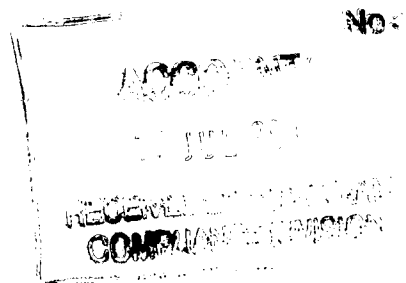


POLICY EXCHANGE LTD (By Guarantee)

REPORT AND FINANCIAL STATEMENTS

YEAR ENDED 30 SEPTEMBER 2007



**POLICY EXCHANGE LIMITED
INDEX TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2007**

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LEGAL STATUS

The charity is constituted as a company limited by guarantee and is, therefore, governed by a Memorandum and Articles of Association.

REGISTERED COMPANY NUMBER: 4297905

REGISTERED CHARITY NUMBER: 1096300

REGISTERED ADDRESS: 35 Ballards Lane
London
N3 1XW

DIRECTORS AND TRUSTEES: Alice Mary Rose Thomson
Camilla Hilary Cavendish
Robin Edwards
Rachel Whetstone
Charles Moore
Theodore Thomas More Agnew
Richard Henry Briance
Richard Albert Ehrman
George Robinson
Timothy Steel
Virginia Mary Fraser
Edward Andrew Perronet Sells

AUDITORS: Bolton & Co Accountants Limited
Chartered Accountants
Squirrels Wood
Reigate Road
Leatherhead
Surrey
KT22 8QY

ACCOUNTANTS: Berg Kaprow Lewis LLP
35 Ballards Lane
Finchley
London
N3 1XW

BANKERS: National Westminster Bank
Great Portland Street Branch
P O Box 2027
125 Great Portland Street
London
W1A 1GA

SECRETARY: Robin Edwards

PRINCIPAL OFFICE: Clutha House
10 Storeys Gate
London
SW1P 3AY

The company was registered as a charity with the Charity Commission on 3 March 2003.

OBJECT OF THE CHARITY

The objects of the charity as set out in its memorandum and articles are as follows:

The non-partisan advancement of education of the public in the economic, social and political sciences and their effect on public policy and the policy-making process in the UK and the promotion and publication of objective research.

STRUCTURE, GOVERNANCE AND MANAGEMENT

The Charity is a registered Charity number 1096300 and is constituted as a Charitable Company limited by guarantee governed by its Memorandum and Articles of Association dated 9 November 2001.

The Trustees delegate the day-to-day running of the Charity to the Senior Management Team. The Senior Management Team reports any significant developments back to the Trustees on a monthly basis, including any changes in staff, policy research and financial matters. Responsibility for making all major strategic decisions with regard to both Policy Exchange and its trading subsidiary, The Ideas Space, lies with the Trustees.

REVIEW OF FINANCIAL ACTIVITIES

The results for the year and financial position of the Trust are set out in the annexed financial statements.

Total income for the year rose by 83% to over £1.8 million, largely due to a big increase in donations for individual research projects. Unrestricted donations also rose by nearly 40% compared with the previous year. After costs, Policy Exchange recorded net income of £201,984 for the period, enabling it to boost its reserves by some 50%.

ACHIEVEMENTS AND PERFORMANCE

During the financial year, Policy Exchange expanded the number of research areas it covers from six to eight, adding Health, and Family and Society. A record number of events during the period (over 100) were held on a range of current topics. Total income rose by 83% and staff levels increased by a third.

In May 2007, Nicholas Boles retired as Chief Executive of Policy Exchange and the Trustees appointed Anthony Browne in his place.

Our supporters, from individual philanthropists, trusts and foundations and various business partners, have grown steadily over the years allowing Policy Exchange to expand its research reach and host a large number of events. Policy Exchange's audience continues to widen, strengthening our reputation for in-depth public policy research. These achievements were recognised when Policy Exchange was awarded Prospect Magazine's Think Tank of the Year 2006/2007.

Policy Exchange was presented with the prestigious Prospect Magazine Think Tank of the Year award for 2006/7.

DIRECTORS AND TRUSTEES

All Directors of the company are also Trustees of the charity, and there are no other Trustees. The directors served throughout the year except where noted:-

Alice Mary Rose Thomson	
Camilla Hilary Cavendish	
Iain Campbell Dale	(Resigned 27 February 2007)
Richard John Micklethwait	(Resigned 27 February 2007)
Robin Edwards	
Rachel Whetstone	
Charles Moore	
George Robinson	
Richard Albert Ehrman	
Richard Henry Briance	
Timothy Steel	
Theodore Thomas More Agnew	
Virginia Mary Fraser	(Appointed 31 July 2007)
Elizabeth Mary Alice Noel	(Appointed 5 June 2007)

Subsequent to the year end, Elizabeth Mary Alice Noel resigned as a director on 26 February 2008 and Edward Andrew Perronet Sells was appointed a director on 30 October 2007.

APPOINTMENT AND TRAINING OF TRUSTEES

Trustees may from time to time, and at any time, appoint any person to be a Trustee at any of the Board Meetings held once a month.

All trustees have successful track records in the fields of journalism, commerce or government. Each one has experience in participating in formal committee structures and understands the responsibilities of acting as a trustee for a charitable organisation. All new trustees are given the opportunity to spend time with management to familiarise themselves with the operations and understand the key issues that surround the organisation. At each meeting a full set of management accounts, budgets and forecasts is presented and time set aside for proper scrutiny of this information.

RESERVES POLICY

The Trustees recognise the need to hold reserves to allow for possible seasonal or other fluctuations in donations and/or expenditure. As at 30 September 2007, approximately one third of the charity's reserves were restricted, ie donations given for projects which were still running at the end of the financial year. The balance of the funds, amounting to £413,691, were unrestricted, and the Trustees believe that a reasonable level of reserves should be maintained to ensure that Policy Exchange can run efficiently and meet its objectives. Reserve levels will continue to be monitored carefully.

FUTURE PLANS

Over the next financial year Policy Exchange plans to strengthen its core management and widen its research into public policy further. It expects the growth in donation income to continue in the next financial year, and intends to maintain tight cost controls in order to keep the Charity as streamlined as possible.

RISK MANAGEMENT

The Trustees through regular Board meetings reviews at least once a year, the major strategic, operational and financial risks to which Policy Exchange is exposed and have established systems and procedures to mitigate those risks.

The most significant risk faced is the potential volatility of funding which a change in Government could affect. The reserves policy addresses this and the ongoing expansion of the donor base aims to reduce this volatility.

AUDITORS

A resolution to re-appoint Bolton & Co Accountants Limited as the company's auditor will be proposed at the forthcoming Annual General Meeting in accordance with section 385 of the Companies Act 1985.

STATEMENT OF TRUSTEES' RESPONSIBILITIES

The Charities Act 1993 requires the Trustees to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Trust and of its results for that year. In preparing those 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the charity will continue to operate.

The Trustees are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Trust and to enable them to ensure that the financial statements comply with the Companies Act 1985, Charities Acts 1993 and the Statement of Recommended Practice (SORP 2005) 'Accounting and Reporting by Charities'. They are also responsible for safeguarding the assets of the Charity and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

STATEMENT OF DISCLOSURE TO AUDITOR

- a) so far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware, and
- b) they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

ON BEHALF OF THE TRUSTEES

X
.....
Trustee



Dated: 09/07/08

We have audited the financial statements of Policy Exchange Ltd set out on pages 5 to 11 for the year ended 30 September 2007 which have been prepared under the historical cost convention and the accounting policies set out on page 7.

This report is solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the charity's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the charity and the charity's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of trustees and auditors

The trustees' (who are also the directors of Policy Exchange Ltd for the purposes of company law) responsibilities for preparing the Trustees' Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Trustees Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Trustees' Annual Report is not consistent with the financial statements, if the charity has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding trustees' remuneration and transactions with the charity is not disclosed.

We read other information contained in the Trustees' Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of opinion

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

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

Opinion

In our opinion:

- the financial statements give a true and fair view of the Charity's state of affairs as at 30 September 2007, and of its incoming resources and application of resources, including its income and expenditure for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' and Trustees' Report is consistent with the financial statements.

Bolton & Co Accountants Ltd

BOLTON & CO ACCOUNTANTS LIMITED

Registered Auditors
Chartered Accountants

Squirrels Wood
Reigate Road
Leatherhead
Surrey
KT22 8QY

Date: *16th July 2008*

POLICY EXCHANGE LTD
STATEMENT OF FINANCIAL ACTIVITIES (INCLUDING INCOME & EXPENDITURE ACCOUNT)
FOR THE YEAR ENDED 30 SEPTEMBER 2007

Page 6

	Note	Unrestricted funds 2007 £	Restricted funds 2007 £	Total 2007 £	Total 2006 £
INCOMING RESOURCES					
Donations		1,143,266	-	1,143,266	796,689
Corporate Event Sponsorship		-	-	-	78,133
Other income	2	125,579	-	125,579	64,035
Interest received		11,958	-	11,958	3,775
Research sponsorship	3	-	506,022	506,022	41,000
Total incoming resources		1,280,803	506,022	1,786,825	983,632
RESOURCES EXPENDED					
Cost of generating funds:	4	107,451	-	107,451	63,251
Charitable expenditure: Costs of activities in furtherance of the charity's objectives:					
Research costs	4	727,127	394,419	1,121,546	460,942
Management and administration of the charity	4	346,064	-	346,064	193,105
Charitable expenditure		1,073,191	394,419	1,467,610	654,047
Governance costs	4	10,350	-	10,350	6,000
Total resources expended	4	1,190,992	394,419	1,585,411	723,298
Net Income/(Expenditure) for the year		89,811	111,603	201,414	260,334
Transfers from unrestricted funds		(77,423)	77,423	-	-
		12,388	189,026	201,414	260,334
FUND BALANCES BROUGHT FORWARD AT 1 OCTOBER 2006		400,733	-	400,733	140,399
FUND BALANCES CARRIED FORWARD AT 30 SEPTEMBER 2007		413,121	189,026	602,147	400,733

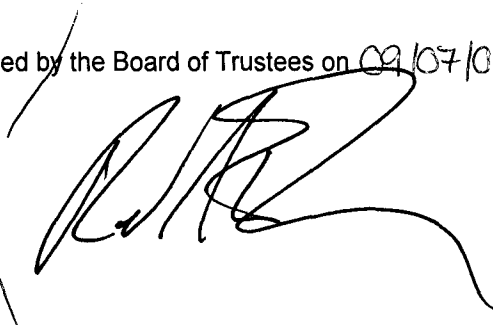
There are no recognised gains and losses other than those dealt with in the Statement of Financial Activities above.

		2007		2006	
	Note	£	£	£	£
FIXED ASSETS					
Tangible assets	5		36,234		16,467
Investments	6		2		-
CURRENT ASSETS					
Debtors	7	354,065		264,040	
Cash at bank and in hand		337,809		187,952	
		<u>691,874</u>		<u>451,992</u>	
LIABILITIES					
Amounts falling due within one year	8	(125,963)		(67,726)	
NET CURRENT ASSETS					
			<u>565,911</u>		<u>384,266</u>
NET ASSETS					
			<u>602,147</u>		<u>400,733</u>
FUNDS					
Unrestricted funds			413,121		400,733
Restricted funds	13		189,026		-
			<u>602,147</u>		<u>400,733</u>

These accounts are prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small entities.

The financial statements were approved by the Board of Trustees on 09/07/08 and signed on its behalf by:

Trustee



1. **ACCOUNTING POLICIES**

1.1 **Basis of Accounting**

The financial statements have been prepared under the historical cost convention and in accordance with the Statement of Recommended Practice (SORP 2005) 'Accounting and Reporting by Charities' issued by the Charity Commissioners for England and Wales and the Companies Act 1985.

1.2 **Financial Reporting Standard Number 1**

Exemption has been taken from preparing a cash flow statement on the grounds that the Trust falls outside the size criteria specified in Appendix 2 of the Statement of Recommended Practice.

1.3 **Incoming Resources**

Donations

Voluntary income is received by way of donations and is included in full in the Statement of Financial Activities when receivable.

The Trustees have considered the presentation of charges made to other entities for shared staff and premises and believe that a fairer presentation would be to show such recharges as a reduction in the cost incurred rather than to include both income and costs in gross terms in the financial statements.

Business Forum

Annual subscriptions are included in incoming resources on a time apportionment basis.

Corporate Event Sponsorship

Corporate event sponsorship is included in incoming resources when received, as it is non-refundable.

1.4 **Resources Expended**

In line with the functional classification of costs in the Statement of Recommended Practice- Accounting by Charities (April 2005) expenditure is allocated or attributed as follows:

1.4.1 **Direct charitable expenditure**

Costs of policy research

1.4.2 **Fundraising and publicity**

Costs of fundraising events

1.4.3 **Management and administration of the Charity**

All other costs. No apportionments have been made of overheads.

1.4.4 **Governance costs**

Governance costs include those costs associated with meeting the constitutional and statutory requirements of the Charity and include the audit fees.

1.5 **Tangible Fixed Assets**

Depreciation is provided at the following annual rates in order to write off each asset over its estimated useful life.

Computer Equipment	-	35% reducing balance
Furniture and Fittings	-	15% reducing balance
Short leasehold	-	over the life of the lease

1.6 **Pensions**

The company operates a defined contribution pension scheme and the pension charge represents the amounts payable to the Scheme in respect of the year.

1.7 **Group accounts**

The financial statements present information about the company as an individual undertaking and not about its group. The company and subsidiary undertaking comprise a small group. The company has therefore taken advantage of the exemptions provided by Section 248 of The Companies Act 1985 not to prepare group accounts.

1.8 **Fund accounting**

Restricted funds are funds subject to specific restricted conditions imposed by the donors of those funds, such as donations given to the charity for specific research programmes and/or projects.

Unrestricted funds comprise the accumulated net movement in general funds. These are available for use at the discretion of the trustees in furtherance of the general charitable objectives of the Charity.

2. OTHER INCOME	2007	2006
	£	£
Business Forum membership	90,875	46,417
Share of research projects paid by Localis Research Ltd	20,000	14,250
Sale of reports	12,875	2,294
Miscellaneous income	1,829	1,074
	<u>125,579</u>	<u>64,035</u>

3. **RESTRICTED INCOME**

Income was received for specific research programmes as follows:

	2007
	£
Economics	127,181
Security	158,180
Education	66,100
Crime and justice	27,500
Governance	8,250
Health	7,800
Social policy	111,011
Environment	-
	<u>506,022</u>

Each research programme may in turn comprise several research projects.

4. TOTAL RESOURCES EXPENDED

	Restricted Research £	Unrestricted Research £	Fundraising £	Management and Admin £	Governance £	Total 2007 £	Total 2006 £
Staff and related costs	-	669,233	86,814	106,356	-	862,402	438,123
Less: recharges from and to Localis Research Ltd	-	5,573	-	(24,296)	-	(18,723)	(25,851)
Consultancy	-	-	-	-	-	-	30,153
Travel	39,426	3,827	1,788	-	-	45,041	10,336
Events	18,714	42,916	7,349	-	-	68,981	34,734
Publications	88,777	1,236	-	-	-	90,011	67,658
Research expenses	246,702	1,300	-	-	-	248,002	3,905
Legal and professional	-	-	8,900	2,651	3,600	15,151	25,344
Depreciation	-	-	-	6,162	-	6,162	3,607
Bookkeeping and accountancy fees	-	-	-	40,613	3,000	43,613	30,049
Premises, insurance and security	-	-	-	118,732	-	118,732	56,786
Other administrative costs	800	-	2,600	67,280	-	70,640	35,037
Website, utilities and IT support	-	3,042	-	28,607	-	31,649	15,747
VAT assessment charges	-	-	-	-	-	-	2,820
Audit fees	-	-	-	-	3,750	3,750	3,000
Less : recharge of admin costs to Localis Research Ltd	-	-	-	-	-	-	(8,150)
	<u>394,419</u>	<u>727,127</u>	<u>107,451</u>	<u>346,064</u>	<u>10,350</u>	<u>1,585,411</u>	<u>723,298</u>

All the above costs are directly allocated to activities. Support costs have been allocated to Research and Fundraising.

5. TANGIBLE ASSETS

	Short leasehold £	Furniture and Fittings £	Computer Equipment £	Total £
COST				
At 1 October 2006	-	20,748	13,549	34,297
Additions	15,478	5,170	5,281	25,929
At 30 September 2007	<u>15,478</u>	<u>25,918</u>	<u>18,830</u>	<u>60,226</u>
DEPRECIATION				
At 1 October 2006	-	10,060	7,770	17,830
Depreciation in the year	1,548	2,006	2,608	6,162
At 30 September 2007	<u>1,548</u>	<u>12,066</u>	<u>10,378</u>	<u>23,992</u>
NET BOOK VALUE				
At 30 September 2007	<u>13,930</u>	<u>13,852</u>	<u>8,452</u>	<u>36,234</u>
At 30 September 2006	-	10,688	5,779	16,467

6. **FIXED ASSET INVESTMENTS**

	Shares in group Undertakings £
Cost	
At 1 October 2006	-
Additions	2
At 30 September 2007	<u>2</u>

The company holds more than 20% of the share capital of the following company:

Company	Country of registration or incorporation	Shares held	
		Class	%
The Ideas Space Ltd	England and Wales	Ordinary	100

The aggregate amount of capital and reserves and the results of this undertaking for the period to 30 September 2007 was as follows:

	Capital and reserves	Surplus for the year
The Ideas Space Ltd	1,526	1,524

The Ideas Space Ltd was incorporated on 22 November 2006 and trades by providing conference services to related and external parties, and administrative services to external organisations.

7. **DEBTORS**

	2007 £	2006 £
Trade debtors	129,280	62,761
Rent and other deposits	18,756	18,756
Other debtors	151,539	129,691
Prepayments	41,804	34,940
VAT receivable	12,686	6,778
PAYE/NI Debtor	-	11,114
	<u>354,065</u>	<u>264,040</u>

Subsequent to 30 September 2007, the rent deposit of £18,756 was made subject to a formal legal charge in favour of the landlord of the premises occupied by the Charity.
 Included in other debtors is an amount of £171 (2006 : £ Nil) owed by The Ideas Space Limited.

8. **LIABILITIES - Amounts falling due within one year**

	2007 £	2006 £
Trade Creditors	30,313	9,759
Taxation and social security	16,457	-
Net Wages	833	201
Accruals and deferred income	78,360	57,766
	<u>125,963</u>	<u>67,726</u>

9. EMPLOYMENT INFORMATION

The total emoluments of the Trust's employees during the period amounted to:

	2007 £	2006 £
Direct charitable expenditure	669,233	315,118
Fundraising	86,813	38,289
Administration	106,356	84,715
Recharges	(18,723)	(25,851)
	<u>843,679</u>	<u>412,271</u>

	2007 £	2006 £
Gross wages	755,331	389,470
Employer's National Insurance	79,966	41,569
Pension costs	27,105	7,083
	<u>862,402</u>	<u>438,122</u>
Less: recharges	(18,723)	(25,851)
	<u>843,679</u>	<u>412,271</u>

One employee earned over £60,000 per annum in each year:

<u>Bands</u>	No of employees	
	2007	2006
70,000 – 80,000	-	1
90,000 – 100,000	1	-
	<u> </u>	<u> </u>
Pension contributions in the year for defined contribution schemes in respect of employees earning over £60,000 per annum	Nil	3,750
	<u> </u>	<u> </u>
Number of higher paid staff in respect of which retirement benefits are accruing under defined contribution scheme	Nil	1
	<u> </u>	<u> </u>

The average number of employees including those employed on a part-time basis during the year was:

	2007 £	2006 £
Research	27	19
Fundraising	2	1
Administration	4	4
	<u> </u>	<u> </u>
	33	24
	<u> </u>	<u> </u>

Trustees' remuneration and expenses

No trustees were paid any remuneration or expenses, or received any benefits in kind.

10. UNRESTRICTED FUNDS

There are no designated funds. The accumulated fund represents the surplus of incoming resources over resources expended. These funds are carried forward to be applied to the general aims of the Charity. These funds are donations and other incoming resources receivable for the objects of the charity without further specified purpose and are available as general funds.

11. PENSIONS

The charity operates a defined contribution stakeholder pension scheme in respect of certain employees. The amount payable by the company was £27,105 (2006: £7,083).

12. ANALYSIS OF GROUP NET ASSETS

	Unrestricted funds £	Restricted funds £	Total funds £
Investments	2	-	2
Tangible fixed assets	36,234	-	36,234
Current assets	502,848	189,026	691,874
Current liabilities	(125,963)	-	(125,963)
	<u>413,121</u>	<u>189,026</u>	<u>602,147</u>

13. RESTRICTED FUNDS

	Balance at 1 Oct 2006 £	Incoming resources £	Resources expended £	Transfers from unrestricted funds £	Balance at 20 Sep 2007 £
Economics	-	127,181	(41,553)	-	85,628
Security	-	158,180	(205,133)	46,953	-
Education	-	66,100	(76,746)	10,646	-
Crime and justice	-	27,500	(14,757)	-	12,743
Governance	-	8,250	(3,341)	-	4,909
Health	-	7,800	(16,840)	9,040	-
Social policy	-	111,011	(25,265)	-	85,746
Environment	-	-	(10,784)	10,784	-
	<u>-</u>	<u>506,022</u>	<u>(394,419)</u>	<u>77,423</u>	<u>189,026</u>

The above summarises the position of the research programmes, each of which may contain several separate but related research projects. Restricted funds are not necessarily sought to carry out the whole of the work of a particular research programme, with additional funds being made available from unrestricted funds as necessary. Research programmes and projects may not be completed within the accounting year and several were in fact still ongoing at 30 September 2007.