in excess of £7.5 million, of which some 60% was delivered during the Christmas trading period. The core retail chain is the most profitable charity retailer on the High Street (source: Charity Shop Survey 2007 – highest profit per shop for 'non-hospices with 100+ shops'), and the number one charity Christmas card retailer in the UK. The core chain comprises 562 shops. Following the year end we decided to convert our Wishes chain of card shops to core donated goods outlets. Trading income is also generated through entrance fees and merchandise sales associated with our Race for Life and 10K events programmes.

46,600

volunteers donated their time, energy and skills this year

Other activities include the sale of cause-related merchandise through our corporate partnerships such as Burton and Peacocks. All taxable profits are returned to Cancer Research UK as a Gift Aid payment. Total revenue was £24 million in the year, and profit on ordinary activities was £2 million.

The Imperial Cancer Research Fund and the Cancer Research Campaign continue to collect legacy income on behalf of Cancer Research UK.

Volunteers

Our volunteers make a vital contribution towards all our achievements. Some 46,600 volunteers regularly support us by working in our shops and offices, at events and by fundraising in their communities. Their presence is wide ranging, with 16,500 volunteers in our retail chain, 16,000 in our Race for Life and 10k series, 13,500 in Community Fundraising and 600 in our offices, through placements and internships. Together our volunteers contribute an estimated 6.9 million hours each year.

This year, we recruited 3,132 new volunteers for our retail chain. For the third year running our internship scheme has been recognised for its quality of work experience by the National Council for Work Experience. Over 100 interns completed placements in departments across five directorates. We celebrated and recognised 78 exceptional volunteers at our annual Flame of Hope Awards in 2007, which was hosted by our Chairman. This event provides a great showcase for the enthusiastic, innovative and often brave contributions that our volunteers make.

Employees

Innovation and discovery are at the heart of our organisation. Whether this is in our science, fundraising or support activities, we aim to create an environment that will foster new ways of thinking and continuous improvement.

Our wide network of employees, grantees and supporters work enthusiastically to pursue our vision, purpose and goals. The competition for talented people remains fierce and we are continually developing our approaches to attract and retain the best talent, often competing with the private and public sectors. Our focus during the year has been on communicating our vision, purpose and impact to our people and strengthening our performance management and reward systems. We have introduced new opportunities for management development as well as improved programmes for training and skill development.

We ensure that every person is given equal opportunities by our policies and practices. Cancer Research UK does not tolerate sexual, racial, physical or mental harassment of staff in the workplace and aims to ensure that all employees receive equal treatment regardless of their age, race, sex or disability.

Pensions

We offer a combination of defined contribution and defined benefit plans to our employees. Employees may join the defined contribution plan – a stakeholder plan known as 'Your Pension' – at any time. After two years' service there is a single opportunity to join the defined benefit plan (except for employees of CRT).

The two defined benefit plans – the Cancer Research UK Pension Scheme and the Cancer Research Campaign Pension Plan – were merged during the year, significantly reducing future governance and administration costs. At 31 March 2008, the combined deficit of the schemes was £4.5 million (£7.9m in 2007) on an FRS17 basis. A significant factor in the reduction was the additional contributions paid in the year. Unrealised losses on scheme assets due to the turmoil in financial markets were offset by other actuarial gains on scheme liabilities, themselves heavily influenced by rising interest rates in the aftermath of the credit crunch. For this reason it is particularly difficult to value scheme liabilities in the current economic context. A variation of 0.1% in the discount rate applied would change the deficit by around £7 million. We have made a further prudent allowance for probable increases in life expectancy in line with recent actuarial experience and guidance.

The triennial actuarial valuations of the two defined benefit plans took place as at 31 March 2006 using assumptions agreed between Cancer Research UK and the pension fund trustees. On an ongoing funding basis, the combined deficits as at 31 March 2006 were £12.1 million (£56.1m in 2003) and the plans were almost 96% funded. We continue to monitor the situation regularly with the pension fund trustees. We also continue to monitor pension plan changes in the universities sector and the NHS – key reference points for attracting high calibre candidates to Cancer Research UK.

Full details of our pension schemes are included in Note 31 to the accounts.

Management of risk

The Trustees are responsible for Cancer Research UK's risk management and the effectiveness of internal controls. Council performed its annual review of major risks and of the work carried out by the Audit Committee, to ensure that we have taken reasonable measures and maintained systems to reduce these risks to an acceptable level.

The Audit Committee provides Council with an informed and independent assessment of the management and control of risks throughout the year.

- It reviews the register of major risks faced by Cancer Research UK, and has monitored the considerable progress which has been made on business continuity planning. A remote back-up location is now in place to support our critical computer applications.
- It reviews the work carried out by the Internal Audit function in line with its annual risk-based plan. Progress in all these areas and follow-up actions are reviewed regularly and reported to Council.
- It also monitors the work of the external auditors.

Financial risk management

Prices of goods and services purchased are subject to contracts with suppliers based on market prices, and salary costs are subject to a formal annual review. Our standard payment terms are 45 days. Credit risk on amounts owed by customers is low. Cancer Research UK has no borrowings and our policies regarding the management of investments and reserves are set out below. Net US dollar exchange rate risk in our trading subsidiaries is managed by the use of derivatives where appropriate.

We do not invest in tobacco companies or related businesses

	Target	31 March 2008	31 March 2007
Cash and investments cover (months)	6.0	**6.7**	8.9
Adjusted reserves cover (months)	2.5	**2.6**	3.9
Free reserves (£ millions)	Positive	**8**	47

Reserves policy

The primary purpose of our reserves policy is to ensure that Cancer Research UK holds adequate funds to maintain the long-term sustainability of our research and to manage short-term volatility in income or liquidity. The policy is designed to ensure that Cancer Research UK can:

- continue to meet its financial commitments;
- deploy funds promptly, in a planned way and react to new opportunities;
- balance sound investment with good liquidity management;
- ensure that we are not forced into short-term decisions to the detriment of our long-term vision.

To achieve this we have adopted target measures for key reserves indicators. Our reserves policy aims to:

- hold a minimum of 6 months of total cash outflow requirements in cash and investments, and
- hold a minimum of 2½ months of total costs in 'adjusted' free reserves (free reserves plus long-term grant liabilities), and
- maintain positive free reserves.

The above table summarises our compliance with the policy.

Planned growth in our research costs is bringing the reserves measures back towards the target levels.

As part of our monthly reporting process, we regularly monitor the adequacy of our reserves. Each year, we update our long-term financial plans and review our reserves policy. We have made no changes to the reserves policy this year.

Investment policy and performance

Our investment strategy aims for a portfolio of investments that benefits from capital growth in the long term, as well as giving stability through diversification. This year we have reduced investments by £42 million. This reverses the trend of recent years, in order to meet our ambitious spending targets.

Our portfolio is invested in equities to provide long-term capital growth fixed income to provide income, liquidity and stable capital values; and property which provides income and a long-term capital growth opportunity. Together they provide a diversified portfolio. We also maintain cash holdings for working capital purposes. We have made no investment in any sub-prime or similar instruments.

Our Finance Committee has responsibility for setting investment policy and deciding on investment strategy. Both policy and strategy were reviewed in the course of Finance Committee business during the year. As a result of this regular review, we changed our global equity manager during the year. AllianceBernstein took over management of our overseas equity portfolio in early December. The Finance Committee also kept the performance of RREEF, manager of the property portfolio, under review throughout the year. This is against a background of manager underperformance in the retail property sector, and lately, the difficult market conditions in the commercial property sector as a whole, which resulted in falling capital values.

Investment losses were £26 million in 2007/08 (gains of £8m in 2006/07 and £22m in 2005/06). Trading conditions were particularly difficult in equity markets, largely as a result of the impact of the US sub-prime mortgage problem and the resultant global credit crunch. This in turn affected growth prospects in both the US and UK, where domestic property prices have also started to fall from overvalued levels. Further threats include inflationary pressure from rising commodity prices, principally oil.

With both equity and property markets returning losses and bond markets posting only modest gains, all assets classes have fallen short of target in 2007/08. The UK stock market fell by 10% and the global index, MSCI, fell by 8.4%. The property market index fell by 10.7% in the year. This followed three strong years of above trend returns, and the annualised return over the last five years remains at 10.7%. Partially offsetting losses elsewhere were modest gains in the fixed income benchmark of 2.9%. The overall investment losses are made up of £9 million realised investment gains and £35 million unrealised losses. We remain confident of the potential of our investments to deliver expected returns in the long-term.

Smoking causes around a third of all cancer deaths in the UK, so it is our policy not to invest in tobacco companies or related businesses.

Structure, governance and management

When Cancer Research UK was formed some 6½ years ago, governance policies and practices were introduced which have remained largely unchanged. However, Cancer Research UK itself has grown in size and scope, the regulatory environment has changed, and the challenges faced by Trustees and management have intensified. Accordingly, in the second half of 2007 a comprehensive review of our governance was carried out in consultation with the Charity Commission, leading to the adoption by Council of a number of recommendations. These will result in Cancer Research UK being fully compliant with the Code for the Voluntary and Community Sector.

The main features from the review are:

- Our Council consists of the Trustees of Cancer Research UK, who are also Members and Directors of the charitable company. The number of Trustees will be reduced from 20 to 12 during 2008/09.
- Trustees are elected by Members at their AGM for an initial term of three years, renewable for up to two further terms.
- The role of the Trustee and the role of the Chairman have been reviewed and updated.
- The number of Council meetings will be increased from four to six each year.
- The committees of Council have been reviewed and in some cases restructured. They now comprise Audit Committee, Chairman's Committee, Council Research Strategy Committee, Finance Committee, Nomination and Governance Committee, Remuneration Committee. The schedule of matters reserved to Council has been revised, and each Council committee has a clear statement of its principal duties and powers.
- The process for nominating new Trustees is overseen by the recently formed Nomination and Governance Committee who are assisted by independent search consultants and open advertising. The Committee will meet at least twice a year.
- The induction programme for new Trustees is tailored to the individual's skills and experience, and includes site visits and meetings with management.
- Each Trustee will be formally appraised once in each three year term, and has regular access to the Chairman and Chief Executive Officer.

The Trustees continue to deploy a wide range of skills and experience essential to good governance, as outlined on pages 55 to 58.

Trustees' responsibilities

The Trustees are responsible for preparing the Trustees' Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Company law requires the Trustees to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of Cancer Research UK and the Group, as well as the income and application of resources, including the income and expenditure, of the Group for that period. In preparing these financial statements, the Trustees are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that Cancer Research UK will continue in business.

The Trustees are responsible for keeping proper accounting records that disclose with reasonable accuracy the financial position of Cancer Research UK and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of Cancer Research UK and the Group, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Each person who is a Trustee at the date of approval of this report confirms that:

- so far as the Trustee is aware, there is no relevant material audit information of which Cancer Research UK's auditors are unaware; and
- each Trustee has taken all the steps that he/she ought to have taken to make himself/herself aware of any relevant audit information and to establish that the auditors are aware of that information.

The Trustees are responsible for the maintenance and integrity of the Cancer Research UK website; the work carried out by the auditors does not involve consideration of these matters, and accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Legal and Administrative Details on pages 54 to 59 form an integral part of this report.

Public benefit

With effect from the financial year 2008/09, the Trustees will have a duty to report on 'public benefit' by explaining

- the significant activities undertaken in order to carry out our aims for the public benefit, and
- our achievements measured against those aims.

In addition, the Trustees will be required to confirm that they have had regard to the Charity Commission's guidance on public benefit.

Although not mandatory for this year, these explanations are provided on pages 3 to 11 of this report.

£420m
was raised by our supporters this year

Auditors

A resolution for the reappointment of PricewaterhouseCoopers LLP as auditors for Cancer Research UK will be proposed at the forthcoming Annual General Meeting.

On behalf of the Trustees

David Newbigging

David Newbigging
Chairman
30 July 2008