Company Registration No. 5210122

FINANCE WALES INVESTMENTS (3) LIMITED

Annual Report and Financial Statements

For the year ended 31 March 2017

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

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OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

G Thorley (appointed 4 April 2016)
K O'Leary
M Owen
D Staziker
N Maguinness

COMPANY SECRETARY

J Oates

REGISTERED OFFICE

1 Capital Quarter
Tyndall Street
Cardiff
CF10 4BZ

BANKERS

Barclays Bank Plc
PO Box 69
Queen Street
Cardiff
CF10 1SG

AUDITOR

Deloitte LLP
Statutory Auditor
5 Callaghan Square
Cardiff
CF10 5BT

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 March 2017.

This directors' report has been prepared in accordance with the provisions applicable to small companies entitled to the small companies' exemption.

BUSINESS REVIEW, PRINCIPAL ACTIVITIES AND EVENTS AFTER THE BALANE SHEET DATE

The principal activity of the Company is to facilitate the provision of financial services to Small and Medium Enterprises (''SMEs''). As detailed in the table below, the Company houses a number of different funds with varying Investment Operating Guidelines, each addressing the varying financing needs of Welsh SMEs.

During the year the Company made the following investments across each of its funds.

			Value		**Number of Companies**	
	Fund Size	**Focus of fund**	**2017**	**2016**	**2017**	**2016**
	£		£	£		
Rescue and Restructuring Fund	Variable	Firms in difficulty, requiring funding for rescue or restructure	3.28m	0.29m	10	3
Wales Capital Growth Fund $	25m	Short term loans	16.64m	6.84m	23	14
Wales Technology Seed Fund $	7.5m	Early stage funding	2.37m	1.46m	14	9
Wales Technology Venture Investment Fund $	10m	Technology ventures	1.09m	5.42m	3	13
Welsh Local Energy Fund *	6.3m	Development and capital project loans	0.75m	-	2	-

*launched in 2017

$ These have been funded by Financial Transaction Reserve ('FTR') funding received from the Welsh Government.

The Company will continue with the remaining activities for the foreseeable future.

Bad debts of £148,010 (2016 - £767,091) were written off during the year. These debts were fully provided prior to being written off.

The directors expect the general level of activity to increase in the forthcoming year with the announcement of further funding expected.

There have been no significant events since the balance sheet date.

Going concern

The Company is financed through grant funding and FTR funding provided by the Welsh Government.

The Finance Wales Group comprises Finance Wales plc acting as the holding company and its subsidiaries, which provide financial services to SMEs. The Group's business activities, together with the factors likely to affect its future development, performance and position, its financial position at the balance sheet date, its cash flows and the liquidity position, are set out in the Strategic report within the financial statements of Finance Wales plc. In addition, note 21 of the Finance Wales plc financial statements includes the Group's objectives and policies and processes around managing capital risk; its financial risk management objectives; and its exposure to market, credit and liquidity risk. The relevant information for Finance Wales Investments (3) Limited is set out within the Strategic report of Finance Wales plc.

Finance Wales plc's ultimate parent, the Welsh Ministers, acting through the Welsh Government, has indicated in a letter of support that it will continue to provide revenue support until March 2018 and capital support until at least March 2021 at a level sufficient to enable Finance Wales to continue as a going concern.

DIRECTORS' REPORT (continued)

Going concern (continued)

The Group's forecasts and projections, taking into account of reasonably possible changes in trading performance and the financial support of the Welsh Government, show that the Group will be able to operate within the level of its current facility over the next 12 months from signing the balance sheet date. The Group's forecasts include a forecast in respect of this Company.

After making enquiries and taking account of the factors noted above, the directors have a reasonable expectation that the Company will have access to adequate resources to continue in existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

DIVIDENDS

The directors cannot recommend the payment of a dividend (2016 - £nil).

DIRECTORS

The current directors of the Company, who served throughout the financial year and to the date of this report unless stated otherwise, are as shown on page 1.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The principal business of the Company is investment and, as such, exposure to and management of portfolio risk is an inherent feature of this activity, particularly given the area of the market in which the Company operates. It is not anticipated that this risk will materially increase during the next 12 months.

The Company's activities expose it to a number of financial risks including credit risk and liquidity risk. The Company's financial risk management objectives and policies are outlined in detail in note 13.

AUDITOR

In the case of each of the persons who are directors of the Company at the date when this report is approved:

- so far as each of the directors is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- each of the directors has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

The Group has a policy of tendering the external audit every five years. The audit was tendered during the previous financial year and the incumbents Deloitte LLP were reappointed.

Approved by the Board of Directors
and signed on behalf of the Board

Judi Oates

J Oates
Company Secretary

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) including FRS 101. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF FINANCE WALES INVESTMENTS (3) LIMITED

We have audited the financial statements of Finance Wales Investments (3) Limited for the year ended 31 March 2017 which comprise the Profit and Loss Account, the Statement of Other Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 15. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework".

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company'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 company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Directors' Report has been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Directors' Report.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF FINANCE WALES INVESTMENTS (3) LIMITED

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the directors were not entitled to take advantage of the small companies' exemption from preparing a strategic report or in preparing the directors' report.

D Heaton

David Heaton
Senior Statutory Auditor
for and on behalf of Deloitte LLP
Statutory Auditor
Cardiff, United Kingdom

5 September 2017

PROFIT AND LOSS ACCOUNT
For the year ended 31 March 2017

	Notes	2017 £	2016 £
Turnover	3	2,246,700	793,461
Administrative Expenses:			
(Impairments) /impairments released against loans receivable	6	(4,257,538)	208,451
Impairments against financial assets classified as available-for-sale	6	(1,231,918)	(1,444,615)
Other administrative expenses		(1,389,979)	(1,067,371)
Total Administrative expenses		(6,879,435)	(2,303,535)
Gain/(loss) from disposal of equity investments		10,324	-
OPERATING LOSS		(4,622,411)	(1,510,074)
LOSS BEFORE FINANCE CHARGES		(4,622,411)	(1,510,074)
Interest receivable and similar income	4	27,051	27,358
Interest payable and similar charges	5	(32,864)	-
LOSS BEFORE TAXATION		(4,628,224)	(1,482,716)
Tax on loss	9	-	-
LOSS FOR THE FINANCIAL YEAR		(4,628,224)	(1,482,716)

All activities in both the current and preceding period derive from continuing operations.

STATEMENT OF OTHER COMPREHENSIVE INCOME
For the year ended 31 March 2017

	2017 £	2016 £
Loss for the financial year	(4,628,224)	(1,482,716)
Items that may be reclassified subsequently to profit or loss:		
Available-for-sale financial assets		
- Gains arising during the year	731,667	234,276
Total comprehensive income for the period	(3,896,557)	(1,248,440)

BALANCE SHEET
As at 31 March 2017

	Note	2017 £	2016 £
FIXED ASSETS			
Available-for-sale financial assets	10	7,086,241	4,177,480
		7,086,241	4,177,480
CURRENT ASSETS			
Debtors			
- due within one year	11	9,137,046	5,457,017
- due after one year	11	9,308,016	4,253,514
Cash at bank and in hand		23,214,890	29,219,006
		41,659,952	38,929,537
CREDITORS: Amounts falling due within one year	12	(3,239,614)	(109,419)
NET CURRENT ASSETS		38,420,338	38,820,118
TOTAL ASSETS LESS CURRENT LIABILITIES		45,506,579	42,997,598
CREDITORS: Amounts falling due after more than one year	12	(45,135,749)	(44,579,657)
NET LIABILITIES		370,830	(1,582,059)
CAPITAL AND RESERVES			
Public equity		10,003,696	4,154,250
Called-up share capital	14	1	1
Profit and loss account		(9,632,867)	(5,736,310)
TOTAL SHAREHOLDER'S FUNDS		370,830	(1,582,059)

The financial statements of Finance Wales Investments (3) Limited, registered number 5210122, were approved by the Board of Directors and authorised for issue on 21 August 2017.

Signed on its behalf by

G. Thorley
Director

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 March 2017

	Public equity £	Share capital £	Profit and loss account £	Total £
Balance at 1 April 2015	4,154,250	1	(4,487,870)	(333,619)
Loss for the year	-	-	(1,482,716)	(1,482,716)
Other comprehensive income for the year	-	-	234,276	234,276
Balance at 31 March 2016	4,154,250	1	(5,736,310)	(1,582,059)
Loss for the year	-	-	(4,628,224)	(4,628,224)
Other comprehensive income for the year	-	-	731,667	731,667
Public equity invested by parent company	5,849,446	-	-	5,849,446
Balance at 31 March 2017	10,003,696	1	(9,632,867)	370,830

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2017

1. ACCOUNTING POLICIES

The principal accounting policies are summarised below. They have been applied consistently throughout the year and the preceding year.

Basis of accounting

Finance Wales Investments (3) Limited is a company incorporated in the United Kingdom under the Companies Act 2006. The Company is a private company limited by shares and is registered in Wales. The address of the registered office is given on page 1. The nature of the Company's operations and its principal activities are set out in the Directors Report on page 2.

The Company meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100) issued by the Financial Reporting Council. These financial statements were prepared in accordance with FRS 101 (Financial Reporting Standard 101) '*Reduced Disclosure Framework*' as issued by the Financial Reporting Council.

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for the goods and services. The principal accounting policies adopted are set out below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement purposes in these financial statements in determined on such a basis. In addition, for financial reporting purposes fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to business combinations, presentation of a statement of cash flows, standards not yet effective and related party transactions. Where required, equivalent disclosures are given in the group accounts of Finance Wales plc. The group accounts of Finance Wales plc are available to the public and can be obtained as set out in note 15.

Going concern

Finance Wales' business activities, which includes the activities of this entity, together with the factors likely to affect its future development, performance and position, its financial position at the balance sheet date, its cash flows and the liquidity position, are set out in the Strategic Report within the financial statements of Finance Wales plc. In addition, note 22 of the Finance Wales plc financial statements includes the Group's objectives, policies and processes around managing capital risk, its financial risk management objectives; and its exposure to market, credit and liquidity risk.

The Company is financed through grant funding provided by the Welsh Government.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2017

1. ACCOUNTING POLICIES (continued)

Going concern (continued)

Finance Wales plc's ultimate controlling party, the Welsh Ministers, acting through the Welsh Government, has indicated in a letter of support that it will continue to provide revenue support until March 2018 and capital support until at least March 2021 at a level sufficient to enable Finance Wales to continue as a going concern.

The Group's forecasts and projections, taking account of reasonably possible changes in trading performance and the financial support of the Welsh Government, show that the Group will be able to operate within the level of its current facility over the next 12 months from the date of signing the balance sheet. The group's forecasts include a forecast in respect of this company.

After making enquiries and having reviewed the forecasts for the Company, the directors believe there are no material uncertainties that lead to a significant doubt on the Company's ability to continue in business over the next 12 months. The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the next 12 months. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

Taxation

Current tax

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date. The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit not the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the balance sheet date.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Current tax and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2017

1. ACCOUNTING POLICIES (continued)

Turnover

Turnover represents interest receivable on loans, application and arrangement fees. All turnover relates to one class of business and arises in the UK on investments made in Welsh businesses.

Interest income is recognised when it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. Interest income and loan arrangement fees are accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Foreign currency

The financial statements are presented in pounds sterling, which is the currency of the primary economic environment in which the Company operates (its functional currency).

Transactions in currencies other than the functional currency are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Financial instruments

Financial assets and financial liabilities are recognised in the Company's balance sheet when the Company becomes a party to the contractual provisions of the relevant instrument.

Financial assets

Available-for-sale financial assets

Listed shares held by the Company that are traded in an active market are classified as being AFS and are stated at fair value. The Company also has investments in unlisted shares that are not traded in an active market but are also classified as AFS financial assets and stated at fair value (because the directors consider that fair value can be reliably measured). Fair value is determined in the manner described in note 13. Gains and losses arising from changes in fair value are recognised directly in equity. Impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investment's revaluation reserve is included in profit or loss for the period.

Dividends on AFS equity instruments are recognised in profit or loss when the Company's right to receive the dividends is established.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables: Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2017

1. **ACCOUNTING POLICIES (continued)**

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the asset have been impacted.

For financial assets classified as AFS, a significant or prolonged decline in the fair value of the asset below its cost is considered to be objective evidence of impairment.

For all other financial assets, including redeemable notes classified as AFS, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial reorganisation.

For certain categories of financial asset, such as loans receivable, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of financial assets could include the Company's past experience of recovery, and the levels and trends of specific impairments made as well as observable changes in national or local economic conditions that correlate with default. The impact of forbearance is also considered. Forbearance has not materially impacted impairment provision requirements during the year; the collective provision is deemed to provide sufficient provision for impairment.

The carrying amount of the financial asset is reduced by the impairment loss through the use of an allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

When an AFS equity instrument is considered to be impaired, cumulative gains previously recognised in equity are reclassified to profit or loss in the period.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity instruments securities, impairment losses previously recognised through profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised directly in equity.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Derecognition of financial assets

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2017

1. ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity

Debt and equity instruments are classified as either financial liabilities or equity instruments according to the substance of the contractual arrangements.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Other financial liabilities

Other financial liabilities are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Derecognition of financial liabilities

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire.

Related party transactions

In accordance with the exemption conferred by paragraph 8 (j) of FRS 101 "Reduced Disclosure Framework" the Company has not disclosed transactions with other group companies, where 100% of the voting rights are controlled by the Group.

Public equity

The Welsh Ministers, acting through the Welsh Government, have from time to time provided funds for investment purposes. Some of this Welsh Government funding was originally made as Public Dividend Capital (PDC) whilst the remainder is classified as Grant in Aid or Core Funding for Investment purposes.

The funding is to invest in the long-term sustainability of Finance Wales and within the Welsh Government's own accounting arrangements the funds are regarded as being an investment.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Public equity introduced in the year relates to the Local Energy Fund.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2017

2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company's accounting policies, which are described in note 1 above, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the Company's accounting policies

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

Going concern

In preparing the financial statements, the directors have concluded that the Company is a going concern and have assumed that it will be able to continue to trade in line with its business plan, realising the value of assets and liabilities in the normal course of business.

This judgement has significant impact on the valuation and presentation of the balance sheet as, if the Company were no longer a going concern, the carrying value would need to be restated to market value for assets and settlement values for liabilities. Significant items affected would include non-current assets, loans, and deferred income.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of financial assets

Finance Wales operates a prudent approach to the provisioning against financial assets primarily including investments. Where uncertainty exists, either about the viability of an investee business, or an inability to meet commitments as and when they fall due, a provision will be recognised. Each provision case is proactively managed to identify the causes for concern and to work with investee businesses to effect repayment or recovery of the at-risk investment.

In accordance with the accounting policy on impairment of financial assets, a provision is made only when there is objective evidence that a loss has been incurred for which a collective assessment of a group of assets may be undertaken. Such a collective assessment requires input of management judgement and estimation. Management judgement is supported by consideration of underlying trends of historical data regarding the probability of default or failure of the investee business.

Fair value of financial instruments

As described in note 13, the directors use their judgement in selecting appropriate valuation techniques for financial instruments not quoted on an active market. Valuation techniques commonly used by market practitioners are applied.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2017

3. TURNOVER

An analysis of the Company's turnover, all of which arises in the UK, is as follows:

	2017 £	2016 £
Fees	693,120	355,460
Loan interest	1,553,580	438,001
Turnover	2,246,700	793,461
Other Operating Income:		
- Profit/(Loss) on disposal of equity investments	10,324	-
Interest receivable and similar income (note 4)	27,051	27,358
	2,284,075	820,819

4. INTEREST RECEIVABLE AND SIMILAR INCOME

	2017 £	2016 £
Interest receivable:		
- Bank deposits	27,051	27,358

5. INTEREST PAYABLE AND SIMILAR INCOME

	2017 £	2016 £
Interest payable:		
- Bank loans	32,864	-

6. LOSS BEFORE TAXATION

	2017 £	2016 £
Loss before taxation in stated after charging/(crediting):		
Impairment losses recognised on financial assets classified as available-for-sale	1,231,918	1,444,615
Impairment losses/(gains) recognised on loans receivable carried at amortised cost	4,257,538	(208,451)

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2017

7. AUDITOR'S REMUNERATION

	2017 £	2016 £
Fees payable to the Company's auditor for the audit of the Company's annual accounts	3,060	3,000

Fees payable to Deloitte LLP and their associates for non-audit services to the Company are not required to be disclosed because the consolidated financial statements of the parent Company are required to disclose such fees on a consolidated basis.

8. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

None of the directors received any emoluments from the Company in the current or the prior financial year. It is not practicable to allocate their remuneration between their services as directors of this Company and other group companies. Further details of directors' remuneration are presented in the financial statements of Finance Wales plc and Finance Wales Investments Limited.

The directors were the only employees of the Company during the current and the prior financial year.

9. TAX

	2017 £	2016 £
Current taxation		
UK corporation tax charge for the year	-	-

The charge for the year can be reconciled to the loss in the profit and loss account as follows:

	£	£
Loss on ordinary activities before tax	(4,628,224)	(1,482,716)
Tax on loss on ordinary activities at standard UK corporation tax rate of 20% (2016: 21%)	(925,645)	(296,543)
Effects of:		
Expenses not deductible for tax purposes	246,384	-
Income not taxable	(2,065)	-
Group relief/other reliefs	360,524	-
Deferred tax not recognised	318,762	296,543
Chargeable gains	2,040	-
Total taxation charge	-	-

A net deferred tax asset of £1,068,890 (2016: liability of £164,817) has not been recognised in respect of deductible temporary differences, unused tax losses and loan relationships.

From 1 April 2016, the main rate of corporation tax reduced to 20%. In March 2016, the government announced further reductions in the main rate of corporation tax to 19% from 1 April 2017 and 17% from 1 April 2020. These changes were substantively enacted in September 2016. The reduction in rate is not anticipated to materially affect the future tax charge of the Company.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2017

10. AVAILABLE-FOR-SALE FINANCIAL ASSETS

(a) Available-for-sale investments carried at fair value

	2017	2016
	£	£
Available-for-sale investments carried at fair value		
Equity investments	4,958,899	3,534,376
Less *impairment*	(1,157,286)	(773,228)
	3,801,613	2,761,148

(b) Available-for-sale investments carried at cost

Available-for-sale investments carried at cost	2017	2016
	£	£
Equity investments	5,786,741	2,336,665
Less impairment	(2,502,113)	(920,333)
	3,284,628	1,416,332
Total investments	7,086,241	4,177,480

The shares included within available-for-sale investments above comprise equity shares in limited companies.

11. DEBTORS

	2017	2016
	£	£
Amounts falling due in less than one year:		
Loans receivable carried at amortised cost	10,559,183	2,935,815
Impairment	(1,694,287)	(481,171)
	8,864,896	2,454,644
Other debtors	272,150	2,373
Amounts owed by group companies	-	3,000,000
	9,137,046	5,457,017
Amounts falling due after more than one year:		
Loans receivable carried at amortised cost	13,257,467	6,029,722
Impairment	(3,949,451)	(1,776,208)
	9,308,016	4,253,514

The Company enters into agreements to advance loans to Small and Medium Enterprises (SMEs) in Wales. The average term of loans entered into is five years. The interest rate inherent in the loans is fixed at the contract date for all of the loan term. The average effective interest rate contracted is approximately 8.94% per annum (2016: 10.1%).

The loans advanced are a mixture of unsecured and secured loans. Security is over counterparty assets. The maximum exposure to credit risk of loans receivable for the current and prior period is the carrying amount.

Before accepting any new customer, the Company follows its investment operating guidelines to assess the potential customer's credit quality and define customer acceptance. Recoverability of loans advanced is reviewed monthly.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2017

11. DEBTORS (continued)

Loans receivable disclosed above include amounts which are past due at the reporting date but against which the Company has not recognised an allowance for doubtful receivables because there has not been a significant change in credit quality and the amounts (which include interest accrued after the receivable is overdue) continue to be considered recoverable.

12. CREDITORS

	2017	2016
	£	£
Amounts falling due within one year:		
Trade creditors	-	13,734
Amounts owed to parent company	-	72,162
Other creditors	124,554	5,523
Accruals	115,060	18,000
Amounts owed to group companies	3,000,000	-
	3,239,614	109,419
Amounts falling due after more than one year:		
Amounts owed to group undertakings	2,000,000	2,000,000
Amounts owed to parent company	42,500,000	42,500,000
Other creditors	135,749	79,657
Deferred income	500,000	-
	45,135,749	44,579,657

The Company's financial liabilities are carried at amortised cost. The directors consider that the carrying amount of trade creditors approximates their fair value.

There are no trade creditors past due and the trade creditors and other creditors will be settled within the credit period offered by the counterparty.

Amounts owed to parent company relates to amounts due to Finance Wales plc in relation to Financial Transaction Reserve money received from the Welsh Government. No formal repayment terms are in place with the Welsh Government at present, however there is no expectation that this will be repaid within the next 25 years. These amounts are not interest bearing.

13. FINANCIAL INSTRUMENTS

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2 to the financial statements.

Capital risk management

The capital structure of the Company consists of cash and cash equivalents and equity, comprising issued capital, public equity, reserves and retained earnings as disclosed in the statement of changes in equity.

Categories of financial instruments

The Company's financial instruments comprise bank loans, investments in SMEs in the form of either loans or equity and trade receivables and payables arising from its operations. The purpose of the instruments is to raise finance for the Company, and to invest in SMEs in Wales.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2017

13. FINANCIAL INSTRUMENTS (continued)

The accounting policy note describes how the classes of financial instrument are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the financial assets and liabilities in the balance sheet by class of financial instrument to which they are assigned and by the measurement basis.

Carrying value as at 31 March 2017 £	**Note**	**Financial assets and liabilities at amortised cost**	**Loans and receivables**	**Financial assets available-for-sale**	**Total**
Assets					
Cash and cash equivalents		23,214,890	-	-	23,214,890
Other investments					
- Measured at market price	i	-	-	3,076,293	3,076,293
- Measured at fair value using other methods	ii	-	-	725,320	725,320
- Measured at cost less credit risk adjustment	iii	-	-	3,284,628	3,284,628
Loans to customers	iv	-	18,172,912	-	18,172,912
Other receivables	iv	-	272,150	-	272,150
Total financial assets		23,214,890	18,445,062	7,086,241	48,746,193
Non-financial assets					-
Total assets					48,746,193
Liabilities					
Amounts due to parent	v	42,500,000	-	-	42,500,000
Amounts due to other group companies	v	5,000,000	-	-	2,000,000
Trade and other payables	v	875,363	-	-	875,363
Total financial liabilities		48,375,363	-	-	48,375,363
Reserves					370,830
Total reserves and liabilities					48,746,193

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2017

13. FINANCIAL INSTRUMENTS (continued)

Carrying value as at 31 March 2016 £	Note	Financial assets and liabilities at amortised cost	Loans and receivables	Financial assets available-for-sale	Total
Assets					
Cash and cash equivalents		29,219,006	-	-	29,219,006
Other investments					
Measured at market price	i	-	-	1,837,499	1,837,499
Measured at fair value using other methods	ii	-	-	923,649	923,649
Measured at cost less credit risk adjustment	iii	-	-	1,416,332	1,416,332
Loans to customers	iv	-	6,708,158	-	6,708,158
Other receivables	iv	-	3,002,373	-	3,002,373
Total financial assets		29,219,006	9,710,531	4,177,480	43,107,017
Non-financial assets					-
Total assets					43,107,017
Liabilities					
Amounts due to parent	v	42,572,162	-	-	42,572,162
Amounts due to other group Companies	v	2,000,000	-	-	2,000,000
Trade and other payables	v	116,914	-	-	116,914
Total financial liabilities		44,689,076	-	-	44,689,076
Reserves					(1,582,059)
Total reserves and liabilities					43,107,017

The carrying value of the Company's financial instruments is considered to approximate fair value and hence a separate disclosure of carrying value versus fair value is not presented.

The following methods and assumptions have been applied in determining fair values.

Note:

i) The fair value of investments in quoted securities in an active market is the market price on the balance sheet date (level 1 hierarchy as defined below).

ii) For investments in non-quoted securities, other methods are used to determine fair value, following a recent transactional event, where these are considered reliable. These methods include using a recent valuation of the business for a funding round, using a recent offer from a prospective purchaser, or using a discounted PE valuation (level 3 hierarchy as defined below).

iii) Where the fair value of a financial asset cannot be reliably estimated, the fair value of the financial asset is approximated at cost adjusted for credit risk (the method for such an adjustment is described below).

iv) Loans to customers and other receivables are measured using an amortised cost basis and calculated using the effective interest rate method in accordance with IAS 39.

v) The fair value of amounts owed to our ultimate parent, other third parties, share capital and public equity are assumed to approximate to their carrying amount at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2017

13. FINANCIAL INSTRUMENTS (continued)

The Company hierarchy for measuring at fair value disclosures is as follows:

Level	Hierarchy for fair value disclosures
1.	Quoted prices (unadjusted) in active markets for identical assets or liabilities.
2.	Inputs other than quoted prices included within level 1 that are observable for the asset or liability either directly or indirectly.
3.	Inputs for the asset or liability that are not based on observable market data. For investments in non-quoted securities, the observable inputs are derived from recent transactional events, where these are considered reliable. These methods include using a recent valuation of the business for a funding round, or using a recent offer from a prospective purchaser.

Other price risks

The Company is exposed to equity price risks arising from equity investments. The shares included above represent investments in listed equity securities that present the Company with opportunity for return through dividend income and trading gains. Equity investments designated as available-for-sale are held for strategic rather than trading purposes. The Company does not actively trade these investments.

Market risk

The Company's activities expose it primarily to the financial risks of changes in interest rates, and credit risks.

Credit risk management

The Company's credit risk is primarily attributable to its loan receivables, and the valuation of its equity investments. As noted in the fair value of financial instrument section above, financial assets may be measured at cost less an allowance for impairment. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

The credit risk on derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The Company has no significant concentration of credit risk as its exposure is spread over a large number of counterparties and companies.

The following table details the Company's sensitivity to a 1% reduction in the valuation of all financial assets, excluding cash and cash equivalents, at the year-end.

	2017 £	2016 £
Reduction in profit	255,000	139,000

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board of directors, which has built an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves and banking facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The deterioration in the Company's result is not seen as a risk but as part of the normal pattern for businesses involved in making long-term investments.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2017

14. CALLED UP SHARE CAPITAL

	2017 £	2016 £
Authorised and allotted		
1,000 ordinary shares of £1 each	1,000	1,000
Allotted, called up and fully paid		
1 ordinary share of £1	1	1

The Company has one class off ordinary shares which carry no right to fixed income.

15. ULTIMATE PARENT COMPANY AND CONTROLLING PARTY

The Company's immediate parent undertaking is Finance Wales plc, a company incorporated in England and Wales. Finance Wales plc is the parent of the smallest and largest group of which the Company is a member and for which consolidated financial statements are prepared. The registered office address of Finance Wales plc is 1 Capital Quarter, Tyndall Street, Cardiff, CF10 4BZ. Copies of the Group financial statements of Finance Wales plc are available from Companies House, Crown Way, Maindy, Cardiff CF14 3UZ.

Finance Wales plc regards the Welsh Ministers, acting through the Welsh Government (formerly the Welsh Assembly Government), as the ultimate controlling party.