

BRITISH LUNG FOUNDATION
REPORT OF THE BOARD OF TRUSTEES
FOR THE YEAR ENDED 30 JUNE 2007

REFERENCE AND ADMINISTRATIVE DETAILS

Registered office: Lung Foundation House, 73 - 75 Goswell Road, London EC1V 7ER

Company number: 1863614

Charity numbers: England & Wales: 326730
Scotland: SC038415

Bankers : HSBC plc, Onslow Square Branch, 1 Sydney Place, London SW7 3NW

Investment managers: Schroder & Co Limited, 31 Gresham Street, London EC2V 7QA

Solicitors: Bates, Wells & Braithwaite, 2-6 Cannon Street, London EC4M 6YH

Auditors: Sayer Vincent, 8 Angel Gate, City Road, London EC1V 2SJ

Board of Trustees:

Dr Keith Prowse	Chairman
Mr Ian Hudson	Honorary Treasurer
Dr David Bellamy	
Lord Borwick	Deputy Chairman
Mr Peter Dolphin	(Appointed 1 September 2006)
Dr Noemi Eiser	(Resigned 29 November 2006)
Prof Ruth Endacott	(Appointed 1 July 2006)
Dr Emrys Evans	(Appointed 13 February 2007)
Mrs Christine Fehrenbach	(Resigned 29 November 2006)
Mr Russell Hancock	(Resigned 29 November 2006)
Sir Graham Hart	(Appointed 1 September 2006)
Prof Chris Haslett	
Mr Graham Lancaster	
Professor Warren Lenney	(Resigned 13 February 2007)
Ms Gillian Perkins	(Appointed 1 July 2006)
Mrs Samantha Prigmore	(Appointed 13 February 2007)
Mrs Phyllida Pyper	(Resigned 26 July 2006)
Dr Gary Ruiz	(Appointed 25 July 2007)
Mrs Amanda Sater	
Mr Karamjit Singh	(Appointed 1 July 2006)
Professor Stephen Spiro	
Professor Monica Spiteri	(Resigned 29 November 2006)
Mr Sabah Zubaida	(Appointed 1 September 2006)

Key staff:

Chief Executive	Dame Helena Shovelton
Head of Finance, Company Secretary	David Laughton
Head of Fundraising	Rebecca Porta
Head of Information & Publications	Andrew Proctor
Head of Policy	Lynnette Savings
Head of PR & Public Affairs	Jill Morrell

The Board of Trustees presents its report and the financial statements for the year ended 30 June 2007.

Reference and administrative information set out on page 1 forms part of this report. The financial statements comply with current statutory requirements, the memorandum and articles of association and, subject to accounting for grants payable, the Statement of Recommended Practice - Accounting and Reporting by Charities (issued in March 2005).

1 STRUCTURE, GOVERNANCE AND MANAGEMENT

Nature of governing document

The British Lung Foundation is a registered charity and a company limited by guarantee. The governing document is the Memorandum and Articles of Association. The Board of Trustees comprise the Directors of the company. They are Members of the British Lung Foundation.

Members of the charitable company guarantee to contribute an amount not exceeding £1 to the assets of the charitable company in the event of winding up. The total number of such guarantees at 30 June 2007 was 22 (2006: 16).

Recruitment and appointment of Trustees

Trustees are recruited through national advertising, contacts of the current Board members, through business contacts of the charity and through recruitment agencies. Potential trustees are interviewed by the Nominations Subcommittee. Trustees are appointed by the Board of Trustees for a period of 3 years at an Annual General Meeting, and this appointment can be extended by a further 3 years by mutual agreement.

Policies and procedures for induction and training of Trustees

Trustees are invited to attend the head office to meet all the staff and have induction meetings with senior management team members. An induction programme comprising information, governance, analysis of the corporate plan and a programme of visits to patient support groups and regional/national offices is also part of the induction programme. Trustees are able to undertake training specific to their role (eg: investment training for the Treasurer) and attend annual Away Days.

Organisational structure and how decisions are made

The Trustees who have served during the year and those appointed before the date of this report are listed on page 1. No member of the Board or Advisory Council receives any remuneration for their services. The Board meets six times a year. Subcommittees report to the Board and comprise of the Audit & Establishment Subcommittee, the Scientific Committee, the Communications Subcommittee, the Support Subcommittee and the Nominations Subcommittee. They generally meet quarterly with the exception of the Scientific Committee, which meets twice a year, and the Nominations Subcommittee, which meets as required. In addition a Governance Group has been created during the year which is responsible for nominating future Presidents and/or Chairs.

Connections to a wider network

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The British Lung Foundation is a member of the Association of Medical Research Charities and maintains close links to the British Thoracic Society. Certain Trustees sit on other respiratory health committees and the charity is involved in initiatives across the UK.

Trustees' responsibilities for financial statements

United Kingdom company law requires the Directors - the charity's Trustees - to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the charity and the group at the end of the year, and of the income and expenditure and incoming resources and application of resources of the group for the year then ended. In preparing those financial statements, the Trustees have:

- (i) selected suitable accounting policies and then applied them on a consistent basis;
- (ii) made judgements and estimates that are reasonable and prudent;
- (iii) stated whether applicable accounting standards and statements of recommended practice have been followed, subject to any material departures disclosed and explained in the financial statements, and
- (iv) prepared the financial statements on the going concern basis.

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

Each Trustee confirms that, to the best of his/her knowledge, there is no information relevant to the audit of which the auditors are unaware. The Trustees also confirm that they have taken all necessary steps to ensure that they themselves are aware of all relevant audit information and that this information has been communicated to the auditors.

2 OBJECTIVES AND ACTIVITIES

Objectives of the British Lung Foundation

The objects in the Memorandum of Association are:

- "The Foundation is established for the relief of persons suffering from diseases of the lung, in particular by:
- the promotion of medical research into the prevention, treatment, alleviation and cure of the said diseases;
- the dissemination of the useful results of such research for the benefit of the public; and
- the promotion of post graduate training and the creation of fellowships in hospitals, medical centres and research institutes".

Charity's aims

The British Lung Foundation's aims are:

- the provision of information and education to make more widely known the extent of lung disease and the need to advance lung research;
- the provision of support and advice for people living with lung disease by means of disease information factsheets and other publications, and particularly by the Foundation's network of Breathe Easy groups; and
- the funding of medical research to improve prevention, diagnosis and treatment of lung disease.

Charity's strategies & significant activities

The British Lung Foundation's main achievements in 2006-07 have been:

- The helpline has handled 13,434 calls this year.
- Website - 844,832 visits in 2006-07, an increase of 37% over the previous year.
- Publications - we sent out 970,474 items, 20% more than in 2005-06.
- BLF Active - fitness instructor training course developed in conjunction with Loughborough University
- BLF Nurses - 23 BLF nurses have supported over 3,000 patients
- A 40% increase in income over the previous year
- The Chief Executive taking an active part in the National Service Framework for COPD
- Nearly 200 Breathe Easy groups across the UK
- Smoking ban introduced in Scotland, Northern Ireland, Wales and England
- Launch of the BLF membership scheme
- Outsourcing the fulfilment of information requests
- The installation of the new Care database

Volunteer help

The BLF benefits from the time dedicated in the regional and national offices by their volunteers and committee members and by its trustees and committee members in head office. The BLF also benefits from the time dedicated by the Breathe Easy group members, especially those who run the groups in committee positions. These donated services have not been evaluated for inclusion in the financial statements.

3. ACHIEVEMENTS AND PERFORMANCE

Public education

The reach of the British Lung Foundation continues to grow. The increased number of publications sent out, long term visitors to the website and callers to the helpline demonstrates the success of our work towards positioning the BLF as the leading expert voice on all lung disease.

Our national and regional offices are:
Scotland & Northern Ireland in Glasgow
Wales in Swansea
London & South in London
Midlands in Leicester
North East in Newcastle
North West in Liverpool
South West in Bristol

Helpline

The Helpline, based in Liverpool, has been operating since March 2005. It is staffed by respiratory nurses and welfare benefits advisers, who provide advice on a broad range of topics, principally by phone, but also by email and post. The team handled 13,434 calls this year.

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Breathe Easy groups

The British Lung Foundation's network of Breathe Easy groups for people with long term lung problems had over 9,719 attendees at 190 (2005-06: 142) Breathe Easy groups as at 30 June 2007. The British Lung Foundation also has a supporter network of over 31,000 (2005-06: 24,500). The Breathe Easy network is a vital source of information for thousands of people who otherwise would not have access to such support. To date over 300 people have used the British Lung Foundation PenPals scheme.

BLF Children's Strategy

Following the completion of the Baby Breathe Easy pilot a full evaluation has been made. The pilot has taught the BLF many things including the need for support in a tailored way for the parents of children under five who have lung disease. This is exactly what it was for and following a full discussion throughout the organisation and in the governance structure it has been agreed that we will change our delivery method and try to reach more people. This has led to the closing of the nine groups and a transferring of the service on to the helpline where a paediatric respiratory nurse and a parent counsellor will work. Our initial task will be to ensure that the families who were receiving support from the 9 group organisers are transferred to the telephone help they had indicated they would like and then to publicise the service wider in order to reach more people.

BLF Nurses

23 BLF Nurses are now operating in 6 sites in England and Scotland. The nurses are operating across the spectrum of respiratory disease. The majority of patients have a diagnosis of COPD. The nurses are delivering expert care and support to patients and carers, delivering tailored education programmes to community matrons, district/practice nurses, pharmacists and other health professionals.

The nurses are developing innovative practice and are involved in the PCO decision making fora. The nurses have supported over 3,000 patients this year.

BLF Active

In 2006-07 we worked with health care professionals and Loughborough University to develop a Chronic Respiratory Diseases Exercise course which will equip fitness instructors to provide exercise classes. These are designed to complement rather than substitute for pulmonary rehabilitation classes. We also developed a bursary scheme for fitness instructors and obtained funding to roll out the programme across the UK.

Public Affairs

The National Service Framework for COPD

The Chief Executive is a member of the External Reference Group for the Department of Health advising on the content of this NSF. She is chairing the Patient Awareness Subgroup and co-chairing the Prevention and Awareness Raising Subgroup as part of this work. The advice from the External Reference Group will be given to Ministers in January 2008 and the Department of Health will then take on drafting the NSF with a view to it being made public during the early part of 2009.

Alongside this work the BLF is undertaking a major project on COPD.

COPD Project

With an educational grant from GlaxoSmithKline, the COPD Project was established in January 2007 in direct response to the announcement of the forthcoming National Service Framework (NSF) for COPD. The emphasis of the project to date has been to build the momentum to the launch and subsequent implementation of the NSF. The activities undertaken to date have included establishing a project team and two project stakeholder reference forums; one of pharmaceutical industry representatives to develop a consortium of industry partners to support the organisation's work in COPD, and another of patients living with COPD and their carers. Seven regional patient and carer forum workshops have been held across England to better understand what issues patients and their carers face in managing their condition; this has been instrumental in identifying new ways for the organisation to respond to their needs.

With the support of a Department of Health Section 64 grant, the project has also delivered twelve COPD public awareness raising events across England. These events have attracted an estimated footfall of over 5,000 and of the 248 people who undertook lung function screening at these events, 33 (13%) were referred to their GP for further advice and assessment.

Lung Health Awareness Day

In May 2007 the BLF joined forces with the House of Commons' Occupational Health Safety and Welfare service to hold a third Lung Health Awareness Day. 150 members of House of Commons/Lords staff took a spirometry test. 80 MPs and two Members of the House of Lords agreed to support the British Lung Foundation's 'Missing Millions' campaign and took part in a photo call for their local media.

Smoking Ban

Campaigning for a ban on smoking in enclosed public places and work places was one of the BLF's priorities. Much time was invested into the collaborative effort of the health charities to secure comprehensive legislation and appropriate regulations for the new law. Following the implementation of the ban in Scotland on 26 March 2006, legislation came into force in Wales on 2 April 2007, in Northern Ireland on 30 April 2007 and in England on 1 July 2007.

Tobacco control policies continue to be of importance and the BLF responded to Government consultations regarding the legal age of sale for tobacco products supporting an increase from age 16 to age 18.

Action Mesothelioma Day 2007

The second Action Mesothelioma Day on 27 February 2007 built on the success of the previous year. The Department of Health published a Mesothelioma Framework, outlining best practice treatment and care for people in England, in response to British Lung Foundation calls for better services for this group of patients. At a British Lung Foundation parliamentary reception, Jim Murphy MP, the Department for Work and Pensions Minister, updated attendees on the improvements that the Government is making to speed up compensation payments for people with mesothelioma.

The British Lung Foundation also published a report into the impact of Coroner's procedures on bereaved families following concerns that these families found the process unsympathetic and distressing at a very difficult time. Work has continued in this area, with the Ministry of Justice, The Coroner's Society of England and Wales, the Coroner's Officers Association and the Association of Chief Police Officers, in an attempt to make improvements to the current system.

The campaign was featured in the Daily Mail, The Times, The Telegraph and the Daily Mirror as well as more than 70 other newspaper articles and 99 broadcast items on radio stations across the UK reaching a potential audience of more than 28 million people.

World COPD Day 2006

To mark World COPD Day in November 2006, the British Lung Foundation launched a campaign aimed at finding the 'Missing Millions' of people living with undiagnosed COPD. The campaign reached more than 22.5 million people through a combination of free lung testing road shows in COPD 'hotspot' areas, a national and regional PR campaign, and awareness-raising activities around the UK.

'Missing Millions' road shows staffed by qualified lung technicians, respiratory nurses and smoking cessation advisors offered free lung function tests and information about COPD and the BLF to the public in prominent sites in four major shopping centres in England.

A phased national and regional media campaign communicated COPD key messages. Case studies, spokespeople and celebrities (Richard Wilson, William Roach, Tamsin Greig and Joseph Milson) were recruited to support the campaign. National PR focussed on placing case study stories in the popular press; regional and local PR focussed on results of a Gfk NOP opinion poll and regionalised mortality statistics for COPD, supported by case study stories, road show events and awareness raising activities.

The BLF's Breathe Easy groups held more than 100 awareness-raising events across the UK. They were supplied with template press releases, key messages, regionalised survey results and template letters inviting local politicians to their event. Online 'email your MP' and letter campaigns were organised to engage support for an Early Day Motion (Westminster), Statements of Opinion (National Assembly for Wales), Motion (Scottish Parliament) supporting the British Lung Foundation's campaign.

Parliamentary dinners were also held to mark World COPD Day at the House of Commons and at the National Assembly for Wales.

Research

This year has been spent consolidating the British Lung Foundation's investment into medical research and developing a brand new strategy for the way in which we allocate funding to research.

RESEARCH GRANT AWARDS

The Charity Commission's Statement of Recommended Practice (SORP) states that grant expenditure must be accounted for in the year it is allocated. In 2005-06, the Scientific Committee held its awards meeting before the end of the financial year so

that grant expenditure could be accounted for in the same year that the money was raised. However, as our accounts had not been audited at this time, the Scientific Committee could not be given an approved figure to spend on new research grants. This made it difficult for the Committee to make informed funding decisions and lead to changes in the way research funds would be allocated this year.

It was agreed that allocation of research funds should be delayed until completion of the audit. This would allow an accurate expenditure figure to be given to the Scientific Committee when they make their decisions. The grants award meeting for distributing funds raised in 2006-07 will therefore take place in November 2007. To ensure compliance with SORP, the grants

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awarded in November 2007 will be accounted for in the 2007-08 financial year. Therefore, details of this expenditure will appear in our 2007-08 annual review together with details of the awards made.

However, the following two research awards were allocated in the 2006-07 financial year:

June Hancock Mesothelioma Research Fund award for Mesothelioma research
Dr Zsuzsanna Tabi. Cardiff University.

Awarded £138,119 to investigate whether we can enhance the role of our immune system in combating mesothelioma.

Henry Shelford award for research into sarcoidosis

Dr Ling-Pei Ho. University of Oxford.

Awarded £50,082 for her project looking at the role that our genes play in the development of long-term progressive sarcoidosis.

We also awarded 20 Travel Fellowship awards of £750 each to respiratory scientists to enable them to attend the European Respiratory Society annual congress in Munich, September 2006 and 9 Travel Fellowship awards of £750 each to the American Thoracic Society annual congress in San Francisco, May 2007.

Although it may appear this year's investment into medical research has been smaller than usual, this is simply a consequence of delaying the allocation of the majority of research funds raised in 2006-07 and we look forward to awarding a host of exciting grants in November 2007.

RESEARCH STRATEGY

As the only UK charity that supports people with all forms of lung disease, the BLF recognises the need for a robust strategy that will help make the most of our investment in medical research. In consultation with the wider UK respiratory research community, the BLF's Scientific Committee has set out a three-stranded approach to the BLF Research Strategy:

- Capacity Building - helping scientists to embark upon and maintain a career in lung research.
- Research Prioritisation - ensuring that our research will tackle the most important questions in lung disease.
- Patient Centred Communication - improving the way in which we tell non-scientists about the work we fund.

The BLF will also continue to welcome opportunities in working with other organisations interested in funding respiratory research.

Fundraising performance

Total income increased by 40% on the previous year reflecting the successful implementation of the 5 year fundraising strategy and investment in staff posts. This was achieved with significant cost control - fundraising expenditure was 30% less than budgeted at the start of the year. Fundraising costs for the year were 13.1p for every £1 raised (2006: 22.8p).

Impressive results were achieved from the business development and trust and statutory teams who secured significant high return donations and funding from sustainable sources to support key activities. A major donor programme has started and several one off donations were received during the year towards research activities.

Engaging individuals into events and regular giving programmes has been more challenging although there were some positive results during the year. New activities including the New

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York Marathon and the London to Paris Bike Ride were well supported and existing activities such as the Great North Run and Breath of Life Funds continue to perform well. Investment in payroll giving has delivered impressive returns with a 70% increase on the previous year.

Staff will continue to identify and attract new sources of support in line with the agreed 5 year fundraising strategy in order to plan for future growth and development.

Membership

In January 2007 the British Lung Foundation introduced a Membership Scheme. This was an important addition to our service portfolio offering individuals the opportunity to add their voice to the only UK charity working to help everyone with a lung condition. There are currently 8 million people with lung disease in the UK - our long term aim is to recruit a large proportion to the Membership Scheme.

Our 2,020 members receive the quarterly magazine, Breathing Space, campaign bulletin, access to all of our information leaflets, booklets and our Breathe Easy support network. In the future we hope to develop a member's area on our website.

4 PLANS FOR FUTURE PERIODS

Corporate objectives for the year ahead include:

Support

- To increase the number of Breathe Easy groups to 236.
- To increase the black and minority ethnic membership of Breathe Easy groups.
- To develop the BLF Nurse network in the UK.
- To develop new children's services.
- To develop BLF Active across the UK.
- To develop our helpline by increasing its capacity, promoting benefit advice and providing increased services to parents of children living with lung disease.
- To complete and implement the re-build of our website and develop increased interactivity in all areas.
- To develop, produce and promote our range of information products.
- To promote and develop the BLF membership scheme.

Change

- To continue to influence the NSF for COPD particularly preparing in supporting local NHS organisations to prepare for its implementation to ensure maximum benefit to patients
- Maximise the impact of the Dr Foster COPD data in all UK nations
- To develop campaign activities to further raise awareness of COPD among the general population and health care professionals
- To launch and gather support for the BLF Charter, working towards implementation of three elements
- To implement the research strategy

Internal Business Processes

- To continually improve our internal communications and processes
- To promote a culture of fun and openness where ideas are valued and encouraged and equality and inclusiveness are normal practice with all staff working towards a common goal
- To create a service culture from finance and administration to the organisation as a whole

Fundraising target

- To secure funding from a range of sources to meet BLF corporate objectives
- To meet our income target of £6.1 million

5. FINANCIAL REVIEW

Results for the year

The income for the year totalled £6,215,982, an increase of 40% on the 2006 total of £4,423,907. This reflects a significant increase in income from trusts in the year, coupled with an increase in legacy income. Total expenditure was £5,097,435, a decrease of 1% on 2006, mainly caused by the major research grants being awarded in November 2007 rather than in the financial year. After realised and unrealised net investment gains, the surplus for the year amounted to £1,298,099, representing an unrestricted surplus of £152,382 and a restricted surplus of £1,145,717.

The balance sheet shows unrestricted and undesignated funds totalling £819,497 at 30 June 2007, an increase of £135,894 on the 2006 total. The group's funds restricted for future specific purposes amounted to £2,987,042 (2006: £2,046,748) and the endowment funds increased from £1,911,318 in 2006 to £2,116,741 at 30 June 2007. The group's cash balances, including term deposits, at 30 June 2007 amounted to £4,261,768, an increase of £225,113 over the year.

Charitable expenditure

The group's charitable expenditure includes research grants, research department costs, activities in relation to Breathe Easy and patient support, campaigning and awareness raising, public education and literature and governance costs as detailed in the Consolidated Statement of Financial Activities. Total charitable expenditure was £4,280,445 (2006: £4,146,893), being 68.9p for every £1 raised (2006: 82.6p). This year's figure is not directly

comparable with last year because of the decision to delay the awarding of major research grants until November 2007. If the planned research grants had been awarded in the 2007 financial year the ratio would have been 80.8p for every £1 raised. Additionally, last year's ratio was calculated based on an amended income figure for the year, increased to take into account the £596,000 designated by the Board of Trustees in 2005 in respect of charitable expenditure to be spent in 2006.

Reserves Policy

The trustees' reserves policy is to build reserves up to 3 to 6 months' forecast unrestricted expenditure (currently £0.8-1.6 million). At 30 June 2007, the unrestricted undesignated reserves totalled £819,497. This represents 3.0 months expenditure, just at the bottom band of our policy. However, these reserves are represented by a collection of assets and liabilities, which include both fixed and current assets as well as current and long term liabilities. As fixed assets and long term liabilities do not represent readily available assets and immediately payable liabilities, the underlying working capital or readily available reserves figure is a negative figure of £29,187. The staff and trustees are working on planning and fundraising initiatives to increase the reserves level to that stated in this policy by at least £100,000 per annum.

Investment policy, performance and ethical policy

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In accordance with the charity's Memorandum and Articles, the Trustees have the power to invest in such stocks, shares, investments and property in the UK as they see fit. Schroder & Co Limited were appointed as investment managers in May 2007. As a result the investments previously held with CAF were sold at the beginning of June 2007 and the proceeds transferred to Schroders for investment in a number of pooled funds covering UK Equities, Fixed Interest and Property. The charity does not own any other investments. The policy is to adopt a medium risk investment strategy and to exclude investments in tobacco manufacturers.

Grant making policy

The charity invites applications for lung research projects by advertising in medical journals. Applicants are invited to submit a summary of their proposals, and these summaries are reviewed and short listed by the Scientific Subcommittee. Short listed applicants are then invited to submit full applications. These are then reviewed by the members of the Scientific Subcommittee and peer reviews are sought. These grants are then ranked in order of scientific merit, and funding is given to the top ranking grants taking into account the research priorities of the BLF.

The submission deadline for applications in the forthcoming grant round for BLF project grants and fellowships was February 2007. Grants will be awarded in November 2007. This timetable will enable the Scientific Subcommittee to know the amount available for research before grants are made.

Risk

The Trustees have examined the major strategic, business and operational risks which the charity faces and confirm that systems have been established to enable regular reports to be produced so that the necessary steps can be taken to evaluate and manage these risks. Our risk register is reviewed on a monthly basis by Heads of Department, and every six months by the Audit & Establishment Subcommittee.

Auditors

A resolution to re-appoint Sayer Vincent as the charity's auditors will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Trustees and signed on its behalf

David Loughton
Company Secretary
Dated: 28 November 2007

British Lung Foundation

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE BRITISH LUNG FOUNDATION

We have audited the financial statements of British Lung Foundation for the year ended 30 June 2007 which comprise the consolidated statement of financial activities, balance sheets, cashflow statement and related notes. These financial statements have been prepared in accordance with the accounting policies set out therein.

This report is made solely to the charitable 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 charitable company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the charitable company and the charitable company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the trustees and auditors

The responsibilities of the trustees (who are also the directors of British Lung Foundation for the purposes of company law) 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 responsibilities of the trustees.

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 whether the information given in the annual report of the trustees is consistent with the financial statements. In addition we report to you if, in our opinion, the charitable company 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 the trustees' remuneration and other transactions is not disclosed.

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

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 judgements made by the trustees in the preparation of the financial statements, and of whether the accounting policies are appropriate to the charitable company's circumstances, consistently applied and adequately disclosed.

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

However the comparative figure for research grants expenditure for the year ended 30 June 2006 should have been higher by £987,478 and the net outgoing resources correspondingly higher to comply with FRS 12.

Qualified opinion arising from research grants expenditure comparative figures

In our opinion except for the effect on the corresponding figures for the year ended 30 June 2006:

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- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice of the group and charitable company's state of affairs as at 30 June 2007 and of the group's incoming resources and application of resources, including its income and expenditure, for the year then ended; and
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the report of the trustees is consistent with the financial statements.

**SAYER
 VINCENT**
 Chartered
 accountants
 & registered
 auditors
 London

CONSOLIDATED STATEMENT OF FINANCIAL ACTIVITIES

(Incorporating an income and expenditure account)
 for the year ended 30 June 2007

	Notes	Unrestricted Funds £	Restricted Funds £	2007 Total £	2006 Total £
Incoming resources					
Voluntary income	2	1,122,837	304,901	1,427,738	1,023,720
Activities for generating funds	3	1,254,090	2,283,745	3,537,835	1,522,097
Investment income	4	86,845	148,059	234,904	243,889
Incoming resources from charitable activities	5	980,323	35,182	1,015,505	1,634,201
Total incoming resources		3,444,095	2,771,887	6,215,982	4,423,907
Resources expended					
Costs of generating funds	6	727,101	89,889	816,990	1,010,761
Charitable activities					
Research grants	7	(32,616)	213,984	181,368	828,226
Research department costs		79,639	-	79,639	82,048
Activities in relation to Breathe Easy and patient support		1,741,108	615,568	2,356,676	1,250,419
Campaigning and awareness raising		121,462	407,743	529,205	627,127
Public education and literature		872,543	44,252	916,795	1,150,055
Governance costs		216,762	-	216,762	209,018
Total resources expended		3,725,999	1,371,436	5,097,435	5,157,654
Net incoming/(outgoing) resources before transfers		(281,904)	1,400,451	1,118,547	(733,747)
Gross transfers between funds		434,286	(434,286)	-	-
Net incoming resources before other recognised gains and losses		152,382	966,165	1,118,547	(733,747)

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Realised gains on investment assets	-	194,111	194,111	-	
Unrealised (losses)/gains on investment assets	-	(14,559)	(14,559)	179,655	
Net movement in funds		152,382	1,145,717	1,298,099	(554,092)
Funds brought forward at 1 July 2006		1,236,065	3,958,066	5,194,131	5,748,223
Funds carried forward at 30 June 2007	13	1,388,447	5,103,783	6,492,230	5,194,131

Under the provisions of the Companies Act, 1985, a separate Income and Expenditure Account for the charity alone is not required.

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

The restricted fund balances brought forward and carried forward include £1,911,318 and £2,116,741 respectively which relate to the endowment fund. There were no new endowments in this period and the only change to the fund is investment income of £83,801, expenditure on the Chair of £14,058 and realised/unrealised investment net gains of £135,680.

BALANCE SHEETS

As at 30 June 2007

	Notes	Charity 2007 £	2006 £	Group 2007 £	2006 £
Fixed assets					
Tangible	8	1,324,234	1,191,624	1,324,234	1,191,624
Investments	9	2,468,698	2,219,265	2,773,198	2,490,755
		3,792,932	3,410,889	4,097,432	3,682,379
Current assets					
Stock	10	14,439	-	15,678	-
Debtors	11	787,032	443,007	530,738	287,879
Cash at bank and in hand		1,238,415	1,020,583	1,238,636	1,723,466
Cash and bank balances- short term deposits		2,412,184	2,313,188	3,023,132	2,313,189
		4,452,070	3,776,778	4,808,184	4,324,534
Current liabilities					
Creditors	12	480,674	300,604	513,196	525,376
Research grants	7	1,216,182	1,224,200	1,216,182	1,224,200
		1,696,856	1,524,804	1,729,378	1,749,576
Net current assets		2,755,214	2,251,974	3,078,806	2,574,958
Total assets less current liabilities		6,548,146	5,662,863	7,176,238	6,257,337
Creditors due after more than one year	7	684,008	1,063,206	684,008	1,063,206
Net assets	13	5,864,138	4,599,657	6,492,230	5,194,131

Funds

Unrestricted funds

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General funds		819,497	683,603	819,497	683,603
Designated funds		568,950	552,462	568,950	552,462
Restricted funds		2,358,950	1,452,274	2,987,042	2,046,748
Endowment funds		2,116,741	1,911,318	2,116,741	1,911,318
Total funds	14	5,864,138	4,599,657	6,492,230	5,194,131

Approved by the Board of Trustees on 28 November 2007 and signed on its behalf

Dr Keith Prowse
 Chairman of the Board of Trustees

Ian Hudson
 Honorary Treasurer

CONSOLIDATED CASH FLOW STATEMENT

	Notes	2007 £	2006 £
Net cash flow from operating activities	(a)	486,944	(445,741)
Capital expenditure and financial investment			
Expenditure on investments		(2,890,648)	(68,102)
Expenditure on fixed assets		(158,940)	(9,004)
Disposal of investments		2,787,757	-
		(261,831)	(77,106)
Increase/(decrease) in cash balances	(b)	225,113	(522,847)

(a) Net cash inflow/(outflow) from operating activities

Net incoming/(outgoing) resources	1,118,547	(733,747)
(Increase)/decrease in stock	(15,678)	8,856
(Increase)/decrease in debtors	(242,859)	327,827
Decrease in creditors	(399,396)	(73,677)
Depreciation	26,330	25,000
	486,944	(445,741)

(b) Increases in cash balances

	At 1 July 2006 £	Cash flows £	At 30 June 2007 £
Cash and bank balances	4,036,655	225,113	4,261,768

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies

a) Basis of preparation

The financial statements have been prepared under the historical cost convention,

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modified to include the revaluation of investments, and in accordance with applicable UK accounting standards and the Companies Act 1985. They comply with the 2005 Statement of Recommended Practice for accounting and reporting by charities. (SORP 2005).

b) Consolidation

The financial statements include the results of BLF Trading Limited, a wholly owned subsidiary and Burrow Hill Training Fund. The Leeds Trust and the Tuberculosis Fund, subsidiary permanent endowment funds, are included in the Financial Statements of the Charity.

The 190 (2006: 142) Breathe Easy groups are treated as branches and the income, expenditure and bank balances of 170 groups (2006: 137) are included in the Financial Statements. There are six regional offices and their transactions and bank balances are included. There are no other material assets and liabilities at regional offices or Breathe Easy groups.

c) Voluntary income

Voluntary income is included in the Statement of Financial Activities when receivable. Donated services and gifts in kind are included at values agreed with the donors. Legacies are included when there is reasonable certainty of receivability, amount and timing.

d) Grants receivable

Revenue grants are credited to the Statement of Financial Activities when receivable, unless they relate to a specific future period when they are deferred to that period.

e) Allocation of costs

Central salary costs are apportioned on the basis of staff time attributable to each activity. Overhead costs are allocated to activities on a headcount basis.

f) Research grants

Grants awarded are charged to the Statement of Financial Activities in the year in which they are awarded. This involves a decision by the charity's scientific committee and communication with the intended recipients. Those grants which are payable in future periods are included in creditors as set out in note 7.

g) Costs of charitable activities

The costs of each category of charitable activity are the costs directly attributable to that activity and allocated central costs.

h) Governance costs

Governance costs include all costs of compliance with constitutional and statutory requirements, including legal and audit fees and the costs of meetings.

i) Depreciation

All assets purchased at a cost of more than £2,000 are capitalised.

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost of each asset over its estimated useful life, as follows:

Long leasehold property and improvements	50 years
Office equipment	5 years
Computer software	3 years

NOTES TO THE FINANCIAL STATEMENTS

j) Investments

Investments are included in the financial statements at market value. Any gains and losses are included in the Statement of Financial Activities.

k) Stock

Stock is valued at the lower of cost and net realisable value.

l) Funds

Unrestricted funds are those resources available for the trustees to spend on charitable activities.

Restricted funds are to be used for specific purposes as stipulated by the donor.

Endowment funds are held by the charity and managed according to the terms of the trust.

Designated funds are unrestricted funds set aside for specific purposes by the trustees.

m) Transfers between funds

At times the charity receives funds for research grants already awarded. These are treated as restricted income. Where funds become available to cover previously awarded research grants, they are shown by way of a transfer between funds within note 7, research grants.

n) Resources expended

Resources expended are recognised in the period in which they are incurred and include attributable VAT which cannot be recovered.

o) Costs of generating funds

The costs of generating funds relate to the costs incurred by the group and charitable company in raising funds for its charitable work.

NOTES TO THE FINANCIAL STATEMENTS

2 Voluntary income

	Unrestricted Funds £	Restricted Funds £	2007 Total £	2006 Total £
Legacies	778,464	152,519	930,983	582,523
In memoriam	344,373	152,382	496,755	441,197
	1,122,837	304,901	1,427,738	1,023,720

3 Activities for generating funds

	Unrestricted Funds £	Restricted Funds £	2007 Total £	2006 Total £
Companies	2,205	962,595	964,800	258,566
Trusts	260,836	994,341	1,255,177	220,169
Individuals	592,786	326,809	919,595	580,914
Events	398,263	0	398,263	462,448
	1,254,090	2,283,745	3,537,835	1,522,097

4 Investment income

UK listed investments	-	108,431	108,431	68,102
Bank interest	86,845	39,628	126,473	175,787
	86,845	148,059	234,904	243,889

**5 Incoming resources
 from charitable activities**

Activities in relation to Breathe Easy and patient support	940,171	29,269	969,440	1,290,206
Public education and literature	40,152	5,913	46,065	343,995
	980,323	35,182	1,015,505	1,634,201

Included within the above income notes are amounts representing gifts in kind and donated services received during the year. These total £288,518 (2006: £373,917).

NOTES TO THE FINANCIAL STATEMENTS

6 Total resources expended

	Grants	Staff costs (note 15)	Other	2007 Total	2006 Total
	£	£	£	£	£
Costs of generating funds					
Fundraising costs	-	255,698	561,292	816,990	1,010,761
Charitable expenditure					
Research grants (note 7)	181,368	-	-	181,368	828,226
Research department costs	-	52,925	26,714	79,639	82,048
Activities in relation to Breathe Easy and patient support	-	875,897	1,480,779	2,356,676	1,250,419
Campaigning and awareness raising	-	119,112	410,093	529,205	627,127
Public education and literature	-	559,953	356,842	916,795	1,150,055
Governance costs	-	94,162	122,600	216,762	209,018
	181,368	1,957,747	2,958,320	5,097,435	5,157,654

Governance costs include:

Trustees' expenses	3,576	2,905
Auditors' remuneration	12,347	14,168
Other fees paid to auditors	-	15,000

	Unrestricted Funds	Restricted Funds	2007 Total	2006 Total
	£	£	£	£
7 Research grants				
Charity and Group				
Balance at 1 July 2006	1,357,026	930,380	2,287,406	2,294,587
Tuberculosis Fund	-	234,980	234,980	234,980
	1,357,026	1,165,360	2,522,386	2,529,567
Awarded in the year				
Projects and research fellowships	-	188,201	188,201	828,226
Supplements to existing projects	-	25,783	25,783	-
Unused awards written back	(32,616)	-	(32,616)	-
Charge to SOFA	(32,616)	213,984	181,368	828,226

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Transfers on receipt of sponsorship	(303,809)	303,809	-	-
Paid in year	(141,051)	(662,513)	(803,564)	(1,070,387)
Balance at 30 June 2007	879,550	1,020,640	1,900,190	2,287,406
Falling due within one year	562,940	653,242	1,216,182	1,224,200
Falling due after more than one year	316,610	367,398	684,008	1,063,206

NOTES TO THE FINANCIAL STATEMENTS

8 Tangible fixed assets

Group and charity	Long lease- hold property £	Office Furniture & Equipment £	Computer Software £	Total £
Cost				
At 1 July 2006	1,266,624	3,225	-	1,269,849
Additions	-	-	158,940	158,940
At 30 June 2007	1,266,624	3,225	158,940	1,428,789
Depreciation				
At 1 July 2006	75,000	3,225	-	78,225
Charge for year	26,330	-	-	26,330
At 30 June 2007	101,330	3,225	-	104,555
Net book value				
At 30 June 2007	1,165,294	-	158,940	1,324,234
At 1 July 2006	1,191,624	-	-	1,191,624

9 Investments

	Market value at 1 July 2006 £	Additions £	Disposal proceeds £	Realised gains £	Unrealised gains (losses) £	Market value at 30 June 2007 £
Group						
Burrow Hill	271,494	317,254	(306,296)	23,844	(1,792)	304,504
Charity						
Leeds Trust	13,258	15,370	(14,821)	1,014	1	14,822
Tuberculosis Fund	284,765	331,132	(319,280)	22,663	(1,858)	317,422
Glaxo Chair	1,921,238	2,226,892	(2,147,360)	146,590	(10,910)	2,136,450
Group total	2,490,755	2,890,648	(2,787,757)	194,111	(14,559)	2,773,198
Shares in subsidiaries	4	-	-	-	-	4
Charity total	2,219,265	2,573,394	(2,481,461)	170,267	(12,767)	2,468,698

Historic cost at 30 June 2007 was £2,787,757 (2006: £2,105,898). There are no unlisted investments.

These investments are managed by Schrodgers and are in accordance with the investment policy set out in the Report of the Board of Trustees. They do not include investment in tobacco manufacturers.

The shares in the subsidiaries are the total issued share capital of BLF Trading Limited and BLF Limited.

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Details of the activities of BLF Trading Limited are set out in note 17. BLF Limited is dormant.

NOTES TO THE FINANCIAL STATEMENTS

10 Stock	Charity		Group	
	2007	2006	2007	2006
	£	£	£	£
Merchandise	14,439	-	15,678	-

Stock comprised merchandise and cards held in BLF Trading Limited and the regional offices. There was no stock held at 30 June 2006.

11 Debtors	Charity		Group	
	2007	2006	2007	2006
	£	£	£	£
Debtors and prepayments	406,242	237,212	530,738	287,879
Amount due from subsidiary				
- Current account	365,790	190,795	-	-
- 5 year loan	15,000	15,000	-	-
	787,032	443,007	530,738	287,879

12 Creditors	Charity		Group	
	2007	2006	2007	2006
	£	£	£	£
Sundry creditors	245,361	81,078	257,950	123,542
Accruals	234,563	219,526	254,496	254,130
Deferred income	750	-	750	147,704
	480,674	300,604	513,196	525,376

13 Analysis of net assets between funds

Fund balances at 30 June 2007 are represented by:

	General Funds	Designated Funds	Restricted Funds	Glaxo Endowment Fund	2007 Total	2006 Total
	£	£	£	£	£	£
Fixed assets	1,165,294	158,940	636,748	2,136,450	4,097,432	3,682,379
Current assets	1,027,240	410,010	3,370,934	-	4,808,184	4,324,534
	(1,056,427)					
Current liabilities)	-	(653,242)	(19,709)	(1,729,378)	(1,749,576)
Long term liabilities	(316,610)	-	(367,398)	-	(684,008)	(1,063,206)
	819,497	568,950	2,987,042	2,116,741	6,492,230	5,194,131

NOTES TO THE FINANCIAL STATEMENTS

14 Movement in funds

	At 1 July 2006 £	Incoming resources £	Outgoing resources £	Transfers £	At 30 June 2007 £
Restricted Funds					
Group					
Burrow Hill Training Fund	594,474	33,618	-	-	628,092
Other restricted funds					
Big Lottery Fund - BLF Wales	51,881	78,255	72,066	-	58,070
Community Fund - BLF Scotland	9,310	29,269	23,448	-	15,131
Dept of Health - Exercise project	10,226	-	10,226	-	-
GSK - Baby Breathe Easy project	90,386	-	90,386	-	-
Boehringer Ingelheim - World COPD	12,497	-	12,497	-	-
June Hancock Mesothelioma Research Fund	248,055	44,801	171,528	-	121,328
Mick Knighton Mesothelioma Research Fund	111,292	75,464	-	(86,809)	99,947
Tuberculosis Fund	384,495	129,301	-	-	513,796
Leeds Trust	116,572	1,592	-	-	118,164
Yvonne Stewart - Research	83,605	-	39,183	(20,000)	24,422
Henry Shelford - Research	22,625	-	22,625	-	-
Ellerman Foundation - Dev. Officers	28,500	28,500	28,500	(28,500)	-
Henry Smith Charity - Helpline	-	40,000	-	-	40,000
Legacies - Research	-	152,519	-	-	152,519
Donor mailings - Research	-	74,150	-	-	74,150
Astra Zeneca - BLF Nurse Harrogate	-	106,000	-	-	106,000
King Edward VII Hospital - Research	-	414,786	-	-	414,786
Severin Wunderman - Research	-	250,000	-	(50,000)	200,000
Astra Zeneca - BLF Nurse Wales	-	49,925	719	-	49,206
GlaxoSmithKline - NSF Project	-	200,000	93,523	-	106,477
Air Products - BLF Active	-	70,000	1,065	-	68,935
Other funds	282,830	953,778	791,612	(248,977)	196,019
	1,452,274	2,698,340	1,357,378	(434,286)	2,358,950
Total Restricted Funds	2,046,748	2,731,958	1,357,378	(434,286)	2,987,042
Endowment Funds	1,911,318	219,481	14,058	-	2,116,741
Designated Funds					
Breathe Easy Group bank balances	276,995	56,488	-	-	333,483
Red balloon appeal	75,467	-	-	-	75,467
Database development	160,000	-	-	-	160,000
BLF Nurses	40,000	-	-	(40,000)	-
Total Designated Funds	552,462	56,488	-	(40,000)	568,950
Unrestricted Funds					
Dept of Health - Section 64 Project	-	166,000	68,980	-	97,020
Other general funds	683,603	3,221,607	3,657,019	474,286	722,477
Total unrestricted funds	1,236,065	3,444,095	3,725,999	434,286	1,388,447
Total Funds	5,194,131	6,395,534	5,097,435	-	6,492,230

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Restricted funds

The charity's funds comprise amounts restricted to specific activities and not yet spent.

Transfers out of restricted funds relate to costs incurred in the previous year which are chargeable to restricted funds, £130,477, and restricted income received to cover past grants funded from unrestricted income, £303,809.

The purpose of some funds is described in their name and others are described below:

Burrow Hill Training Fund

The Burrow Hill Training Fund (charity number 220302) – the British Lung Foundation is the corporate trustee of this charity.

The objects allow the Fund to apply the income to make grants for training or, in cases of need, to

NOTES TO THE FINANCIAL STATEMENTS

men suffering from tuberculosis or chest diseases. Preference is given to men suffering as a consequence of service in Her Majesty's forces. Until the Fund's income is required for use in this manner, it may be used for training the sons or other male dependants of such men.

Leeds Trust

The Leeds Trust (Florence Michael Fund) (charity number 326730-1) – a subsidiary permanent endowment fund for the relief of diseases of the chest. The objects allow the Fund to apply its income on chest diseases.

Tuberculosis Fund

The Tuberculosis Fund (charity number 326730-2) – a subsidiary permanent endowment fund for the relief of sickness and distress of people infected with tuberculosis, and the preservation and protection of public health by the provision of information about tuberculosis and undertaking or assisting with research into tuberculosis and disseminating the useful results.

The income may be used to disseminate public information and to fund research into tuberculosis.

Endowment Fund

The Glaxo Chair Fund consists of investments managed by Schrodgers to fund a chair in respiratory research.

Designated Funds

The bank balances of the Breathe Easy groups have been designated as these are held for use by the 170 groups (2006: 137).

The Red Balloon designated fund is in respect of money raised towards the creation of a Chair in Respiratory Science in Birmingham.

The database fund represents the purchase price of the database and will be depreciated once brought into use.

15 Staff costs	2007	2006
	£	£
Salaries	1,670,624	1,500,934
Social security costs	167,949	143,465
Pension payments	119,174	73,931
Total staff costs	<u><u>1,957,747</u></u>	<u><u>1,718,330</u></u>
Average number of employees	No	No
Administration and finance	9	8

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Fundraising	10	10
Research and information	12	14
Regions and Breathe Easy	38	44
	<u>69</u>	<u>76</u>

The emoluments of one employee (2006: one) were in the bracket £70,001-£80,000 (2006: £70,001-£80,000)
 Pension contributions for this employee amounted to £4,583 (2006: £4,583)

16 Trustee information

No remuneration is paid to Trustees for their services.
 Travelling expenses were reimbursed to 10 Trustees (2005: 6) totalling £ 3,576 (2006: £2,905).

Indemnity insurance is provided for Trustees, costing £2,625 (2006: £2,500)

NOTES TO THE FINANCIAL STATEMENTS

17 Subsidiary company

BLF Trading Limited is the wholly owned subsidiary of British Lung Foundation. The company's trading activities include sponsorship, raffles and merchandising on behalf of the charity. All profits are paid to the charity under Gift Aid.

The results for the year are as follows:

	2007	2006
	£	£
Voluntary income	531,337	482,508
Interest receivable	13,163	9,907
Total income	<u>544,500</u>	<u>492,415</u>
Expenditure		
Costs of generating voluntary income	33,585	72,037
Research grants	-	-
Breathe Easy costs	-	-
Public education and literature	89,165	253,496
Governance costs	3,933	3,294
	<u>126,683</u>	<u>328,827</u>
Trading profit	417,817	163,588
Gift Aid payment	417,817	163,588
Retained profit for the year	<u>-</u>	<u>-</u>

The Balance Sheet comprised:

Current assets	413,314	430,219
Current liabilities	(398,312)	(415,217)
Creditors falling due after more than one year	(15,000)	(15,000)

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<u>£2</u>	<u>£2</u>
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