

Company's Registered Number: 07430903
Charity registration number: 1140719

THE LEGATUM INSTITUTE FOUNDATION

**Trustees' Annual Report
and financial statements
for the year ended**

31 December 2015



**LEGATUM[™]
INSTITUTE
FOUNDATION**

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THE LEGATUM INSTITUTE FOUNDATION

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THE LEGATUM INSTITUTE FOUNDATION

TRUSTEES AND ADVISERS

Trustees

Toby Oliver James Baxendale
Richard Henry Briance
Alan James McCormick
Janie Marie Siebels
Robert Charles Vickers

Senior management personnel

| | |
|------------------------|--|
| Anne Applebaum | Director of the Transitions Forum |
| Giles Dilnot | Director of Communications |
| Alexandra Mousavizadeh | Director of the Prosperity Index |
| Christina Odone | Director of the Centre for Character and Values |
| Shanker Singham | Director of Economic Policy and Prosperity Studies |

Registered and principal office

11 Charles Street
London
W1J 5DW

Bankers

Metro Bank plc
120 Cheapside
London
EC2V 7JB

Barclays Bank plc
Leicester
LE87 2BB

Auditor

Nexia Smith & Williamson
Statutory Auditor
Chartered Accountants
25 Moorgate
London
EC2R 6AY

Solicitors

Bircham Dyson Bell LLP
50 Broadway
London
SW1H 0BL

Status

The charity is a company limited by guarantee and incorporated and registered as a charity in England and Wales
Company's Registered Number: 07430903
Charity registration number: 1140719

THE LEGATUM INSTITUTE FOUNDATION

CHAIR'S REPORT

The Legatum Institute Foundation (the "Institute") is a public charity with a mandate to educate the general public as to what drives and restrains national prosperity. Being only in its second year as a public charity, the Institute and its staff can be proud of another strong year. In 2015, the Institute broadened its research, strengthened its team, deepened its community of support and solidified its operational functions.

As an educational charity, the Institute welcomed over 5,000 people through its doors across more than 130 events, featuring guest speakers including the Mayor of London, the Home Secretary, the Justice Secretary and the Chancellor of the Exchequer. In total, six government ministers attended events and participated in conversations as wide ranging as capitalism, education, justice and welfare. The Institute published 27 reports, including the *Global Prosperity Index* which received wide coverage, the *UK Prosperity Report* and *Prosperity for All: Restoring Faith in Capitalism*, all of which broke new ground and attracted new audiences.

Over the course of the year, we deepened our depth of talent with Shanker Singham joining the team as Director of Economic Policy and Prosperity Studies, and Alexandra Mousavizadeh who joined to head up the Prosperity Index. We also strengthened the faculty, with Peter Pomeransev and Tim Montgomerie joining as Senior Fellows.

The Institute continued to grow its digital and media presence, and our scholars were regularly writing in broadsheets such as the Times and participating in discussions on BBC Newsnight, BBC Question Time, CNN and Bloomberg. The Prosperity Index was downloaded 52,000 times and our websites received 804,000 unique online visitors throughout the year.

The Institute raised £273,000 through the financial year, continuing its journey towards funder diversification and financial independence.

There is still much to do if the Institute is going to fulfil its long term goal of shifting the debate on from one which looks at prosperity purely economically to one that considers the other dimensions that make life worthwhile. However, we are making progress and in closing I would like to thank all of our sponsors who generously support our research programmes, as well as the Institute's growing community who engage across our platform, read our research and attend our events, either in person or online through webcasts.

A J McCormick – Chair

THE LEGATUM INSTITUTE FOUNDATION

TRUSTEES' ANNUAL REPORT

The trustees are pleased to present their annual report together with the financial statements of The Legatum Institute Foundation (the "Institute") for the year ending 31 December 2015.

The financial statements comply with the Charities Act 2011, the Companies Act 2006, the Institute's Memorandum and Articles of Association, and Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their financial statements in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102).

OUR PURPOSES AND ACTIVITIES

The Institute's Objects, as set out in its Articles of Association, are to advance the education of the public in national and international political, social and economic policy, including the promotion of research in any of those areas and the publication of the useful results of such research.

As an international think tank and educational charity, the Institute's overall strategy is to:

- undertake research covering national and international political, social and economic policy; and
- disseminate the results of that research for educational purposes, so as to promote prosperity throughout the world.

This strategy will continue into 2016 and beyond, with the Institute bringing in additional programmatic work to extend its educational reach on prosperity to greater audiences around the world.

The Institute runs dedicated research programmes, including Prosperity Studies, The Culture of Prosperity, Transitions Forum, and the Economics of Prosperity. These programmes cover economics and growth, transitioning countries, governance structures, understanding the historical element to current policy development, entrepreneurship and wellbeing. The research also covers core themes of freedom, democracy and liberty, and is focused on under-researched areas of public policies. Through these programmes, the Institute seeks to understand what drives and restrains national success and individual flourishing.

By holding events which are open to the public and publishing reports and educational material which are freely available on its website, the Institute reaches a diverse, global audience. The Institute also co-publishes with Foreign Policy magazine, "Democracy Lab", an online journalistic venture that uses on-the-ground journalists to report on political transitions around the world.

As part of its activities during the year, the Institute also published the Legatum Prosperity Index™ in November. The Index assesses a wide range of indicators including education, health, social capital, entrepreneurship and personal freedom to rank 142 countries. Published annually, the Index has become an essential tool for governments around the world.

The Institute is based in Mayfair, London. Its lead sponsor is Legatum Foundation Limited.

The Institute fulfils its educational purpose by making available the results of our research to the public - all research reports are freely available at www.li.com and www.prosperity.com. In addition, the Institute runs a range of events throughout the year to promote its research findings. These findings are widely cited in the media, adding to the public's knowledge of the factors which enhance and sustain prosperity. Individuals also access the research findings directly, via the websites and through the Institute's events.

THE LEGATUM INSTITUTE FOUNDATION

TRUSTEES' ANNUAL REPORT (continued)

The Trustees use a variety of criteria in order to assess the success of the Institute, including:

- Research
 - The number of research projects successfully undertaken
 - The number of research reports published
- Education
 - The extent to which the research outcomes are cited in the media
 - The number of downloads of the research reports
 - The number of events and the attendance at the events
- Other
 - The extent to which the research findings are used by governments to assist in formulating policies

The Trustees consider that the wider impact of the Institute's activities will be a general expansion of knowledge of the factors which promote and sustain prosperity. The Trustees expect that this in turn will ultimately lead to greater prosperity for all, particularly for those suffering in countries with current low levels of prosperity.

ACHIEVEMENTS AND PERFORMANCE

The Institute's flagship research project, the annual *Legatum Prosperity Index*TM, now in its ninth year, was published in November 2015 to great acclaim. Other highlights are listed below.

Publications

The Institute published 27 reports in 2015. The 2015 Prosperity Index was launched by The Rt. Hon. Iain Duncan Smith - the then Secretary of State for Work and Pensions. The Index was downloaded 52,000 times in 2015. Tim Montgomerie's *Prosperity for All* report received widespread media attention, whilst the 2014 *Wellbeing and Policy Report* remains one of the Institute's most downloaded publications.

Events

The Institute held 137 events during 2015, attended by more than 5,000 guests. Highlights included the 2015 Legatum Prosperity IndexTM launch; the 2015 Africa Prosperity Summit in Tanzania and the second annual Summer Party with guest speaker, Theresa May, the then Home Secretary. Boris Johnson, the then Mayor of London, launched Tim Montgomerie's project on restoring faith in Capitalism at the Institute in March 2015, and George Osborne, the then Chancellor of the Exchequer, launched the final report at the Institute in November (*Prosperity for All*). The New One Nation Conservatism panel in Manchester was described as "The most interesting event of the Conservative conference" by Rachel Sylvester in The Times.

Social Media

The Institute had over 125 million views of its Twitter content during 2015, and gained 21% more Twitter followers than in 2014. YouTube views have increased by 40% compared with 2014, and subscribers are up by 37%. A particular highlight included the then Chancellor of the Exchequer tweeting about the 2015 Legatum Prosperity IndexTM on launch day.

THE LEGATUM INSTITUTE FOUNDATION

TRUSTEES' ANNUAL REPORT (continued)

Media

The Institute had very successful media coverage during the launch of the 2015 Legatum Prosperity Index™, including in publications such as The Financial Times, The Spectator, CNN, The Sunday Times, International Business Times, The Huffington Post, The Washington Post, The Daily Mail, The New Zealand Herald, The Independent and Business Insider, among many others.

The Institute or its spokespeople were regularly cited by, writing for or broadcasting via media outlets such as BBC Newsnight, BBC Question Time, Sky News, The Times, The Washington Post, CNN and Bloomberg.

FINANCIAL REVIEW

The Institute had reserves of £740k as at 31 December 2015, and net current assets of £266k. As detailed below, the Institute receives on-going support from Legatum Foundation Limited, and the Institute is therefore able to meet its obligations as and when they fall due.

The principal sources of income were donations of £2,303k and income from the provision of charitable activities of £1,957k. Sundry trading income was £13k, giving total income of £4,273k for the year. Of this, £3,976k was funded by the Legatum Foundation Limited.

Going concern

The Institute's activities are currently funded from income received from Legatum Foundation Limited. Legatum Foundation Limited has confirmed that it will continue to support the Institute until at least September 2017 and, for this reason, the Trustees consider the Institute to be a going concern. Additional income of £297k has been generated during 2015, which will grow and add alternative income streams into the business.

Reserves Policy

Due to the on-going financial support of Legatum Foundation Limited, the Institute has no current requirement for reserves and, as at the year end, the Institute had positive free reserves of £254k (2014 – negative free reserves of £195k).

Financial risks and uncertainties

The most significant financial risk and uncertainty relates to the continuation of funding after September 2017. The Trustees will liaise closely with Legatum Foundation Limited over the coming year to ensure that they are informed as to the likely future funding and so that they can take appropriate action.

The Trustees note that the Legatum Prosperity Index™ has been funded and published for the last nine years, and they anticipate that it will continue to be funded beyond September 2017.

GOVERNANCE AND MANAGEMENT

The Institute is governed by its Trustees who, during the year and subsequently, were as follows:

| | |
|-----------------------------|-----------------------------|
| Peter Raymond Barnett | (resigned on 23 March 2015) |
| Toby Oliver James Baxendale | |
| Richard Henry Briance | (appointed on 1 May 2015) |
| Alan James McCormick | |
| Jane Marie Siebels | (appointed on 29 June 2015) |
| Robert Charles Vickers | |

THE LEGATUM INSTITUTE FOUNDATION

TRUSTEES' ANNUAL REPORT (continued)

The Trustees confirm that they have had regard to the Charity Commission's guidance on public benefit.

The current trustees are already familiar with the practical work of the Institute and in most cases involve themselves actively in the programmes. New trustees are sought from the fields of entrepreneurship, philanthropy, academia and business. Any new trustee is presented with a comprehensive induction pack, and has the opportunity to shadow a current Trustee as well as meet all the senior programme researchers.

The Trustees confirm that they have reviewed the risks that the Institute faces and taken appropriate steps to implement processes to manage those risks.

In the case of each person who was a Trustee at the time this report was approved:

- so far as that Trustee was aware, there was no relevant audit information of which the Institute's auditors were unaware; and
- that Trustee had taken all steps that he/she ought to have taken as a trustee to make himself or herself aware of any relevant audit information and to establish that the Institute's auditors were aware of that information.

The Trustees are responsible for setting the overall strategy of the Institute and for overseeing the delivery of that strategy. As part of these responsibilities, the Trustees approve the allocation of resources to the Institute's various programmes.

During the year, the Institute was managed on a day to day basis by an Executive Director who was supported by a team including the Director of the Transitions Forum and the Director of Communications. This wider team oversees the Institute's various programmes and activities. The Executive Director's remuneration was reviewed by the Trustees, using criteria which included the achievement of the Institute's strategy and business plans, market data and the outcome of the annual appraisal review.

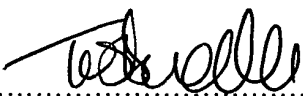
Details of the related parties are set out in the financial statements. As sole member, Legatum Institute has the power to appoint and dismiss trustees. In exercising this power, Legatum Institute seeks to ensure that there is always a majority of independent trustees.

Plans for future periods

The Institute will continue with its current strategy, as set out above. Specific plans for the coming year include:

- A review of the Legatum Prosperity Index™ methodology
- Celebrating the tenth year of the Legatum Prosperity Index™
- The launch of the Centre for Character and Values, headed up by Cristina Odone
- The appointment of Lord James O'Shaughnessy as a Senior Fellow
- Planned redesign of the prosperity.com website
- Launch of the economic distortions work, and an in depth look at the future of banking

Approved by and signed on behalf of the Trustees



T O J Baxendale – Trustee

THE LEGATUM INSTITUTE FOUNDATION

TRUSTEES' RESPONSIBILITIES STATEMENT

The Trustees (who are also directors of the company for the purposes of applicable company law) are responsible for preparing the Trustees' Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Trustees to prepare financial statements for each financial year in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law, the Trustees 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 incoming resources and application of resources, including the income and expenditure, of the company for that period.

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

- select suitable accounting policies and then apply them consistently;
- observe the methods and principles in the Charities SORP;
- make judgments and accounting estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Trustees 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 Trustees 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 MEMBERS OF THE LEGATUM INSTITUTE FOUNDATION

We have audited the financial statements of The Legatum Institute Foundation for the year ended 31 December 2015 which comprise the Statement of Financial Activities, the Statement of Financial Position, the Statement of Cash Flow and the related notes 1 to 21. 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 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

This report is made solely to the charitable company's member, 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 charitable company's member those matters we are required to state to it 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 charitable company and the charitable company's sole member, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of trustees and auditor

As explained more fully in the Trustees' Responsibilities Statement set out on page 7, the Trustees (who are also the directors of the company for the purposes of applicable company law) 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 and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the FRC's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the charitable company's affairs as at 31 December 2015, and of its incoming resources and application of resources, including its income and expenditure, 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 the information provided in the Trustees' Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE LEGATUM INSTITUTE
FOUNDATION (CONTINUED)****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 trustees' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the Trustees were not entitled to take advantage of the small companies exemption from the requirement to prepare a strategic report.

Nexia Smith & Williamson

Andrew Bond

Senior Statutory Auditor, for and on behalf of
Nexia Smith & Williamson
Statutory Auditor
Chartered Accountants

25 Moorgate
London
EC2R 6AY

30/9/16

THE LEGATUM INSTITUTE FOUNDATION

STATEMENT OF FINANCIAL ACTIVITIES (Incorporating the income and expenditure account) for the year ended 31 December 2015

| | Notes | 2015 | | | 2014 | | |
|---|-------|---------------------------------|--------------------------|------------------|---------------------------------|--------------------------|------------------|
| | | Un- restricted funds £ | Restricted funds £ | Total £ | Un- restricted funds £ | Restricted funds £ | Total £ |
| Income and endowments from: | | | | | | | |
| Donations | 4 | 2,173,577 | 128,900 | 2,302,477 | 1,813,862 | 1,000,060 | 2,813,922 |
| Charitable activities | 5 | 49,592 | 1,907,755 | 1,957,347 | - | 23,000 | 23,000 |
| Other trading activities | | 12,846 | - | 12,846 | 41,498 | - | 41,498 |
| Total | | 2,236,015 | 2,036,655 | 4,272,670 | 1,855,360 | 1,023,060 | 2,878,420 |
| Expenditure on: | | | | | | | |
| Raising funds | | 7,018 | - | 7,018 | 22,671 | - | 22,671 |
| Charitable activities | 6 | 1,887,628 | 2,036,655 | 3,924,283 | 1,435,584 | 1,023,060 | 2,458,644 |
| Total | | 1,894,646 | 2,036,655 | 3,931,301 | 1,458,255 | 1,023,060 | 2,481,315 |
| Net income and net movement in funds | | 341,369 | - | 341,369 | 397,105 | - | 397,105 |
| Total funds brought forward | | 398,626 | - | 398,626 | 1,521 | - | 1,521 |
| Total funds carried forward | | 739,995 | - | 739,995 | 398,626 | - | 398,626 |

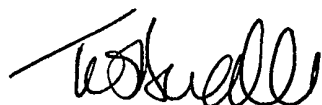
On 1 June 2014, the activities of the Legatum Institute, a Cayman Island company, were transferred to the Institute; prior to that date, the Institute had no significant activities. As such, the 2014 results primarily arose in the seven month period from 1 June to 31 December 2014.

THE LEGATUM INSTITUTE FOUNDATION

STATEMENT OF FINANCIAL POSITION as at 31 December 2015

| | Notes | 2015 £ | 2014 £ |
|---|-------|----------------|------------------|
| Fixed assets | | | |
| Property, plant and equipment | 11 | 486,460 | 593,744 |
| Investments in subsidiaries | 12 | 1 | 1 |
| | | <u>486,461</u> | <u>593,745</u> |
| Current assets | | | |
| Debtors | 13 | 168,747 | 29,554 |
| Cash at bank and in hand | | 525,556 | 267,844 |
| | | <u>694,303</u> | <u>297,398</u> |
| Creditors: amounts falling due within one year | 14 | (428,523) | (465,124) |
| | | <u>265,780</u> | <u>(167,726)</u> |
| Total assets less current liabilities | | 752,241 | 426,019 |
| Creditors: amounts falling due after more than one year | 14 | (12,246) | (27,393) |
| Net assets | | <u>739,995</u> | <u>398,626</u> |
| Funds | 16 | | |
| Restricted funds | | - | - |
| Unrestricted funds | | 739,995 | 398,626 |
| | | <u>739,995</u> | <u>398,626</u> |

The financial statements were approved and authorised for issue by the Trustees on 26th September 2016 and were signed on their behalf by:



.....
T O J Baxendale – Trustee

Company number: 07430903

THE LEGATUM INSTITUTE FOUNDATION

STATEMENT OF CASH FLOWS for the year ended 31 December 2015

| | Notes | 2015 £ | 2014 £ |
|--|-------|-----------|-----------|
| Cash flows from operating activities | | | |
| Net cash flow provided by operating activities | 17 | 293,254 | 834,350 |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment | | (35,542) | (582,864) |
| Change in cash and cash equivalents in the year | | 257,712 | 251,486 |
| Cash and cash equivalents as at beginning of the year | | 267,844 | 16,358 |
| Cash and cash equivalents as at end of the year | | 525,556 | 267,844 |
| Analysis of cash and cash equivalents | | | |
| Cash at bank and in hand | | 525,556 | 267,844 |

THE LEGATUM INSTITUTE FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2015

1 Status of the Foundation

The Legatum Institute Foundation (the “Institute”) is a company limited by guarantee and is incorporated, and registered as a charity, in England and Wales. Its registered office address is 11 Charles Street, London, W1J 5DW.

In the event of the Institute being wound up, the liability in respect of the guarantee is limited to £1 per member.

2 Accounting policies

The principal accounting policies are summarised below.

Basis of preparation

These financial statements are prepared in accordance with The Financial Reporting Standard applicable in the UK and Republic of Ireland (“FRS 102”) and with the Statement of Recommended Practice applicable to charities preparing their financial statements in accordance with FRS 102 issued in 2015. The financial statements are also prepared in accordance with the Companies Act 2006 and the Charities Act 2011.

The Institute is a public benefit entity, as defined by FRS 102.

The financial statements have been prepared under the historical cost convention as modified by the revaluation of certain assets in accordance with the Institute’s accounting policies.

Non-consolidation

The Institute’s subsidiary company did not trade throughout the period to 31 December 2015 and therefore the Institute is exempt from preparing consolidated financial statements. Accordingly, these financial statements present information about the Institute as an entity.

Going concern

The Trustees have prepared the financial statements using the going concern basis.

The vast majority of the Institute’s income is derived from Legatum Foundation Limited (see notes 20 and 21), either in the form of sponsorship income or donations. The sponsorship income is paid in accordance with an enduring contract; however this contract can be terminated by either party by giving three months’ notice. The Institute has no contractual right to the donations.

The Trustees are confident that Legatum Foundation Limited will continue to provide sufficient funds to the Institute to enable it to continue its activities for a period at least until September 2017 and for this reason they have adopted the going concern basis for the preparation of the financial statements.

Revenue

Revenue from exchange contracts is measured at the fair value of the right to consideration and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and VAT.

Sponsorship income is recognised as the services are provided, based on the Trustees’ best estimate of progress against the relevant contract and amounts which will ultimately become due under the contract.

THE LEGATUM INSTITUTE FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2015 (continued)

2 Accounting policies (continued)

Fundraising trading income is recognised as the services are provided.

Income from non-exchange transactions are recognised when the Institute has entitlement to the income, when the income can be reliably measured and when it is more probable than not that the Institute will receive the income. Specifically, donations are included in the financial statements when received or, in the case of donations from Legatum Foundation Limited, when the Institute is notified of them.

To the extent that they are material, any donated services are recognised at their estimated value to the Institute.

Expenses

Expenditure is recognised on an accrual basis as a liability is incurred. Expenditure includes any VAT which cannot be fully recovered, and is reported as part of the expenditure to which it relates.

Charitable expenditure comprises those costs incurred by the Institute in the delivery of its charitable activities and services for its beneficiaries. It includes both costs that can be allocated directly to such activities and those costs of an indirect nature necessary to support them.

Indirect costs are apportioned to charitable activities and other activities based on the estimated proportion of time incurred by support staff in supporting the various activities.

Foreign currencies

Transactions denominated in a foreign currency are translated into Sterling at the rate of exchange ruling at the date of the transaction. At the balance sheet date, monetary assets and liabilities denominated in foreign currency are translated at the rate ruling at that date. All exchange differences are dealt with in the income and expenditure account.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. At the balance sheet date, all leases are classified as operating leases.

Rentals payable under operating leases are charged to the income and expenditure account on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight line basis over the lease term.

Employee benefits

Short term employee benefits including holiday pay and annual bonuses are accrued as services are rendered. Contributions to defined contribution pension schemes are charged to profit or loss as they become payable in accordance with the rules of the scheme. Differences between contributions payable in the year and those actually paid are shown as either accruals or prepayments in the balance sheet. Redundancy and similar costs are recognised when the relevant employees have been informed that a redundancy programme has commenced.

THE LEGATUM INSTITUTE FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2015 (continued)

2 Accounting policies (continued)

Fund accounting

Incoming resources from non-exchange transactions are categorised as restricted when the counter-party imposes restrictions as to the use of the funds. Any interest earned on restricted funds is also categorised as restricted income. All other incoming resources are categorised as unrestricted.

Direct and indirect expenditure relating to restricted income is categorised as restricted expenditure to the extent that it is covered by available restricted funds; any excess expenditure is classified as unrestricted.

Property, plant and equipment

Depreciation is provided on cost or revalued amounts in equal annual instalments over the estimated useful lives of the assets concerned. The following annual rates are used on a straight line basis:

| | | |
|------------------------|---|--------------------------------------|
| Leasehold improvements | - | Shorter of lease term or useful life |
| Computer equipment | - | 33% (3 years) |

Impairment of non-financial assets

At each balance sheet date, tangible assets are reviewed to determine whether there is any indication that those assets have suffered an impairment loss. For the purposes of assessing impairment, assets are grouped at the lowest relevant levels; for assets used for charitable purposes, the levels are considered by reference to separately identifiable charitable activities; for those assets used for fundraising trading purposes, the levels used are those for which there are separately identifiable cash flows. If there is an indication of possible impairment, the recoverable amount of any affected asset (or group of related assets) is estimated and compared with its carrying amount. If the estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognised immediately in the statement of financial activities.

Investments in subsidiaries

Investments in subsidiaries are stated at cost less any provision for impairment.

Financial instruments

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

Trade and other debtors and creditors are classified as basic financial instruments and measured at initial recognition at transaction price. Debtors and creditors are subsequently measured at amortised cost using the effective interest rate method. A provision is established when there is objective evidence that the Institute will not be able to collect all amounts due.

Cash and cash equivalents are classified as basic financial instruments and comprise cash in hand and at bank, short-term bank deposits with an original maturity of three months or less and bank overdrafts which are an integral part of the Institute's cash management.

THE LEGATUM INSTITUTE FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2015 (continued)

2 Accounting policies (continued)

Other loans which meet the criteria to be classified as basic financial instruments are initially recorded at the present value of cash payable, which is ordinarily equal to the proceeds received. These liabilities are subsequently measured at amortised cost, using the effective interest rate method.

Taxation

The Institute is exempt from tax on its activities provided that the surpluses are used for charitable activities. Therefore no provision for direct or deferred tax arises.

3 Key judgements and sources of estimation uncertainty

The preparation of financial statements in conformity with generally accepted accounting practice requires management to make estimates and judgements that affect the reported amounts of assets and liabilities as well as the disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period.

Judgements

The most significant judgement made by the Trustees in preparing the financial statements relates to the use of the going concern basis for the preparation of the financial statements, as described in note 2.

Other judgements relate to the basis on which support costs are allocated to the various activities of the Institute (note 7).

Estimation uncertainty

The only significant sources of estimation uncertainty relates to the expected useful economic life of the property, plant and equipment, and the method by which support costs are apportioned to charitable and other activities. The useful economic lives of property, plant and equipment are detailed above. Support costs are apportioned on the estimated time that relevant staff spend supporting on each charitable and other activity; this is estimated based on the direct expenditure for each activity.

THE LEGATUM INSTITUTE FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2015 (continued)

4 Income from donations

| | 2015 £ | 2014 £ |
|----------------------------|------------------|------------------|
| Unrestricted: | | |
| Legatum Foundation Limited | 2,122,476 | 1,778,862 |
| Other | 51,101 | 35,000 |
| | <u>2,173,577</u> | <u>1,813,862</u> |
| Restricted: | | |
| Legatum Foundation Limited | - | 982,200 |
| Other | 128,900 | 17,860 |
| | <u>128,900</u> | <u>1,000,060</u> |
| | <u>2,302,477</u> | <u>2,813,922</u> |

The restricted donations are analysed as follows:

| | Prosperity Studies £ | Economics of Prosperity £ | Culture of Prosperity £ | Transitions Forum £ | Total £ |
|--------------------------------|----------------------------|------------------------------------|-------------------------------|---------------------------|------------|
| Year ended 31 December 2015 | - | 78,000 | 40,900 | 10,000 | 128,900 |
| Year ended 31 December 2014 | 315,000 | 170,000 | 110,060 | 405,000 | 1,000,060 |

5 Income from charitable activities

| | Prosperity Studies £ | Economics of Prosperity £ | Culture of Prosperity £ | Transitions Forum £ | Total £ |
|--------------------------------|----------------------------|------------------------------------|-------------------------------|---------------------------|------------------|
| Year ended 31 December 2015 | | | | | |
| Restricted income | 665,355 | 239,486 | 183,646 | 819,268 | 1,907,755 |
| Unrestricted income | | | | | 49,592 |
| | | | | | <u>1,957,347</u> |

THE LEGATUM INSTITUTE FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2015 (continued)

5 Income from charitable activities (continued)

| | Prosperity Studies | Economics of Prosperity | Culture of Prosperity | Transitions Forum | Total |
|--------------------------------|-----------------------|-------------------------------|--------------------------|----------------------|--------|
| Year ended 31 December 2014 | | | | | |
| Restricted income | 23,000 | - | - | - | 23,000 |

The income from charitable activities primarily relates to amounts paid by Legatum Foundation Limited for undertaking various programmes of work.

6 Analysis of expenditure on charitable activities

| Year ended 31 December 2015 | Prosperity Studies £ | Economics of Prosperity £ | Culture of Prosperity £ | Transitions Forum £ | Total £ |
|---|----------------------------|------------------------------------|-------------------------------|---------------------------|------------|
| Staff costs | 207,783 | 138,371 | 39,815 | 524,183 | 910,152 |
| Travel and entertainment | 21,878 | 11,731 | 7,223 | 52,344 | 93,176 |
| Office overheads | 5,493 | 7,795 | 9,481 | 8,724 | 31,493 |
| Stationary, postage and publications | 3,937 | - | 201 | 611 | 4,749 |
| IT and communications | 101,589 | 2,005 | - | 805 | 104,399 |
| Advertising, events and conferences | 28,381 | 2,880 | 10,885 | 10,404 | 52,550 |
| Professional fees | 97,657 | 103,634 | 91,736 | 144,043 | 437,070 |
| Total direct costs | 466,718 | 266,416 | 159,341 | 741,114 | 1,633,589 |
| Allocated support costs (note 7) | 654,454 | 373,581 | 223,435 | 1,039,224 | 2,290,694 |
| Total | 1,121,172 | 639,997 | 382,776 | 1,780,338 | 3,924,283 |

THE LEGATUM INSTITUTE FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2015 (continued)

6 Analysis of expenditure on charitable activities (continued)

| Year ended 31 December 2014 | Prosperity Studies | Economics of Prosperity | Culture of Prosperity | Transitions Forum | Total |
|--------------------------------------|--------------------|-------------------------|-----------------------|-------------------|-----------|
| | £ | £ | £ | £ | £ |
| Staff costs | 197,037 | 61,428 | 13,412 | 256,467 | 528,344 |
| Travel and entertainment | 14,786 | 4,692 | 5,990 | 32,560 | 58,028 |
| Office overheads | 15,175 | 5,679 | 2,543 | 4,284 | 27,681 |
| Stationary, postage and publications | 2,531 | 36 | 459 | 49 | 3,075 |
| IT and communications | 1,837 | - | 1,290 | 1,154 | 4,281 |
| Advertising, events and conferences | 52,336 | 3,460 | 18,720 | 8,114 | 82,630 |
| Professional fees | 126,612 | 10,000 | 44,930 | 77,907 | 259,449 |
| Total direct costs | 410,314 | 85,295 | 87,344 | 380,535 | 963,488 |
| Allocated support costs (note 7) | 631,039 | 134,456 | 137,685 | 591,976 | 1,495,156 |
| Total | 1,041,353 | 219,751 | 225,029 | 972,511 | 2,458,644 |

The expenditure above has been re-categorised to be consistent with the 2015 categorisation. The total expenditure and the split between different activities is unchanged from that previously reported.

7 Support costs

| Year ended 31 December 2015 | Communi-cations and Marketing | Centre and Operations | Gover-nance | Total |
|--------------------------------------|-------------------------------|-----------------------|-------------|-----------|
| | £ | £ | £ | £ |
| Staff costs | 440,415 | 661,238 | - | 1,101,653 |
| Travel and entertainment | 7,903 | 12,062 | - | 19,965 |
| Office overheads | 8,134 | 597,905 | - | 606,039 |
| Repairs and maintenance | 187 | 35,283 | - | 35,470 |
| Stationary, postage and publications | 35,064 | 20,886 | - | 55,950 |
| IT and communications | 4,152 | 121,254 | - | 125,406 |
| Advertising, events and conferences | 12,104 | 2,353 | - | 14,457 |
| Professional fees | 58,538 | 77,644 | - | 136,182 |
| Depreciation | - | 142,826 | - | 142,826 |
| Governance (note 8) | - | - | 59,764 | 59,764 |
| Total | 566,497 | 1,671,451 | 59,764 | 2,297,712 |

THE LEGATUM INSTITUTE FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2015 (continued)

7 Support costs – continued

| Year ended 31 December 2014 | Communi- cations and Marketing £ | Centre and Operations £ | Gover- nance £ | Total £ |
|--------------------------------------|---|-------------------------------|----------------------|------------|
| Staff costs | 287,840 | 425,386 | - | 713,226 |
| Travel and entertainment | 11,517 | 18,601 | - | 30,118 |
| Office overheads | 422 | 394,996 | - | 395,418 |
| Repairs and maintenance | 27 | 55,196 | - | 55,223 |
| Stationary, postage and publications | 15,972 | 16,845 | - | 32,817 |
| IT and communications | 1,717 | 90,871 | - | 92,588 |
| Advertising, events and conferences | 5,360 | 4,465 | - | 9,825 |
| Professional fees | 81,162 | 29,088 | - | 110,250 |
| Depreciation | - | 21,970 | - | 21,970 |
| Governance (note 8) | - | - | 56,392 | 56,392 |
| Total | 404,017 | 1,057,418 | 56,392 | 1,517,827 |

The expenditure above has been re-categorised to be consistent with the 2015 categorisation. The total expenditure is unchanged from that previously reported.

Support costs are allocated as follows:

| | 2015 £ | 2014 £ |
|-------------------------|-----------|-----------|
| Raising funds | 7,018 | 22,671 |
| Prosperity Studies | 654,454 | 631,039 |
| Economics of Prosperity | 373,581 | 134,456 |
| Culture of Prosperity | 223,435 | 137,685 |
| Transitions Forum | 1,039,224 | 591,976 |
| Charitable activities | 2,290,694 | 1,495,156 |
| Total | 2,297,712 | 1,517,827 |

Support costs apportioned to raising funds are based on the direct costs relating to the estimated time spent by the relevant staff on the trading activities, plus a corresponding proportion of other support costs incurred. The remaining support costs have been apportioned to the charitable activities in proportion to the direct costs.

THE LEGATUM INSTITUTE FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2015 (continued)

8 Governance costs

| | 2015 | 2014 |
|------------------------|--------|--------|
| | £ | £ |
| Auditor's fee | 9,000 | 7,000 |
| Legal and professional | 50,764 | 49,392 |
| | <hr/> | <hr/> |
| Total | 59,764 | 56,392 |
| | <hr/> | <hr/> |

9 Employee information

| | 2015 | 2014 |
|-----------------------|-----------|-----------|
| | £ | £ |
| Wages and salaries | 1,717,730 | 994,817 |
| Social security costs | 193,758 | 137,625 |
| | <hr/> | <hr/> |
| | 1,911,488 | 1,132,442 |
| | <hr/> | <hr/> |

The average number of persons, including directors, employed throughout the year by the Foundation was:

| | 2015 Number | 2014 Number |
|------------------------------|----------------|----------------|
| Prosperity Studies | 5 | 5 |
| Economics of Prosperity | 2 | 2 |
| Culture of Prosperity | 1 | 1 |
| Fundraising | 2 | 1 |
| Transitions Forum | 6 | 6 |
| Communications and Marketing | 7 | 9 |
| Centre and Operations | 8 | 8 |
| | <hr/> | <hr/> |
| Total | 31 | 32 |
| | <hr/> | <hr/> |

Trustees' remuneration

No Trustees received any remuneration or expenses in the year (2014 – none).

Key management remuneration

Key management are defined as being the Trustees and the Executive Director. Key management remuneration (which includes national insurance contributions and pension costs) was £268,039 (2014: £156,356 covering a seven month period).

THE LEGATUM INSTITUTE FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2015 (continued)

9 Employee information (continued)

Redundancy costs

During the year, redundancy costs of £58,619 (2014: £18,100) were incurred and paid by the Institute.

Higher paid employees

The number of staff whose emoluments were in excess of £60,000 per annum was as follows:

| | 2015 Number | 2014 Number |
|---------------------|----------------|----------------|
| £60,001 - £70,000 | 1 | 1 |
| £70,001 - £80,000 | 1 | 1 |
| £110,001 - £120,000 | 1 | 1 |
| £120,001 - £130,000 | 1 | - |
| £200,001 - £210,000 | - | 1 |
| £210,001 - £220,000 | 1 | - |
| £230,001 - £240,000 | 1 | 1 |

10 Surplus on ordinary activities is stated after charging / (crediting):

| | 2015 £ | 2014 £ |
|--|-----------|-----------|
| Depreciation | 142,826 | 21,970 |
| Foreign exchange gains | (36,992) | (18,809) |
| Operating leases – land and buildings | 517,917 | 302,120 |
| Services provided by the company's auditor | | |
| For audit services | 9,000 | 7,000 |
| For other services: | | |
| Accounts preparation | 3,000 | - |
| Tax advisory work | 3,985 | - |
| Maintenance of payroll | 5,955 | 2,750 |

THE LEGATUM INSTITUTE FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2015 (continued)

11 Property, plant and equipment

| | Leasehold improvements £ | Computer equipment £ | Total £ |
|-------------------------------|--------------------------------|----------------------------|----------------|
| Cost | | | |
| As at 1 January 2015 | 610,810 | 4,904 | 615,714 |
| Additions | 13,921 | 21,621 | 35,542 |
| Disposals | - | - | - |
| As at 31 December 2015 | 624,731 | 26,525 | 651,256 |
| Depreciation | | | |
| As at 1 January 2015 | 21,490 | 480 | 21,970 |
| Charge for the year | 135,739 | 7,087 | 142,826 |
| Disposals | - | - | - |
| As at 31 December 2015 | 157,229 | 7,567 | 164,796 |
| Net book value | | | |
| As at 31 December 2015 | 467,502 | 18,958 | 486,460 |
| As at 1 January 2015 | 589,320 | 4,424 | 593,744 |

12 Investments in subsidiaries

| | |
|--|----------|
| Cost | £ |
| As at 1 January 2015 and 31 December 2015 | 1 |

The Institute owns 100% of the issued share capital of LIF Trading Limited, a company incorporated in England and Wales. The company has not traded since incorporation and has issued share capital of £1.

13 Debtors

| | 2015 £ | 2014 £ |
|---|----------------|---------------|
| Debtors: amounts falling due within one year | | |
| Trade debtors | 38,400 | 18,360 |
| Prepayments and accrued income | 31,065 | 11,194 |
| Other debtors | 44,737 | - |
| Amounts owed by group undertakings | 54,545 | - |
| | 168,747 | 29,554 |

THE LEGATUM INSTITUTE FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2015 (continued)

14 Creditors

| | 2015 | 2014 |
|--|----------------|----------------|
| | £ | £ |
| Creditors: amounts falling due within one year | | |
| Trade creditors | 54,459 | 66,118 |
| Accruals and deferred income | 319,839 | 291,583 |
| Other tax and social security | 54,225 | 107,423 |
| | <u>428,523</u> | <u>465,124</u> |
| Creditors: amounts falling due after more than one year | | |
| Related party loans (note 21) | 12,246 | 27,393 |
| | <u>12,246</u> | <u>27,393</u> |

15 Financial instruments

| | 2015 | 2014 |
|--|---------|---------|
| | £ | £ |
| Financial assets which are debt instruments measured at amortised cost | 92,945 | 18,360 |
| Financial assets which are equity instruments measured at amortised cost | 1 | 1 |
| Financial liabilities measured at amortised cost | 186,565 | 242,887 |

16 Funds

| | At 1 January 2015 | Income | Expend- iture | At 31 December 2015 |
|-------------------------|-------------------------|------------------|--------------------|---------------------------|
| | £ | £ | £ | £ |
| Restricted funds | | | | |
| Prosperity Studies | - | 665,355 | (665,355) | - |
| Economics of Prosperity | - | 317,486 | (317,486) | - |
| Culture of Prosperity | - | 224,546 | (224,546) | - |
| Transitions Forum | - | 829,268 | (829,268) | - |
| | <u>-</u> | <u>2,036,655</u> | <u>(2,036,655)</u> | <u>-</u> |
| Unrestricted funds | 398,626 | 2,236,015 | (1,894,646) | 739,995 |
| | <u>398,626</u> | <u>4,272,670</u> | <u>(3,931,301)</u> | <u>739,995</u> |

THE LEGATUM INSTITUTE FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2015 (continued)

16 Funds (continued)

The restricted funds relate to the Institute's various programmes, as follows:

- Prosperity Studies – the study of and measurement of countries' success against a broad set of metrics covering areas such as health, education, opportunity, social capital and personal freedom.
- Economics of Prosperity - focused on the key economic drivers of future prosperity and long-term GDP growth.
- Culture of Prosperity – focused on the values that motivate individuals, societies and nations, and which are reflected and encapsulated in the cultural achievements that endure, including increased prosperity.
- Transitions Forum - the study of radical political and economic change through case studies, lectures and workshops, offering lessons learned for current and future transitions across the globe.

17 Reconciliation of net income to cash flows from operating activities

| | 2015 | 2014 |
|--|----------------|----------------|
| | £ | £ |
| Net income for the year as per the statement of financial activities | 341,369 | 397,105 |
| Adjustments for: | | |
| Depreciation | 142,826 | 21,970 |
| Movement in debtors | (139,193) | (29,554) |
| Movement in creditors due within one year | (36,601) | 417,436 |
| Movement in creditors due after more than one year | (15,147) | 27,393 |
| | <u>293,254</u> | <u>834,350</u> |

18 Capital commitments

There were no capital commitments as at the year-end (2014 – none).

19 Operating lease commitments

At 31 December 2015 the Institute had future minimum lease payments under a non-cancellable operating lease for each of the following periods as follows:

| | 2015 | 2014 |
|----------------------------|------------------|------------------|
| | £ | £ |
| Within one year | 565,000 | 565,000 |
| Between two and five years | 1,365,417 | 1,930,417 |
| | <u>1,930,417</u> | <u>2,495,417</u> |

The Institute's lease has a break date of 1 June 2017; either the landlord or the Institute can exercise the break clause by giving six months' notice.

THE LEGATUM INSTITUTE FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2015 (continued)

20 Parent undertakings

The Institute is a company limited by guarantee. Legatum Institute, a company registered in the Cayman Islands, is its sole member.

The Institute's ultimate parent undertaking is Legatum Partnership LLP, a limited liability partnership registered in Jersey.

Neither Legatum Institute nor Legatum Partnership LLP have control for accounting purposes, as they cannot receive benefits from the Institute's activities.

21 Related party transactions

Legatum Foundation Limited, a company registered in the Bermuda, is controlled by the Institute's ultimate parent undertaking. The Institute received donations and sponsorship income from Legatum Foundation Limited as detailed in the relevant notes to these financial statements. The donations were restricted as to their use but otherwise unconditional. As at the year end, the balances due to Legatum Institute and to Legatum Foundation Limited were £nil (2014: £15,374) and £12,780 (2014: £11,822) respectively. In addition, £534 was due from a US registered charity of the same name as the Institute; this US charity shares the same ultimate parent.

As at the year end, a balance of £54,545 (2014: £200) was due from LIF Trading Limited, the Institute's 100% owned subsidiary (see note 13).

During 2015 and 2014, Legatum Limited, a company controlled by the Institute's ultimate parent undertaking, provided bookkeeping services to the Institute. No charge was made in respect of this service and the estimated value of the service has not been recognised as it is considered to be immaterial.

The Institute is party to a lease with Basswood Properties Limited, a company registered in the British Virgin Islands. This company is a related party as it is controlled by the Institute's ultimate parent undertaking. During the year, the rent paid to Basswood Properties was £565,000 (2014: £94,167); as at the year end, there were no amounts outstanding.