Finance Wales Group

Annual review 2012-13

Our mission

“To maintain our position as the UK’s leading SME fund manager, delivering commercial investments from public and private funds to support and encourage SME growth and create sustainable businesses in Wales, fully aligned with Welsh Government policies.”

Welcome

Finance Wales was established in 2001 as a result of a Welsh Government policy to increase the availability of commercial investment to Welsh small and medium-sized businesses (SMEs). We focus on growth SMEs and in recent years we've provided a critical source of investment for start-ups as well as established SMEs.

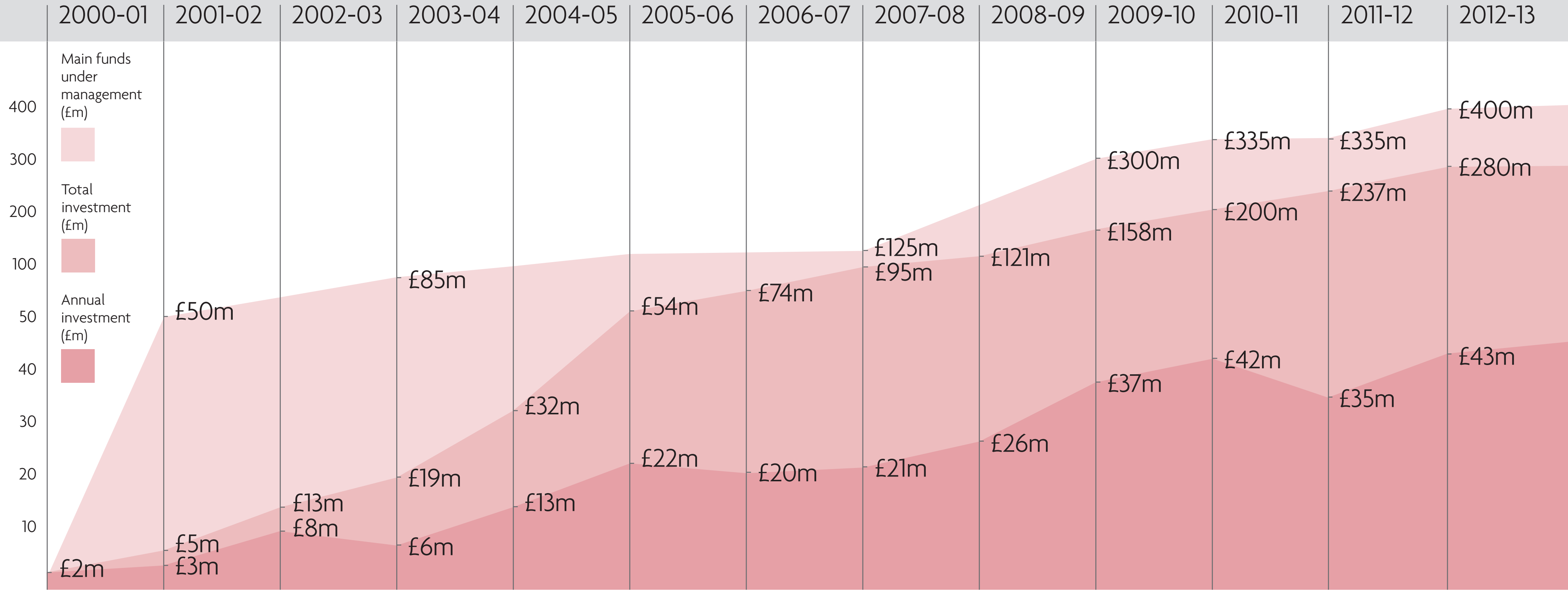
Today, the Finance Wales Group is one of the UK's largest SME investors. Headquartered in Cardiff, we operate through our Finance Wales and FW Capital brands and have local offices in the areas we invest in. xénos, the Wales Business Angel Network is also part of the Group.

The Group currently manages funds approaching £400m and has invested over £288m through 3101 investments to date. These investments have leveraged an additional £455m private sector investment.

2012-13 highlights

Finance Wales £31m invested, 189 debt and equity investments, £22m private sector leverage. FW Capital £12m invested, 63 debt and equity investments, £7m private sector leverage. New funds £40m Wales SME investment fund, £6m Wales Micro-business Loan Fund. Extra £10m for North West Loans Plus Fund

Investment history



Investing in growth SMEs

The right investment at the right time

We're currently investing funds in SMEs in Wales as well as the North East and North West of England. In 2012-13 we started investing the £40m Wales SME Investment Fund and the £6m Wales Micro-business Loan Fund. Building on our success, we also started investing an additional £10m in the North West from The North West Fund for Loans Plus.

Investing at all stages, we provide SMEs in a wide range of sectors with debt, mezzanine and equity investments to help them achieve their growth plans. We assess each business plan individually, tailoring any investment to meets the SME's needs.

We invest for long-term growth and can invest follow-on rounds as an SME grows. We know the backing of a strong investor can play a key role in an SME's success and our experienced investment staff build long-term relationships with the businesses we invest in.

As our reputation has grown, we've built an extensive network in the corporate finance sector and also focused on building relationships with partner investors to increase the amount of investment available to the SMEs we invest in. We're a committed co-investor and we partner with leading UK fund managers, banks as well as business angels and others.

“ The Wales JEREMIE Fund is recognised as one of the most successful funds of its type. Welsh SMEs can access the most comprehensive source of growth capital available in the UK from Finance Wales. ”

Ian Johnson, Chairman, Finance Wales Group

Proud co-investors

Disruptive Capital Finance Vanguard Atlantic ERA Technology Notion Capital Longbow Oxford Technology ECF Porton Capital Altima Partners E-Synergy IP Group New Hill Management Rainbow Seed Fund Mercia Technology Fund Midven Fusion IP

Regional focus

Wales

FINANCE WALES
CYLLID CYMRU

Finance Wales has been backing Welsh SMEs at all growth stages since 2001. We've continued to invest through the tough economic conditions since 2008, launching the £150m Wales JEREMIE Fund in 2009. In 2012-13 we started to invest two new Welsh Government funds, making a further £46m available to Welsh SMEs.

The Welsh Government-backed £40m Wales SME Investment Fund and £6m Wales Micro-business Loan Fund complement the Wales JEREMIE Fund. This has increased the number of businesses potentially eligible for investment from Finance Wales, including those selling goods and services to consumers rather than businesses.

We have staff based throughout Wales at offices in Cardiff, Llanelli, Newtown and St Asaph. We're committed to backing all types of Welsh SMEs from start-ups through to more established businesses. Finance Wales can invest from £1,000 to £2m at a time and up to a total of £5m in one SME through follow-on investments.

We encourage our locally based staff to understand the businesses we invest in to make sure our investments are tailored to their needs and structured to underpin their long-term growth. We also use our expertise and experience to work with businesses as they grow to maximise the benefit of our investment.

2012-13 highights

- £31m invested through 189 debt and equity investments
- £22m additional investment leveraged
- £9m invested in high-growth, IP-rich Welsh technology-based businesses
- £7m co-invested through 18 investments
- 5 exits, including largest to date with a 2.4X return
- Enterprise Finance Guarantee lender accreditation achieved

xénos, the Wales Business Angel Network works with businesses to prepare them for investment and then matches them with private investors from its extensive database. It facilitated £2.2m of business angel investment in 20 Welsh SMEs in 2012-13. Network membership currently exceeds 120 registered UK and overseas-based business angels investing in a wide range of Welsh SMEs.

Established in 1997, xénos continues to facilitate investment in Welsh SMEs. It also encourages syndicated investment, strengthening its relationships with other networks such as the South West Angel and Investor Network (SWAIN). xénos also boosted its professional services network in 2012-13.

2012-13 highlights

- £2.2m of business angel investment facilitated in 20 SMEs
- £1.7m additional private investment leveraged
- Over 120 registered business angels investing in all types of businesses
- £19m of private investment in 182 Welsh SMEs facilitated since 1997

Regional focus

The North East

FW Capital

FW Capital can structure single-round debt, mezzanine and equity investments of between £350,000 and £1.25m in SMEs based throughout the North East of England from the North East Growth Plus Fund. We manage the fund, which is part of the £125m Finance for Business North East JEREMIE Fund, for North East Finance.

Our Newcastle-based team structures growth investments for established SMEs based in Northumberland, Tyne and Wear, Durham and the Tees Valley. We can also back the SMEs we invest in with follow-on rounds as they grow and in 2012-13 we invested a follow-on round in Gateshead-based Propeller Holdings.

2012-13 highlights

- £3.2m invested through 8 investments
- £3.1m additional investment leveraged
- 1 follow-on investment

FW Capital

Regional focus

The North West

Building on our success in the North West, we started investing an additional £10m in 2013 when the £35m North West Fund for Business Loans was increased by £10m and renamed The North West Fund for Loans Plus. The Loans Plus Fund provides established SMEs in the North West with loans and mezzanine finance from £50,000 to £750,000 – up from the previous maximum of £250,000.

Our North West team operates from offices in Liverpool, Manchester and Preston and works with SMEs to provide loans for a range of purposes, including owner-occupier property purchases, asset/equipment purchases or working capital requirements.

2012-13 highlights

- £8.7m invested through 55 loans
- £3.5m additional investment leveraged
- Started investing an additional £10m in the North West from The North West Fund for Loans Plus

Main funds under management

Finance Wales

Fund	Size	Stakeholders	Remit	Coverage	Status
Wales Property Development Fund Launched May 2013	£10m	Welsh Government	Short-term property development loans	Wales	Investing
Wales Micro-business Loan Fund	£6m	Welsh Government	Start-up Development capital	Wales	Investing
Wales SME Investment Fund	£40m	Welsh Government Barclays Bank	Development capital Succession Acquisition	Wales	Investing
Wales JEREMIE Fund	£150m	European Investment Bank Welsh Government European Regional Development Fund	Early stage/Technology ventures Development capital Acquisition	Wales	Investing
Interim	£30m	Barclays Bank Welsh Government	Early stage/Technology ventures Development capital Succession Acquisition	Wales	Closed
Objective 1	£45m	Barclays Bank European Regional Development Fund	Early stage/Technology ventures Development capital Acquisition	Wales	Closed
Objective 2	£35.9m	Barclays Bank Welsh Government European Regional Development Fund	Early stage/Technology ventures Development capital Acquisition	Wales	Closed

FW Capital

Tees Valley Catalyst Fund Launched June 2013	£10m	Tees Valley Unlimited Stockton-on-Tees Borough Council Regional Growth Fund	Security for performance bonds	Tees Valley	Investing
North East Growth Plus Fund	£20m	European Investment Bank European Regional Development Fund North East Finance	Development capital	North East of England	Investing
The North West Fund for Loans Plus	£45m	European Investment Bank European Regional Development Fund North West Business Finance	Development capital	North West of England	Investing

Financial summary 2012-13

	2011-12	2012-13
	£000	£000
Investment and fee income	9,616	8,767
Profit/(loss) on disposal of equity investments	(1,089)	457
Other income/ERDF grant release	4,769	7,631
Welsh Government support	4,222	3,147
Total income	**17,518**	**20,002**
Administrative costs	(12,394)	(13,679)
Impairments/provisions	(13,617)	(13,372)
Operating profit/(loss)	**(8,493)**	**(7,049)**
Net interest and other movements	(463)	(1,593)
Profit/(loss) before taxation	**(8,956)**	**(8,642)**

2012-13 financial highlights

- The sale of our stake in Unite Technologies contributed to our profit from the disposal of our equity investments
- We continued to reduce our reliance on Welsh Government support as our fund management fee income increased
- Our impairments/provisions were slightly lower despite economic conditions
- Our administrative costs rose as we recruited new staff to invest the Wales SME Investment and Wales Micro-business Loan Funds

Our future

A sustainable long-term investment company

SMEs play a key role in the economy and their success not only means a stronger economy, but also better returns on our investments so we can continue to back SMEs in future. The Finance Wales Group is a leading UK SME fund manager and we aim to be a sustainable long-term investment company. We raise our funds from a range of commercial and public sources and we need to ensure we achieve effective returns when we invest these funds. The fees we earn on the funds we manage also contribute to running costs and sustainability.

Find out more

The Finance Wales Group is committed to investing in SMEs and helping them to maximise their growth plans by providing the right investment at the right time.

To find out more about us, please visit one of our web sites:

FINANCE WALES
CYLLID CYMRU
www.financewales.co.uk

FW Capital
www.fwcapital.co.uk

xénos
www.xenos.co.uk

Finance Wales Group

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www.financewales.co.uk

Available in Welsh and other formats. Please contact us to discuss your needs.

Company Registration No. 4055414

FINANCE WALES PLC

Report and Financial Statements

31 March 2013

REPORT AND FINANCIAL STATEMENTS 2013

CONTENTS

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

Ian Johnson	(Chairman)
Sian Lloyd-Jones	(Chief Executive)
Clive John	(non-executive)
Michael Killick	(non-executive) resigned 31 May 2013
Ivar Grey	(non-executive)
Chris Rowlands	(non-executive)
Margaret Llewellyn OBE	(non-executive) appointed 1 September 2012
Kevin O'Leary	(Director of Finance and Administration)

SECRETARY

Judi Oates

REGISTERED OFFICE

Oakleigh House
Park Place
Cardiff
CF10 3DQ

BANKERS

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

AUDITOR

Deloitte LLP
5 Callaghan Square
Cardiff
CF10 5BT

DIRECTORS' REPORT (continued)

The directors present their annual report and the audited financial statements for the year ended 31 March 2013.

BUSINESS REVIEW AND PRINCIPAL ACTIVITIES

Finance Wales plc (the Company) acts as a holding company. The activities of the Finance Wales plc group of companies, which comprise its subsidiaries, consist of the provision of financial services to Small and Medium Sized Enterprises ("SMEs").

This year was the third full year of investment for the £150 million JEREMIE Fund, which has a pan-Wales remit. 50% of this fund has been borrowed from the European Investment Bank, 40% has been granted from the European Regional Development Fund, which is managed in Wales by the Welsh European Funding Office, and the remaining 10% was provided from the group's own resources. The Small Loan Fund and the Rescue and Restructuring Fund also continue to invest.

New funds which commenced during the year include the £40 million Wales SME Fund, a £6 million Wales Micro-business Loan Fund and a £50 million Welsh Life Sciences Fund, all set up at the behest of and funded by the Welsh Government.

The group also manages portfolios which include the Technology Commercialisation Centre investments inherited from the former Welsh Development Agency, the Wales Creative IP Fund and the equity, mezzanine and loan funds which invested in the Objective 1, Objective 2 and Objective 2 Transitional areas of Wales. The group also manages the portfolio of the Finance Wales III Fund, a £30million fund which commenced investment in 2007 and is now fully invested.

The directors note that the rate of investment across the group has increased when compared with the previous financial year. This is largely as a result of macro-economic factors influencing demand for capital and the ability to service a wider market through the provision of new funds. Throughout the year ended 31 March 2013, Finance Wales plc continued to operate a venture capital brokerage scheme, xènos – The Wales Business Angels Network Limited. In conjunction with the Welsh Government and other appropriate bodies, the company continues to develop its suite of products to support the development of SMEs in Wales and the generation of sustainable economic growth.

During the year the group relocated two of its satellite offices; the West Wales office was relocated from Swansea to Llanelli and the St Asaph Office to other premises on the same business park in St Asaph.

The group, through its subsidiary, FW Capital Ltd continues to manage an equity fund in the North East of England, which it has reduced from £20 million to £17 million in the light of the current economic climate. In addition the group continues to manage a £35 million loan fund in the North West of England also through the FW Capital Limited subsidiary company, which is a business regulated by the Financial Conduct Authority (FCA).

Finance Wales plc is continuing to seek to expand its range of investment funds and is also seeking fund management opportunities in the wider market. Two of these opportunities materialised during the financial year. The group successfully bid for a £20 million mezzanine fund in the North West, £10 million of which was outsourced to Enterprise Ventures to manage. Additionally the group will also be setting up a £10 million Performance Bond Fund in the North East, following success in a procurement exercise.

In March 2013, the Welsh Government also provided £10 million to set up a Property Development Fund which will begin investing in the new financial year.

The annual results for the group are set out in the consolidated income statement on page 11. The company made 285 investments during the year, at a total of £43.2 million (£13.0 million equity investments; £30.2 million loan investments) compared with 222 investments made, at a total of £35.4 million (£12.7 million equity investments; £22.7 million loans), in the prior year. Gains of £1.51 million were recognised in respect of equity realisations in the current year but losses of £1.1 million also arose. Both of these figures relate to funds held rather than the total under management. No gains were recognised in the prior year. Turnover has reduced by 9% during the year. The group has made a loss for the year of £8.6 million (2012 – a loss of £9.0 million) which is largely as a result of the continuing high level of impairments.

The group's investment activity leveraged other investment of £28.6 million during the year and safeguarded 2,293 jobs. The impairment charge, £13.4 million (2012 - £13.6 million) reflects a number of large historic investments, where a trigger event has now made impairment the appropriate course of action.

As shown on page 13, the group has net assets of £136 million at 31 March 2013 compared with net assets of £127 million at 31 March 2012.

DIRECTORS' REPORT (continued)

BUSINESS REVIEW AND PRINCIPAL ACTIVITIES (continued)

Going concern

The current economic environment is challenging. The group provides financial services to SMEs and is working closely with management at investee companies to support and help them manage the effects of the current economic environment.

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 directors' report on pages 2 to 7. In addition, note 23, Financial Instruments, includes the group's objectives and policies and process around managing capital risk; its financial risk management objectives; and its exposure to market, credit and liquidity risk. The group is financed through external bank borrowings and grant funding, provided by the Welsh Government and European Structural Funds.

The group's bank borrowings are secured by charges on accounts containing un-invested cash and security over the investments. Further details of the group's loan facilities in place at 31 March 2013 are given in note 19.

At the year-end, the group met all the covenant requirements associated with the loans. Covenants are calculated on a monthly basis and tested quarterly in accordance with the loan agreements. The group forecasts demonstrate that the group will meet all covenants over the foreseeable future.

Finance Wales plc's ultimate parent, the Welsh Ministers, acting through the Welsh Government has indicated in a letter of support that they will continue to provide both revenue and capital support at a level sufficient to enable Finance Wales plc to continue as a going concern, until at least 30 September 2015.

The group's forecasts and projections, taking account of likely 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 signing of this report.

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

PRINCIPAL RISKS AND UNCERTAINTIES

Appropriate policies to prevent Financial Crime including Customer Diligence are in place, in accordance with current best practice.

Financial risk management objectives and policies

The principal business of the group 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 group operates. The current economic climate provides significant challenges for such funds which the group continues to address in a managed way.

The group's activities expose it to a number of financial risks including cash flow risk, credit risk, liquidity risk and regulatory risk.

The use of financial derivatives is governed by the company's policies approved by the Board of directors, which provide written principles on the use of financial derivatives to manage these risks. The group does not use derivative financial instruments for speculative purposes.

Cash flow risk

The group, which borrows funds and subsequently lends to companies, makes use of appropriate hedging policies where necessary, to mitigate the risk of interest rate exposure. Interest-bearing assets and liabilities are held at fixed rate to ensure certainty of cash flows.

DIRECTORS' REPORT (continued)

PRINCIPAL RISKS AND UNCERTAINTIES (continued)

Credit risk

The group's financial assets are bank balances and cash, loan receivables and investments.

The group's credit risk is primarily attributable to its loan receivables. The amounts presented in the balance sheet are net of allowances for doubtful debt. 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 group has no significant concentration of credit risk as its exposure is spread over a large number of counterparties and companies.

Liquidity risk

In order to maintain liquidity to ensure that sufficient funds are available for on-going operations and future developments, the group uses long-term debt finance.

The group result is not seen in itself as anything but part of the normal pattern for businesses involved in making long-term investments.

Regulatory Risk

The group undertakes some investment management activity that is regulated by the FCA. The group has established controls and processes as defined by the FCA to provide orderly management of client assets which is overseen by the group secretary and Director of Finance and Administration.

Work is also being undertaken to understand the potential impact if it is found that any of the provisions of the Alternative Investment Fund Managers Directive (AIFMD) become applicable to the Group.

Interest rate swaps

In order to manage interest rate risk on borrowings, the group has entered into interest rate swaps; details of these financial instruments are provided in note 23 to the financial statements.

CORPORATE GOVERNANCE

The company is not required to comply with the Combined Code on Corporate Governance issued by the Financial Reporting Council and, accordingly, does not report on how it has applied the principles therein or on the extent to which it has complied with the provisions therein throughout the year.

However, the company's directors are committed to applying the relevant principles of the Combined Code, where applicable having regard to the size of the company, an illustration of which is given below.

Group structure

During the financial year, Finance Wales plc was a wholly-owned subsidiary of the Welsh Ministers acting through the Welsh Government.

Board of directors

The current Board consists of a non-executive Chairman and four non-executive directors, together with the Chief Executive and the Director of Finance and Administration, who are the two executive directors. The directors, who have served throughout the year, unless stated otherwise, are set out on page 1.

The Board meets regularly in addition to an annual strategy conference which takes place off-site.

A Board performance and evaluation process is in place. It is an internal exercise based on an evaluation questionnaire which is conducted by the Chairman and Senior Independent Director in accordance with the Combined Code on Corporate Governance. Chris Rowlands is the Senior Independent Director.

DIRECTORS' REPORT (continued)

CORPORATE GOVERNANCE (continued)

Board committees

The following Board committees have been set up, each with its own terms of reference, procedures, responsibilities and powers:

Audit Committee

The Finance Wales Group Audit Committee comprises two members:

- Mr Ivar Grey (Chairman)
- Mrs Margaret Llewellyn OBE

The Audit Committee's duties include inter alia:

- To review the effectiveness of the group's internal control and risk management systems.
- To ensure that adequate processes and mechanisms are in place for the management of risk.
- Reviewing the scope and results of work of both the internal and external auditors.
- Reviewing the annual financial statements and related policies and assumptions.

The Audit Committee meets quarterly. It is normally attended by Finance Wales plc's Chief Executive and the Director of Finance and Administration together with the internal and external auditors, the Welsh Government Department for Business, Enterprise, Technology and Science Group Finance Director and the Senior Corporate Governance Manager.

The internal and external auditors also meet the Audit Committee without management present.

Feedback on the business of the Finance Wales plc Audit Committee is given to the full Board and the minutes to the Corporate Governance Committee of the Welsh Government.

Remuneration Committee

The Finance Wales Group Remuneration Committee comprises two members:

- Mr Clive John (Chairman)
- Mrs Margaret Llewellyn OBE

The Remuneration Committee is responsible for advising the CEO and the Board on matters relating to recruitment and remuneration policies, and reporting to the Board of directors as necessary.

The Chief Executive of Finance Wales plc normally attends the Remuneration Committee.

Nomination Committee

The Finance Wales Group Nomination Committee comprises seven members:

- Mr Ian Johnson (Chairman)
- Ms Sian Lloyd-Jones
- Mr Christopher Rowlands
- Mr Ivar Grey
- Mr Clive John
- Mrs Margaret Llewellyn OBE
- Mr Kevin O'Leary

The Nomination Committee is responsible for advising the Board on matters relating to identifying and nominating candidates for Board vacancies and for the process of recruitment of both executive and non-executive directors, reporting to the Board of directors on these matters as necessary.

DIRECTORS' REPORT (continued)

CORPORATE GOVERNANCE (continued)

Accountability and audit

Financial reporting

A report on the responsibilities of the directors in relation to financial statements follows.

Internal control

The directors acknowledge that they are responsible for the company's system of internal control and for reviewing its effectiveness.

Additionally, Ms Sian Lloyd-Jones, the Chief Executive of Finance Wales plc, has personal responsibilities analogous to those of the Accounting Officer of a public body. These responsibilities are set out in Managing Public Money guidance and also in Finance Wales plc's Management Arrangement which governs its relations with the Welsh Government. The Chief Executive should ensure that a sound system of financial control exists which supports the group's policies, aims and objectives, set by its Board and the Welsh Government, whilst safeguarding the group's assets.

The system of internal control is designed to manage rather than eliminate the risk of failure to achieve policies, aims and objectives. It can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an on-going process designed to identify and prioritise the risks to the achievement of the group's policies, aims and objectives, to evaluate the likelihood and potential impact of those risks, and to manage them efficiently, effectively and economically, and is regularly reviewed by the Board. A system of internal control which accords with the Turnbull Guidance has been in place in the group throughout the year ended 31 March 2013 and up to the date of approval of these financial statements. The system also complies with HM Treasury guidance and Welsh Government requirements.

Responsibility for the management of the risks relating to the operations of Finance Wales plc lies with its Board of directors. Finance Wales plc has in place an internal risk management committee and Risk Register. It is also integrated into the wider risk management process of the Welsh Government by means of the various assurances and input to the Departmental Corporate Governance Committee. The individual risks contained in the Finance Wales plc Risk Register have been consolidated into a Finance Wales plc Strategic Risk Register and Map which are reviewed regularly by the Management Team, Audit Committee and Board. The company's risk management arrangements have been approved by the Board of directors. The key strategic and operational risks are brought to the Board's attention on a regular basis.

The Chief Executive has responsibility for reviewing the effectiveness of the system of internal control. Her review of the effectiveness of the system of internal control is informed by the work of the company's internal auditors who operate to Government Internal Audit Standards. They submit regular reports, which include their independent opinion on the adequacy and effectiveness of the company's system of internal control together with recommendations for improvement.

DIVIDENDS

The directors do not recommend the payment of a dividend (2012 - £nil).

SUPPLIER PAYMENT POLICY

Finance Wales plc. is committed to the prompt settlement of invoices and other claims for payment.

In the case of goods, services and other claims, where the supply has been satisfactorily completed, the group's objective is to pay within 30 days of the receipt of an invoice or other valid claim for payment.

As at 31 March 2013, 24 days' invoices were outstanding (2012 – 21 days).

DIRECTORS' REPORT (continued)

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 s418 of the Companies Act 2006.

Deloitte LLP have expressed their willingness to continue in office as the company's auditor and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

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

Judi Oates

Judi Oates
Company Secretary

Date 22 July 2013

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 are required to prepare the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and have chosen to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 the parent company 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.

In preparing the group financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern.

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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FINANCE WALES PLC

We have audited the financial statements of Finance Wales plc for the year ended 31 March 2013 which comprise the Consolidated Income Statement, the Consolidated and Parent Company Balance Sheets, the Consolidated Cash Flow Statement, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Comprehensive Income and the related notes 1 to 39. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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 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 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 group's and the parent 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. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

We also report to you our opinion as to whether in all material respects the expenditure and income have been applied to the purposes intended by the Welsh Government and conform to the authorities which govern them.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 31 March 2013 and of the group's loss and the parent company's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- in all material respects the expenditure and income have been applied to the purposes intended by the Welsh Government and conform to the authorities which govern them; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FINANCE WALES PLC (continued)

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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.

Elanor Gill

Elanor Gill (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Cardiff, United Kingdom

Date 22 July 2013

CONSOLIDATED INCOME STATEMENT
Year ended 31 March 2013

	Note	2013 £	2012 £
Revenue	4	8,766,970	9,616,061
Administrative expenses:			
Impairments against loans receivable		(6,581,264)	(7,983,060)
Impairments against financial assets classified as available-for-sale		(5,358,631)	(4,943,891)
Impairments against financial assets classified as fair value through profit or loss		(1,431,896)	(689,586)
Other administrative expenses		(13,679,059)	(12,393,721)
Total administrative expenses		(27,050,850)	(26,010,258)
Other operating income:			
Release of ERDF grant income		7,630,881	4,768,739
Contribution towards administrative expenses from ultimate parent undertaking		3,147,452	4,222,464
Gains/(losses) from the disposal of equity investments		457,483	(1,089,345)
Total other operating income		11,235,816	7,901,858
OPERATING LOSS	5	(7,048,064)	(8,492,339)
Investment revenue	7	1,501,154	820,771
Finance costs	8	(2,058,895)	(2,782,535)
Other gains/(losses)	9	(1,035,495)	1,499,127
LOSS BEFORE TAXATION		(8,641,300)	(8,954,976)
Tax	11	-	-
LOSS FOR THE FINANCIAL YEAR		(8,641,300)	(8,954,976)

All activities derive from continuing operations

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 March 2013

	2013 £	2012 £
Loss for the financial year	(8,641,300)	(8,954,976)
Available-for-sale financial assets		
Profits arising during the year	491,140	1,924,112
Actuarial gain/(loss) on defined benefit pension scheme	560,000	(1,050,000)
Other comprehensive income for the year	1,051,140	874,112
Total comprehensive expense for the year	(7,590,160)	(8,080,864)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Year ended 31 March 2013

	Public equity £	Share capital £	Capital reserve £	Profit and loss account £	Total £
Balance at 1 April 2012	134,556,334	12,500	10,100	(7,628,107)	126,950,827
Loss for the financial year	-	-	-	(8,641,300)	(8,641,300)
Profits on revaluation of available-for-sale investments taken to equity	-	-	-	491,140	491,140
Actuarial gain on defined benefit pension schemes	-	-	-	560,000	560,000
Additional public equity	16,000,000	-	-	-	16,000,000
Balance at 31 March 2013	150,556,334	12,500	10,100	(15,218,267)	135,360,667

CONSOLIDATED BALANCE SHEET
As at 31 March 2013

	Note	2013 £	2012 £	2011 £
NON-CURRENT ASSETS				
Property, plant and equipment	12	102,223	113,116	84,485
Investments in associates	13	4,773,311	6,087,518	4,886,277
Investments in joint ventures	15	-	-	-
Available-for-sale financial assets	14	19,652,112	16,439,523	17,204,673
Trade and other receivables	16	34,667,370	36,658,274	37,054,505
		59,195,016	59,298,431	59,229,940
CURRENT ASSETS				
Trade and other receivables	16	17,299,663	17,021,565	13,879,564
Cash and cash equivalents	17	133,681,099	146,331,669	87,161,162
		150,980,762	163,353,234	101,040,726
TOTAL ASSETS		210,175,778	222,651,665	160,270,666
CURRENT LIABILITIES				
Trade and other payables	20	(2,099,012)	(1,485,909)	(1,879,266)
Borrowings	19	(4,100,000)	(9,500,000)	(6,755,000)
Derivative financial instruments	18	(357,942)	(659,105)	(778,768)
Deferred income	22	(8,702,108)	(7,129,536)	(8,048,252)
		(15,259,062)	(18,774,550)	(17,461,286)
NET CURRENT ASSETS		135,721,700	144,578,684	83,579,440
NON-CURRENT LIABILITIES				
Borrowings	19	(53,500,000)	(63,800,000)	(79,450,000)
Trade and other payables	20	-	(798)	(24,460)
Retirement benefit obligations	21	(1,940,000)	(2,690,000)	(1,910,000)
Deferred income	22	(4,116,049)	(10,435,490)	(10,893,229)
		(59,556,049)	(76,926,288)	(92,277,689)
TOTAL LIABILITIES		(74,815,111)	(95,700,838)	(109,738,975)
NET ASSETS		135,360,667	126,950,827	50,531,691

CONSOLIDATED BALANCE SHEET (continued)
As at 31 March 2013

	Note	2013 £	2012 £	2011 £
EQUITY				
Public equity		150,556,334	134,556,334	50,056,334
Share capital	24	12,500	12,500	12,500
Capital reserve		10,100	10,100	10,100
Retained (deficit)/earnings		(15,218,267)	(7,628,107)	452,757
TOTAL EQUITY		135,360,667	126,950,827	50,531,691

The financial statements of Finance Wales plc, registered number 4055414, were approved by the Board of Directors and authorised for issue on 22 July 2013.

Signed on its behalf by

S Lloyd-Jones
Director

CONSOLIDATED CASH FLOW STATEMENT
Year ended 31 March 2013

	Note	2013 £	2012 £
Net cash outflow from operating activities	26	(12,157,071)	(10,115,626)
Investing activities			
Interest received		1,501,154	820,771
Purchases of equipment		(45,758)	(77,103)
Net cash used in investing activities		1,455,396	743,668
Financing activities			
Interest paid		(2,248,895)	(3,052,535)
Repayments of borrowings		(15,700,000)	(12,905,000)
Public equity received		16,000,000	84,500,000
Net cash from financing activities		(1,948,895)	68,542,465
Net increase in cash and cash equivalents		(12,650,570)	59,170,507
Cash and cash equivalents at beginning of year		146,331,669	87,161,162
Cash and cash equivalents at end of year		133,681,099	146,331,669

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 March 2013

1. GENERAL INFORMATION

Finance Wales plc is a company incorporated in the United Kingdom under the Companies Act 2006. The nature of the group's operations and its principal activities are set out in the directors' report.

ADOPTION OF NEW AND REVISED STANDARDS

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union as they apply to financial statements of the group for the year ended 31 March 2013 and applied in accordance with the Companies Act 2006.

At the date of authorisation of these consolidated financial statements, the following Standards and Interpretations which have not been applied in these consolidated financial statements were in issue but not yet effective:

IFRS 9	Financial Instruments – Classification and Measurement
IFRS 7 (amendments)	Financial Instruments – Disclosures
IFRIC 14 (amendment)	Prepayments of a Minimum Funding Requirement
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments
IFRS 10	Consolidation
IFRS 11	Joint Ventures
IFRS 12	Disclosure of interests in other entities
IFRS 13	Fair Value Measurement
IAS 19	Post-employment benefits

The directors anticipate that the adoption of these standards and interpretations in future periods, with the exception of IFRS 9, will not have a material impact on the financial statements of the group. The impact of IFRS 9 is being considered but any impact cannot be quantified at this stage.

2. ACCOUNTING POLICIES

Basis of preparation

These accounting policies are based on the IFRSs, IASs and IFRIC interpretations as adopted by the EU (collectively "IFRS").

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments. The principal accounting policies adopted, which have been applied consistently in the current and the prior financial year, are outlined below.

These financial activities are presented in pounds sterling because that is the currency of the primary economic environment in which the group operates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 March 2013

2. ACCOUNTING POLICIES (continued)

Basis of consolidation

The consolidated financial statements comprise Finance Wales plc (the Company) and its subsidiary undertakings, as listed in note 32 of the company financial statements.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the consideration plus costs directly attributable to the acquisition. The excess of the cost of the acquisition over the group's share of the fair value of the net identifiable assets of the subsidiary acquired is recorded as goodwill. Intragroup transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless costs cannot be recovered. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the group.

Going concern

The current economic environment is challenging. The group provides financial services to SMEs and is working closely with management at investee companies to support and help them manage the effects of the current economic environment.

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 directors' report on pages 2 to 7. In addition, note 23, Financial Instruments, includes the group's objectives and policies and process around managing capital risk; its financial risk management objectives; and its exposure to market, credit and liquidity risk.

The group is financed through external bank borrowings and grant funding, provided by the Welsh Government and European Structural Funds.

The group's bank borrowings are secured by charges on accounts containing un-invested cash and security over the investments. Further details of group loan facilities in place at 31 March 2013 are given in note 19.

At the year-end, the group has met all the covenant requirements associated with the loans. Covenants are calculated on a monthly basis and tested quarterly in accordance with the loan agreements. The group forecasts demonstrate that the group will meet all covenants over the foreseeable future. Revenues from the repaid Objective 1 and Objective 2 funds will now be directed to reduce the debt burden in respect of the equity related loans.

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 both revenue and capital support at a level sufficient to enable Finance Wales to continue as a going concern, until at least 30 September 2015.

The group's forecasts and projections, taking account of likely 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 this report.

After making enquiries and having reviewed the forecasts for the group, the directors believe there are no material uncertainties that lead to a significant doubt on the group's ability to continue in business over the next 12 months. The directors have a reasonable expectation that the company and the group have 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 March 2013

2. ACCOUNTING POLICIES (continued)

Property, plant and equipment

Property, plant and equipment are shown in the balance sheet at their historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition and installation of the items. Subsequent costs are included in the assets' carrying amounts or recognised as a separate asset as appropriate only when it is probable that future economic benefits associated with them will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement as incurred.

Depreciation is provided so as to write off the initial cost of each asset to its residual value on a straight-line basis over its estimated useful life as follows:

Fixtures and fittings	3 to 4 years

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at each balance sheet date. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are included in the income statement.

Investments in associates

An associate is an entity over which the group is in a position to exercise significant influence, but not control or joint control, through participation in the financial and operating policy decisions of the investee. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The group has taken a scope exemption available in *IAS 28 Associates* for accounting for associates held by venture capital organisations, mutual funds, unit trusts and similar entities if the associate is measured at fair value through profit and loss.

The group looks for capital growth rather than income return from its investments. The 'venture capital' investments are held as part of an investment portfolio where their value is through their marketable value rather than as a medium through which Finance Wales carries out its business. Finance Wales aims to generate a growth in the value of its investments in the medium term and usually identifies an exit strategy or strategies when the investment is made. The investments are in businesses unrelated to Finance Wales's business. The investments are managed on a fair value basis.

Investments in associates are designated as at fair value through profit and loss.

Measurement of associates at fair value through profit and loss is consistent with the group's documented Risk Management and Investment Strategy.

Jointly controlled entities

A joint venture is an entity over which the group has joint control, and joint ability to govern financial and operating policy decisions of the economic activity so as to obtain benefits from it.

The group accounts for its jointly controlled entities by means of an equity method of accounting.

Revenue recognition

Turnover represents sales of business support services, interest receivable on loans, application fees, arrangement fees and fund management fees which are each recognised in the period in which they arise.

Interest income is recognised when it is probable that the economic benefits will flow to the group and the amount of revenue can be measured reliably. Interest income is 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 March 2013

2. ACCOUNTING POLICIES (continued)

European Regional Development Fund ("ERDF") grant income

Grant income receivable in support of revenue expenditure is recognised in the income statement as utilised in accordance with the conditions applicable in the offer documentation.

Where grants for the partial funding of investments are received in advance of defrayal, a liability to repay the grants is recognised until such time as the cash is utilised in accordance with the terms of the offer documentation.

Grants for the partial funding of investments which are received in advance of defrayal are treated as deferred income. Such deferred income is amortised to the income statement when investments are made and the conditions set out in the offer documentation have been met. Income taken is equal to the level of grant utilised supporting investments.

Financial instruments

Financial assets and financial liabilities are recognised when the group becomes a party to the contractual provisions of the relevant instrument. Financial assets are derecognised when the rights to receive benefits have expired or been transferred, and the group has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when the obligation is extinguished.

Non-derivative financial assets are classified as either receivables or cash and cash equivalents. They are stated at amortised cost using the effective interest method, subject to reduction for allowances for estimated irrecoverable amounts. A provision for impairment of trade receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of those receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, and is recognised in the income statement. For interest-bearing assets, their carrying value includes accrued interest receivable.

Cash and cash equivalents include cash in hand and deposits held on call, together with other short-term highly liquid investments. Non-derivative financial liabilities are stated at amortised cost using the effective interest method. For borrowings, their carrying value includes accrued interest payable, as well as any unamortised issue costs.

The group transacts derivative financial instruments to manage the underlying exposure to interest rate risks. The group does not transact derivative financial instruments for trading purposes. However, as the group has decided not to hedge account for its derivative financial instruments as permitted under IAS 39 *Financial Instruments: Recognition and Measurement*, they are carried at fair value through profit and loss (FVTPL). Derivative financial assets and liabilities are stated at fair value, which includes accrued interest receivable and payable where relevant. Changes in fair values are recognised in the income statement in the period in which they arise.

Financial assets

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 March 2013

2. ACCOUNTING POLICIES (continued)

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset 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 financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

Financial assets at FVTPL

Financial assets are classified as at FVTPL where the financial asset is designated as FVTPL under the scope exemption for measuring associates as noted above.

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described in note 23.

Available-for-sale financial assets

Listed shares held by the group that are traded in an active market are classified as being AFS and are stated at fair value. The group also has investments in unlisted shares that are not traded in an active market but are also classified as AFS financial assets. Fair value is determined in the manner described in note 23. 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 group'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.

Impairment of financial assets

Financial assets 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 March 2013

2. **ACCOUNTING POLICIES (continued)**

Impairment of financial assets (continued)

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 group'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 group 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 group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the group retains substantially all the risks and rewards of ownership of a transferred financial asset, the group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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 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.

Financial liabilities

Financial liabilities are recognised as either financial liabilities at FVTPL or other financial liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 March 2013

2. ACCOUNTING POLICIES (continued)

Provisions

A provision is recognised when the group has a present legal or constructive obligation as a result of a past event, and where it is probable that an outflow will be required to settle the obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date and are discounted to present value where the effect is material.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Other financial liabilities

Other financial liabilities, including borrowings, 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.

Derecognition of financial liabilities

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

Derivative financial instruments

The group enters into interest rate swaps to manage its exposure to interest rate risk. Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability.

A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value through profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 March 2013

2. ACCOUNTING POLICIES (continued)

Public equity

The Welsh Ministers, acting through the Welsh Government, have from time to time provided funds for investment purposes. These funds have largely been accounted for within Finance Wales Investments Limited (Small Loans Fund), Finance Wales Investments (3) Limited (Rescue and Restructuring Finance), Finance Wales Investments (4) Limited (the Creative Industries Fund), Finance Wales Investments (5) Limited (the Interim Fund), Finance Wales Investments (6) Limited (the JEREMIE Fund), Finance Wales Investments (8) Limited (The Wales SME Investment Fund), Finance Wales Investments (9) Limited (the Welsh Life Sciences Fund) and Finance Wales Investments (10) Limited (the Wales Micro-business Loan Fund). Some of this Welsh Government funding was originally made as Public Dividend Capital (PDC) whilst the remainder was classified as Grant in Aid or Core Funding for Investment purposes.

The funding was to invest in the long-term sustainability of Finance Wales and within the Welsh Government's own accounting arrangements the funds were 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.

Leasing

Rentals payable under operating leases are charged to income 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.

Operating profit/loss

Operating profit or loss is stated after charging restructuring costs, but before investment income, finance costs and foreign exchange.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the costs of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in the income statement in the period in which they are incurred.

The group has taken advantage of the transitional provision included within IAS23 Borrowing Costs and elected not to capitalise interest on qualifying assets that arose prior to the date of transition to IFRS on 1 April 2008.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 March 2013

2. ACCOUNTING POLICIES (continued)

Taxation

Tax on the profit or loss for the year comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year, using tax rates substantially enacted at the balance sheet date, and any adjustments to tax payable in respect of previous years.

Deferred tax is provided in full on temporary differences between the carrying amount of assets and liabilities in the financial statements, and the tax base. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Deferred tax assets and liabilities are not discounted.

Deferred tax is determined using the tax rates that have been enacted or substantively enacted by the balance sheet date, and is expected to apply when the deferred tax liability is settled or the deferred tax asset is realised.

Deferred tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

Tax is recognised in the income statement, except where it relates to items recognised directly in equity, in which case it is recognised in equity.

Retirement benefits

The group operates a defined benefit pension scheme, now closed to new members, which is administered by Rhondda Cynon Taff County Borough Council. The group accounts for its share of the surplus or deficit and administration costs of this scheme.

The level of contributions made to the scheme and the cost of contributions included in the financial statements are based on the recommendations of independent actuaries.

The scheme assets are an estimate of the group's notional share of the total fund assets measured at market value at each balance sheet date and liabilities are measured using the projected unit method, discounted using a corporate bond rate. The group's notional share of assets is assumed to be invested in the same proportion as the fund as a whole in the different asset classes. The resulting pension scheme surplus or deficit is recognised immediately on the balance sheet, net of deferred tax where applicable, and any resulting actuarial gains and losses are recognised immediately in the statement of comprehensive income.

The group offers a defined contribution scheme administered by Legal and General which is open to those staff who are not members of the Rhondda Cynon Taff County Borough Council. Contributions to this scheme are accounted for as a revenue cost.

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Critical accounting judgments and key sources of estimation uncertainty

In the application of the group's accounting policies, which are described in note 2, 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 judgments in applying the group'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 group's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 March 2013

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Going concern

In preparing the financial statements, the directors have concluded that the group 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 group 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.

Basis of consolidation

The directors use their judgment to make an assessment of whether the Group controls an enterprise by considering the Group's power to govern the financial and operating policies of an enterprise taking into account any potential voting rights. They also consider the Group's ability to use its power to direct the relevant activities of an enterprise and the Group's exposure to the variability of returns. The judgment has a significant impact on the Group's consolidated balance sheet, income statement and cash flow: any enterprise that is controlled requires the financial statements of the enterprise to be included in the Group consolidated financial statements and where an entity is not controlled, consolidation is not required.

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 derivatives and other financial instruments

As described in note 23, 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. For derivative financial instruments, assumptions are made based on quoted market rates adjusted for specific features of the instrument. Other financial instruments are valued using a discounted cash flow analysis based on the assumptions supported, where possible, by observable market prices or rates. The fair value of derivatives at the balance sheet date was a net liability of £357,943 (2012 - £659,105 net liability).

Deferred tax

The group has tax losses of £16 million available for offset against future taxable profits. In determining the value of the deferred tax asset that can be attributed to these losses, the directors have to estimate likely future taxable profits and the period over which the asset may be recovered. The directors consider the most up-to-date forecasts for the business and assess the risks inherent in achieving those forecasts. At the balance sheet date, no deferred tax asset has been recorded.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 March 2013

4. REVENUE

An analysis of the group's revenue is as follows:

	2013 £	2012 £
Fees	3,681,965	3,686,935
Dividends	109,170	196,356
Loan interest	4,975,835	5,732,770
Revenue	8,766,970	9,616,061
ERDF grant income	7,630,881	4,768,739
Contribution from the parent undertaking	3,147,452	4,222,464
Total revenue	19,545,302	18,607,264

5. OPERATING LOSS

	2013 £	2012 £
Operating loss has been arrived at after charging		
Depreciation of property, plant and equipment	56,680	48,503
Staff costs (see note 6)	5,630,624	5,299,814
Impairment loss recognised on financial assets classified as available-for-sale	5,358,631	4,943,891
Impairment loss recognised on financial assets classified as fair value through profit or loss	1,431,896	689,586
Impairment loss recognised on loans receivable carried at amortised cost	6,581,264	7,983,060

Auditor's remuneration

	£	£
Fees payable to the company's auditor for the audit of the company's annual accounts	27,021	25,046
Fees payable to the company's auditor for other services to the group:		
Audit of the company's subsidiaries pursuant to legislation	47,139	37,754
Total audit fees	74,160	62,800

	£	£
Other services:		
Tax compliance	49,914	29,580
Other services	76,188	23,844
Total non-audit fees	126,102	53,424

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 March 2013

6. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	2013	2012
	£	£
Directors' emoluments		
Emoluments	448,350	421,968

	£	£
Remuneration of highest paid director	210,334	207,246

Two directors (2012 - 1 director) of the company and one director (2012 – two directors) of subsidiary companies were members of the defined benefit pension scheme.

	£	£
Aggregate payroll costs (excluding directors)		
Wages and salaries	4,536,147	4,324,498
Social security costs	455,588	426,794
Pension costs (see note 21)	638,889	548,522
	5,630,624	5,299,814

	No.	No.
Average number of persons employed (excluding directors and agency temps) – administration	102	95

7. INVESTMENT REVENUE

	2013	2012
	£	£
Bank interest	1,451,154	760,771
Net return on pension scheme assets	50,000	60,000
	1,501,154	820,771

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 March 2013

8. FINANCE COSTS

	2013 £	2012 £
Interest on bank loans and overdrafts	2,038,895	2,772,535
Net cost of pension scheme (see note 21)	20,000	10,000
	2,058,895	2,782,535

9. OTHER (LOSSES)/GAINS

	2013 £	2012 £
Changes in the fair value of investments in associates	(1,336,658)	1,379,464
Changes in the fair value of derivative financial instruments	301,163	119,663
	(1,035,495)	1,499,127

10. CONTRIBUTION BY ULTIMATE PARENT UNDERTAKING

The Welsh Ministers, acting through the Welsh Government, the ultimate parent undertaking, have contributed £3,147,452 (2012 - £4,222,464) towards the administrative expenses of Finance Wales plc (the company).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 March 2013

11. TAX

	2013	2012
	£	£
Current taxation		
UK corporation tax charge for the year	-	-

The difference between the current taxation shown above and the amount calculated by applying the standard rate of UK corporation tax to the loss before tax is as follows:

	£	£
Loss on ordinary activities before tax	(8,641,301)	(8,954,976)

		£
Tax at 24 % (2012 - 26%) thereon	2,073,912	2,328,294
Factors affecting charge for the year		
Non deductible items	(3,197,802)	(1,086,745)
Temporary timing differences	291,061	415,203
Increase in tax losses	(2,442,179)	(2,972,334)
Non taxable income	3,497,842	1,313,694
Taxable share of partnership profits	-	(614)
Utilisation of tax losses	391,504	2,502
Chargeable gains	(614,338)	-
Total taxation charge	-	-

A net deferred tax asset has not been recognised in respect of timing differences relating to provisions of £1,742,859 (2012 - £2,198,410), non-trade financial losses of £6,750,814 (2012 - £5,732,003), excess management expenses of £8,555,735 (2012 - £7,710,119), capital losses of £0 (2012 - £66,000) and temporary differences on fixed assets of £245,489 (2012 - £234,390). The asset would be recovered if there were sufficient suitable future profits to absorb all such assets.

In addition, a net deferred tax asset of £446,200 (2012 - £645,600) has not been recognised in respect of accrued pension costs as there is insufficient evidence that the asset will be recovered.

The reduction in the mainstream corporation tax rate from 24% to 23% from 1 April 2013, to 21% from 1 April 2014 and further to 20% from 1 April 2015 is not anticipated to materially affect the future tax charge.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 March 2013

12. PROPERTY, PLANT AND EQUIPMENT

Group and Company	2013 £	2012 £	2011 £
Fixtures and fittings			
Cost			
At 1 April	1,033,130	955,997	908,760
Additions	45,787	77,133	47,237
At 31 March	1,078,917	1,033,130	955,997
Accumulated depreciation			
At 1 April	902,014	871,512	824,434
Charge for the year	56,680	48,502	47,078
At 31 March	958,694	920,014	871,512
Net book value			
At the end of the financial year	102,223	113,116	84,485
At the beginning of the financial year	113,116	84,485	84,326

13. INVESTMENTS IN ASSOCIATES

Investments in associates are measured at fair value in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* rather than the equity method under the exemption given in IAS 28 to venture capital organisations.

	2013 £	2012 £	2011 £
Investments carried at fair value through profit or loss			
Beginning of year	6,087,518	4,886,277	6,336,020
Additions in year	2,447,020	911,363	1,884,980
Disposals	(934,957)	-	-
Changes in fair value carrying amounts	(1,336,658)	1,379,464	(1,260,297)
Less impairment	(1,489,612)	(1,089,586)	(2,074,426)
End of year	4,773,311	6,087,518	4,886,277

Movement in impairment recognised to date

	2013 £	2012 £
Balance at the beginning of the year	3,881,302	3,191,716
Impairment losses recognised	1,489,612	1,089,586
Disposals in the year	(96,239)	(400,000)
Balance at the end of the year	5,274,675	3,881,302

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 March 2013

14. AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

There are no available-for-sale assets classified as current.

	Non-current		
	2013	**2012**	**2011**
	£	**£**	**£**
Available-for-sale investments carried at fair value			
Equity investments	4,803,054	2,996,933	9,810,252
Creative IP fund investment	9,396,558	9,485,760	9,457,049
Less impairment	(10,567,026)	(9,203,553)	(11,754,349)
	3,632,586	3,279,140	7,512,952

Movement in impairment of available-for-sale investments carried at fair value

	2013	**2012**
	£	**£**
Available-for-sale investments		
Balance the at beginning of the year	9,203,553	11,754,349
Impairment losses recognised	1,363,473	(2,550,796)
Balance at the end of the year	10,567,026	9,203,553

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

Available-for-sale investments carried at cost	**2013**	**2012**	**2011**
	£	**£**	**£**
Equity investments	31,328,247	30,011,196	19,047,839
HSBC Enterprise Fund	433,333	433,333	433,333
Less impairment	(15,742,054)	(17,284,146)	(9,789,451)
	16,019,526	13,160,383	9,691,721
Total investments	19,652,112	16,439,523	17,204,673

Movement in impairment of available-for-sale investments carried at cost

	2013	**2012**
	£	**£**
Available-for-sale investments		
Balance at the beginning of the year	17,284,146	9,789,451
Impairment losses recognised	3,505,144	7,624,695
Amounts written off as uncollectable	(5,047,236)	(130,000)
Balance at the end of the year	15,742,054	17,284,146

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 March 2013

15. INTEREST IN JOINT VENTURE

The joint venture relates entirely to The Wales Innovation Fund Limited. Finance Wales plc is entitled to 50% of any distributions or surplus of assets on return of capital of the joint venture under the terms of the share capital owned by Finance Wales plc. The investment is consolidated into these accounts using the equity method under IAS 31. Consequently, the group's share of net liabilities is restricted to the value of the loans made to the joint venture.

	2013 £	2012 £	2011 £
Share of net liabilities	(1,668,840)	(1,668,840)	(1,668,840)
Loans to joint venture	1,668,840	1,668,840	1,668,840
End of year	-	-	-

16. OTHER FINANCIAL ASSETS

Trade and other receivables

	2013 £	2012 £	2011 £
Current assets			
Trade debtors	90,859	105,589	39,618
	90,859	105,589	39,618
Loans receivable carried at amortised cost	20,715,385	18,811,509	16,969,363
Impairment	(4,588,364)	(2,409,740)	(3,402,524)
	16,127,021	16,401,769	13,566,839
Other debtors	983,454	414,431	170,083
Prepayments	98,329	99,776	103,024
	17,299,663	17,021,565	13,879,564
Non-current assets			
Loans receivable carried at amortised cost	60,395,780	74,160,848	65,586,154
Impairment	(25,740,191)	(37,508,397)	(28,545,872)
	34,655,589	36,652,451	37,040,282
Other debtors	11,781	5,823	14,223
	34,667,370	36,658,274	37,054,505

The group 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 approximates 9.8% (2012 – 10.1 %, 2011 – 10.4%) per annum.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 March 2013

16. OTHER FINANCIAL ASSETS (continued)

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

Loans receivable disclosed above include amounts (see below for aged analysis) which are past due at the reporting date but against which the group 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.

Ageing of past due but not impaired loan receivables

	2013 £	2012 £
30-60 days	97,525	37,234
60-90 days	284,454	(169,164)
90-120 days	19,781	(109,855)
120+ days	106,675	728,430
	508,435	486,645

Movement in the provision for impairment

	2013 £	2012 £	2011 £
Loans receivable			
Balance at the beginning of the year	39,918,137	31,948,396	28,012,125
Impairment losses recognised	5,741,300	7,983,056	9,004,435
Amounts written off as uncollectable	(15,258,874)	(13,315)	(5,068,164)
Amounts recovered during the year	-	-	-
Balance at the end of the year	30,400,563	39,918,137	31,948,396

In determining the recoverability of loans receivable the group considers any change in the credit quality of the loans receivable from the date credit was initially granted up to the reporting date. The concentration of loan receivable credit risk is limited due to the large number of customers who are unrelated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 March 2013

16. OTHER FINANCIAL ASSETS (continued)

Ageing of past due and impaired loans receivable

	2013 £	2012 £
Receivables with <100% impairment		
30-60 days	1,777	(7,697)
60-90 days	1,753	1,717
90-120 days	1,653	(1,827)
120+ days	8,538	9,715
	13,721	1,908
Receivables with 100% impairment	18,919,276	30,681,138
Total	18,932,997	30,683,046

The directors consider that the carrying amount of trade and other receivables approximates their fair value.

17. CASH AND CASH EQUIVALENTS

These comprise cash in hand and deposits held at call with banks. The carrying amount of these assets approximates their fair value.

	2013 £	2012 £	2011 £
Cash and cash equivalents	133,681,099	146,331,669	87,161,162

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets is approximately equal to their fair value.

Cash at bank and in hand is restricted to making investments in accordance with the company's principal investing activities.

The credit risk on liquid funds is limited because, not only are the majority of liquid funds are held with the group's principal bankers, Barclays Bank Plc, Lloyds TSB Bank plc and The Royal Bank of Scotland, all banks with high credit ratings assigned by international credit rating agencies; care is take to ensure that there is no significant concentration of credit risk with one particular entity.

18. DERIVATIVE FINANCIAL INSTRUMENTS

	Current		
	2013 £	2012 £	2011 £
Financial assets and liabilities carried at fair value through profit or loss (FVTPL)			
Interest rate swaps	357,942	659,105	778,768

Further detail of financial instruments is provided in note 23.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 March 2013

19. BORROWINGS

	2013 £	2012 £	2011 £
Bank loans at amortised cost			
Unsecured	2,900,000	5,750,000	8,500,000
Secured	54,700,000	67,550,000	77,705,000
Total borrowings	57,600,000	73,300,000	86,205,000
Amount due for settlement within 12 months	4,100,000	9,500,000	6,755,000
Amount due for settlement after 12 months	53,500,000	63,800,000	79,450,000

All borrowings are in sterling.

The bank borrowings are secured by charges on accounts containing uninvested cash and security over the investments.

The group had three principal bank loans during the year

		Original value	Drawn in	March 2013 outstanding value
Finance Wales Investments (2) Limited	i	19,721,900	Nov 03	-
Finance Wales Investments (5) Limited	ii	15,000,000	Sep 07	2,900,000
Finance Wales Investments (6) Limited	ii	75,000,000	Apr 09	54,700,000

i - Repayable when there is surplus cash or at the end of ten years from inception.
ii - Repayments in line with a schedule to repay the loan over a period of eight years from inception.

Repayments of £12,000,000 (2012 - £8,750,000) were made in the year. Interest is paid annually based on the outstanding daily capital balance at rates between 0.85% and 2.55% above LIBOR rate. See note 23 for further detail on the group's interest rate swaps. The weighted average interest rates paid during the year were 2.68% (2012 – 3.37%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 March 2013

20. OTHER FINANCIAL LIABILITIES

Trade and other payables

	2013 £	2012 £	2011 £
Current liabilities			
Trade payables and accruals	(1,673,082)	(1,346,209)	(1,712,827)
Rebates	-	(12,467)	(60,850)
Other creditors	(425,930)	(127,233)	(105,589)
	(2,099,012)	(1,485,909)	(1,879,266)
Non-current liabilities			
Rebates	-	(798)	(24,460)
	-	(798)	(24,460)

Trade payables and accruals principally comprise amounts outstanding for trade purchases and on-going costs. As at 31 March 2013, 24 days' invoices were outstanding (2012 – 21 days).

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 March 2013

21. RETIREMENT BENEFIT SCHEMES

The group participates in the Local Government Pension Scheme, which is a multi-employer funded scheme providing pensions and related benefits on a final salary basis. The assets of the scheme are held separately from the assets of the company and are administered by Rhondda Cynon Taff County Borough Council. Additional retirement benefits are granted in accordance with the Local Government (Compensation for Premature Retirement) Regulations 1982 and these benefits are provided on a pay-as-you-go basis.

The company and subsidiary undertaking Finance Wales Investments Limited both participate in the Local Government Pension Scheme and disclosures regarding the company's and Finance Wales Investments Limited's defined benefit pension schemes are required under the provisions of IAS 19 "Retirement Benefits", and these are set out below.

Finance Wales plc consolidated pension scheme deficit:

	2013 £'000	2012 £'000	2011 £'000	2010 £'000	2009 £'000
Finance Wales plc	(1,520)	(1,750)	(1,350)	(1,500)	(810)
Finance Wales Investments Limited	(420)	(940)	(560)	(1,410)	(940)
Net deficit	(1,940)	(2,690)	(1,910)	(2,910)	(1,750)

Finance Wales plc ("the company")

IAS 19 information

A full actuarial valuation was carried out at 31 March 2012 by a qualified actuary using revised assumptions that are consistent with the requirements of IAS 19. These assumptions have been updated to 31 March 2013. The information presented below relates to the employees of Finance Wales plc ("the company") only. Investments have been valued, for this purpose, at fair value.

The major assumptions used for the actuarial valuation were:

	2013	2012	2011
Rate of increases in salaries	4.7%	5.1%	5.3%
Rate of increases in pensions in payment	2.8%	2.6%	2.9%
Rate of increase to deferred pensions	2.8%	2.6%	2.9%
Discount rate	4.7%	4.8%	5.4%
Inflation assumption RPI	3.7%	3.6%	3.8%
Inflation assumption CPI	2.8%	2.6%	2.9%

Following the UK Government's announcement on 22 June 2012, the inflation index to be used to derive statutory pension increases has been changed from the Retail Prices Index ("RPI") to the Consumer Prices Index ("CPI"). The change has resulted in a reduction in the pension scheme liability of £1.330m which has been reflected in the statement of comprehensive income during the year.

Post retirement mortality assumptions are as follows:

	31 March 2013	31 March 2012
Males		
Base table	SAPS	SAPS
Scaling to above table rates	90%	90%
Cohort improvement factors (from 2007)	CMI2009	CMI2009
Minimum underpin to improvement factors	1.25%	1.25%
Future lifetime from age 65 (currently aged 65)	23.3	23.2
Future lifetime from age 65 (currently aged 45)	25.2	25.1

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 March 2013

21. RETIREMENT BENEFIT SCHEMES (continued)

	31 March 2013	31 March 2012
Females		
Base table	SAPS	SAPS
Scaling to above table rates	100%	100%
Cohort improvement factors (from 2007)	CMI2009	CMI2009
Minimum underpin to improvement factors	1.25%	1.25%
Future lifetime from age 65 (currently aged 65)	24.7	24.5
Future lifetime from age 65 (currently aged 45)	26.6	26.5

The market value of the assets in the scheme and the expected rate of return at the balance sheet date for the whole of the Rhondda Cynon Taff County Borough Council Pension Fund were as follows:

	Long-term rate of return expected 2013 % pa	Asset split 2013 %	Long-term rate of return expected 2012 % pa	Asset split 2012 %	Long-term rate of return expected 2011 % pa	Asset split 2011 %
Equities	7.8	68.7	8.1	65.6	8.4	68.3
Property	7.3	5.9	7.6	6.8	7.9	6.8
Government bonds	2.8	10.6	3.1	10.5	4.4	10.3
Corporate bonds	3.8	11.4	3.7	13.3	5.1	12.3
Cash	0.9	3.4	1.8	3.8	1.5	2.3
Total market value	6.6	100.0	6.7	100.0	7.4	100.0

Finance Wales plc employs a building block approach in determining the rate of return on fund assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed rate of return on each asset class is set out within this note. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation for the fund at 31 March 2013.

The funding position in respect of Finance Wales plc is as follows:

	2013 £'000	2012 £'000	2011 £'000
Share of scheme assets	4,080	3,150	2,670
Share of scheme liabilities	(5,600)	(4,900)	(4,020)
Deficit	(1,520)	(1,750)	(1,350)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 March 2013

21. RETIREMENT BENEFIT SCHEMES (continued)

Analysis of amount charged to operating loss:

	2013 £'000	2012 £'000
Current service cost	220	220
Past service cost	-	-
Total operating charge	220	220

Analysis of the amounts which are credited to interest paid and received:

	2013 £'000	2012 £'000
Expected return on pension scheme assets	220	210
Interest on pension scheme liabilities	(240)	(220)
Net return	(20)	(10)

Analysis of the actuarial profit/(loss) in the statement of comprehensive income:

	2013 £'000	2012 £'000
Actual return less expected return on scheme liabilities	320	(130)
Net increase in liabilities from disposals and acquisitions	-	-
Changes in assumptions underlying the present value of scheme liabilities	(170)	(380)
Past service cost		-
Total actuarial gain/(loss)	150	(510)

Analysis of movement in deficit during the year:

	2013 £'000	2012 £'000
Deficit in scheme at the beginning of the year	(1,750)	(1,350)
Current service cost	(220)	(220)
Contributions	320	340
Net finance costs	(20)	(10)
Net increase in liabilities from disposals and acquisitions	-	-
Total actuarial gain/(loss)	150	(510)
Deficit in the scheme at the end of the year	(1,520)	(1,750)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 March 2013

21. RETIREMENT BENEFIT SCHEMES (continued)

History of experience gains and losses:

	2013 £'000	2012 £'000	2011 £'000	2010 £'000
Fair value of scheme assets	4,080	3,150	2,670	2,210
Present value of defined benefit obligations	(5,600)	(4,900)	(4,020)	(3,710)
Deficit in the scheme	(1,520)	(1,750)	(1,350)	(1,500)
Experience adjustments on scheme assets	320	(130)	-	470
Percentage of scheme assets (%)	7.8%	(4.1%)	-	21.3%
Experience adjustments on scheme liabilities (*)	-	-	(320)	-
Percentage of scheme liabilities (%)	-	-	(8.0%)	-

(*) This item consists of gains/(losses) in respect of liability experience only and excludes any change in liabilities in respect of changes to the actuarial assumptions used.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 March 2013

21. RETIREMENT BENEFIT SCHEMES (continued)

Finance Wales Investments Limited

IAS 19 information

A full actuarial valuation was carried out at 31 March 2012 by a qualified actuary using revised assumptions that are consistent with the requirements of IAS 19. These assumptions have been updated to 31 March 2013. The information presented below relates to the employees of Finance Wales Investments Limited only. Investments have been valued, for this purpose, at fair value.

The major assumptions used for the actuarial valuation were:

	2013	2012	2011
Rate of increases in salaries	4.7%	5.1%	5.3%
Rate of increases in pensions in payment	2.8%	2.6%	2.9%
Rate of increase to deferred pensions	2.8%	2.6%	2.9%
Discount rate	4.8%	4.8%	5.3%
Inflation assumption RPI	3.7%	3.6%	3.8%
Inflation assumption CPI	2.8%	2.6%	2.9%

Post retirement mortality assumptions are as follows:

	31 March 2013	31 March 2012
Males		
Base table	SAPS	SAPS
Scaling to above table rates	90%	90%
Cohort improvement factors (from 2007)	CMI2009	CMI2009
Minimum underpin to improvement factors	1.25%	1.25%
Future lifetime from age 65 (currently aged 65)	23.3	23.2
Future lifetime from age 65 (currently aged 45)	25.2	25.1
Females		
Base table	SAPS	SAPS
Scaling to above table rates	100%	100%
Cohort improvement factors (from 2007)	CMI2009	CMI2009
Minimum underpin to improvement factors	1.25%	1.25%
Future lifetime from age 65 (currently aged 65)	24.7	24.5
Future lifetime from age 65 (currently aged 45)	26.6	26.5

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 March 2013

21. RETIREMENT BENEFIT SCHEMES (continued).

The market value of the assets in the scheme and the expected rate of return at the balance sheet date for the whole of the Rhondda Cynon Taff County Borough Council Pension Fund were as follows.

	Long-term rate of return expected 2013 % pa	Asset split 2013 %	Long-term rate of return expected 2012 % pa	Asset split 2012 %	Long-term rate of return expected 2011 % pa	Asset split 2011 %
Equities	7.8	68.7	8.1	65.6	8.4	68.3
Property	7.3	5.9	7.6	6.8	7.9	6.8
Government bonds	2.8	10.6	3.1	10.5	4.4	10.3
Corporate bonds	3.8	11.4	3.7	13.3	5.1	12.3
Cash	0.9	3.4	1.8	3.8	1.5	2.3
Total	6.6	100.0	6.7	100.0	7.4	100.0

Finance Wales Investments Limited employs a building block approach in determining the rate of return on fund assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed rate of return on each asset class is set out within this note. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation for the fund at 31 March 2013.

The funding position in respect of Finance Wales Investments Limited is as follows:

	2013 £'000	2012 £'000	2011 £'000
Share of scheme assets	6,280	4,920	4,250
Share of scheme liabilities	(6,700)	(5,860)	(4,810)
Deficit	(420)	(940)	(560)

Analysis of amount charged to operating loss:

	2013 £'000	2012 £'000
Current service cost	340	310

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 March 2013

21. RETIREMENT BENEFIT SCHEMES (continued)

Analysis of the amounts which would be credited to interest paid and received:

	2013 £'000	2012 £'000
Expected return on pension scheme assets	340	330
Interest on pension scheme liabilities	(290)	(270)
Net return	50	60

Analysis of the actuarial gain/(loss) in the statement of comprehensive income:

	2013 £'000	2012 £'000
Actual return less expected return on scheme assets	490	(210)
Net increase in assets from disposals and acquisitions	-	-
Changes in assumptions underlying the present value of scheme liabilities	(80)	(330)
Past service cost		-
Total actuarial gain/(loss)	410	(540)

Analysis of movement in deficit during the year:

	2013 £'000	2012 £'000
Deficit in scheme at the beginning of the year	(940)	(560)
Current service cost	(340)	(310)
Contributions	400	410
Net finance costs	50	60
Net increase in assets from disposals and acquisitions	-	-
Total actuarial gain/(loss)	410	(540)
Deficit in the scheme at the end of the year	(420)	(940)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 March 2013

21. RETIREMENT BENEFIT SCHEMES (continued)

History of experience gains and losses:

	2013 £'000	2012 £'000	2011 £'000	2010 £'000	2009 £'000
Fair value of scheme assets	6,280	4,920	4,250	3,190	1,430
Present value of defined benefit obligations	(6,700)	(5,860)	(4,810)	(4,600)	(2,370)
Deficit in the scheme	(420)	(940)	(560)	(1,410)	(940)
Experience adjustments on scheme assets					
Amount (£)	490	(210)	330	670	(460)
Percentage of scheme assets (%)	7.8%	(4.3%)	7.8%	21.0%	(32.2%)
Experience adjustments on scheme liabilities(*)	-	-	(90)	-	-
Percentage of scheme liabilities (%)	-	-	(1.9%)	-	-

(*) This item consists of gains/(losses) in respect of liability experience only and excludes any change in liabilities in respect of changes to the actuarial assumptions used.

Analysis of movement in deficit during the year:

	2013 £'000	2012 £'000	2011 £'000	2010 £'000	2009 £'000
Deficit in scheme at the beginning of the year	(940)	(560)	(1,410)	(940)	(60)
Current service cost	(340)	(310)	(320)	(270)	(140)
Past service cost	-	-	790	-	-
Contributions	400	410	260	240	170
Net finance costs	50	60	(10)	(80)	-
Net increase in assets from disposals and acquisitions	-	-	-	10	-
Total actuarial gain/(loss)	410	(540)	130	(370)	(910)
Deficit in the scheme at the end of the year	(420)	(940)	(560)	(1,410)	(940)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 March 2013

22. DEFERRED INCOME

	2013 £	2012 £
Balance at 1 April	17,565,026	18,941,481
Grant received in the year	6,031,463	7,614,748
Grant released to income statement in the year	(10,778,332)	(8,991,203)
Balance at 31 March	12,818,157	17,565,026

	Current			Non-current		
	2013 £	2012 £	2011 £	2013 £	2012 £	2011 £
Deferred income	8,702,108	7,129,536	8,048,252	4,116,049	10,435,490	10,893,229

The deferred revenue above relates to grants received by Finance Wales plc from the ERDF and the Welsh Government which Finance Wales plc has passed onto its subsidiaries - Finance Wales Investments Limited, Finance Wales Investments (2) Limited, and Finance Wales Investments (6) Limited - to invest within the criteria of the grants. The creditors recognise Finance Wales plc's liability to repay to the ERDF and the Welsh Government any grant received not properly invested within the prescribed time limit. The creditors are matched by corresponding debtors due from Finance Wales Investments Limited, Finance Wales Investments (2) Limited and Finance Wales Investments (6) Limited (see note 33) for the uninvested grant income. Both the creditors and debtors are reduced when Finance Wales Investments Limited, Finance Wales Investments (2) Limited or Finance Wales Investments (6) Limited make a qualifying investment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 March 2013

23. 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 group consists of debt, which includes the borrowings disclosed in note 19, cash and cash equivalents and equity directly attributable to equity holders of the parent, comprising issued capital, public equity, reserves and retained earnings as disclosed in the statement of changes in equity.

Gearing ratio

The gearing ratio at the year-end is as follows:

	2013 £	2012 £	2011 £
Debt	57,600,000	73,300,000	86,205,000
Cash and cash equivalents	(133,681,099)	(146,331,669)	(87,161,162)
Net funds	(76,081,099)	(73,031,669)	(956,162)
Equity	135,360,666	126,950,828	50,531,691
Net debt to equity ratio	(0.56)	(0.58)	(0.02)

Debt is defined as long-term and short-term borrowings as detailed in note 19. Equity includes all capital and reserves of the group attributable to equity holders of the parent.

Categories of financial instruments

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

The group seeks to minimise the effects of financial risks by using derivative financial instruments to hedge known exposures. The interest rates on bank loans are managed through the use of interest rate swaps. The use of financial derivatives is governed by the group's policies approved by the Board of directors, which provide written principles on interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. The group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 March 2013

23. 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 2013 £	**Note**	**Financial assets and liabilities at amortised cost**	**Loans and receivables**	**Financial assets available-for-sale**	**Financial assets and liabilities designated at fair value**	**Derivative financial instruments**	**Total**
Assets							
Cash and cash equivalents		133,681,099	-	-	-	-	133,681,099
Investments in associates							
Measured at fair value using other methods	ii	-	-	-	4,773,311	-	4,773,311
Other investments							
Measured at market price	i	-	-	-	-	-	-
Measured at fair value using other methods	ii	-	-	3,632,586	-	-	3,632,586
Measured at cost less credit risk adjustment	iii	-	-	16,019,526	-	-	16,019,526
Loans to customers	iv	-	50,782,610	-	-	-	50,782,610
Other receivables	iv	-	1,184,423	-	-	-	1,184,423
Total financial assets		133,681,099	51,967,033	19,652,112	4,773,311	-	210,073,555
Non-financial assets							102,223
Total assets							210,175,778
Liabilities							
Interest-bearing loans and borrowings	v	57,600,000	-	-	-	-	57,600,000
Trade and other payables	v	2,099,012	-	-	-	-	2,099,012
Deferred revenue	v	12,818,157	-	-	-	-	12,818,157
Retirement benefit obligations	v	1,940,000	-	-	-	-	1,940,000
Interest rates swaps	vi	-	-	-	-	357,942	357,942
Total financial liabilities		74,457,169	-	-	-	357,942	74,815,111
Reserves							135,360,667
Total reserves and liabilities							210,175,778

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 March 2013

23. FINANCIAL INSTRUMENTS (continued)

Carrying value as at 31 March 2012 £	Note	Financial assets and liabilities at amortised cost	Loans and receivables	Financial assets available-for-sale	Financial assets and liabilities designated at fair value	Derivative financial instruments	Total
Assets							
Cash and cash equivalents		146,331,669	-	-	-	-	146,331,669
Investments in associates							
Measured at fair value using other methods	ii	-	-	-	6,087,518	-	6,087,518
Other investments							
Measured at market price	i	-	-	-	-	-	-
Measured at fair value using other methods	ii	-	-	3,372,057	-	-	3,372,057
Measured at cost less credit risk adjustment	iii	-	-	13,067,466	-	-	13,067,466
Loans to customers	iv	-	53,054,220	-	-	-	53,054,220
Other receivables	iv	-	625,619	-	-	-	625,619
Total financial assets		146,331,669	53,679,839	16,439,523	6,087,518	-	222,538,549
Non-financial assets							113,116
Total assets							222,651,665
Liabilities							
Interest-bearing loans and borrowings	v	73,300,000	-	-	-	-	73,300,000
Trade and other payables	v	1,486,707	-	-	-	-	1,486,707
Deferred revenue	v	17,565,026	-	-	-	-	17,565,026
Retirement benefit obligations	v	2,690,000	-	-	-	-	2,690,000
Interest rates swaps	vi	-	-	-	-	659,105	659,105
Total financial liabilities		95,041,733	-	-	-	659,105	95,700,838
Reserves							126,950,827
Total reserves and liabilities							222,651,665

During the year, available-for-sale investments measured at a fair value of £nil (2012 – fair value of £615,286) were transferred from 'measured at market price' to 'measured at fair value using other methods' as the investment's shares were delisted from the Alternative Investment Market (AIM).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 March 2013

23. FINANCIAL INSTRUMENTS (continued)

Carrying value as at 31 March 2011 £	Note	Financial assets and liabilities at amortised cost	Loans and receivables	Financial assets available-for-sale	Financial assets and liabilities designated at fair value	Derivative financial instruments	Total
Assets							
Cash and cash equivalents							
Investments in associates		87,161,162	-	-	-	-	87,161,162
Measured at fair value using other methods	ii	-	-	-	4,886,277	-	4,886,277
Other investments							
Measured at market price	i	-	-	332,718	-	-	332,718
Measured at fair value using other methods	ii	-	-	7,180,238	-	-	7,180,238
Measured at cost less credit risk adjustment	iii	-	-	9,691,717	-	-	9,691,717
Loans to customers	iv	-	50,607,120	-	-	-	50,607,120
Other receivables	iv	-	326,949	-	-	-	326,949
Total financial assets		87,161,162	50,934,069	17,204,673	4,886,277	-	160,186,181
Non-financial assets							84,485
Total assets							160,270,666
Liabilities							
Interest-bearing loans and borrowings	v	86,205,000	-	-	-	-	86,205,000
Trade and other payables	v	1,903,726	-	-	-	-	1,903,726
Deferred revenue	v	18,941,481	-	-	-	-	18,941,481
Retirement benefit obligations	v	1,910,000	-	-	-	-	1,910,000
Interest rate swaps	vi	-	-	-	-	778,768	778,768
Total financial liabilities		108,960,207	-	-	-	778,768	109,738,975
Reserves							50,531,691
Total reserves and liabilities							160,270,666

The carrying value of the group's financial instruments is considered to approximate fair value and hence a separate disclosure of carrying value versus fair value is not presented. The method of valuation of each financial instrument is described overleaf.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 March 2013

23. FINANCIAL INSTRUMENTS (continued)

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 2 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) The fair value of loans to customers and other receivables is approximated to their carrying value 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.

vi) The fair value of interest rate swaps is calculated using discounted future cash flows and is obtained from external counterparties (level 2 hierarchy as defined below).

The group 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. 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, using a recent offer from a prospective purchaser, or using a discounted PE valuation.
3.	Inputs for the asset or liability that are not based on observable market data.

Other price risks

The group is exposed to equity price risks arising from equity investments. The shares included above represent investments in listed equity securities that present the group 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 group does not actively trade these investments.

Market risk

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

Interest rate risk management

The group is exposed to interest rate risk as entities in the group borrow funds at floating interest rates. The risk is managed by the group by the use of interest rate swap contracts to fix the interest rate on the floating rate loans.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 March 2013

23. FINANCIAL INSTRUMENTS (continued)

Interest rate swap contracts

Under interest rate swap contracts, the group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the group to mitigate the risk of higher interest rates on the fair value of issued fixed rate debt held and the cash flow exposures on the issued variable rate debt held. The fair value of interest rate swaps at the reporting date is determined by discounting the future cash flows using the curves at the reporting date and the credit risk inherent in the contract, and is disclosed below. The average interest rate is based on the outstanding balances at the end of the financial year.

The group has entered into interest rate swap agreements in respect of the bank loans. The following table details the notional principal amounts and remaining terms of interest rate swap contracts outstanding as at the reporting date:

Outstanding amounts receive floating pay fixed contracts	Average contract fixed interest rate			Notional principal amount			Fair value		
	2013	2012	2011	2013	2012	2011	2013	2012	2011
	%	%	%	£	£	£	£	£	£
Less than 1 year	2.73%	-	-	3,750,000	-	-	(48,820)	-	-
1 to 2 years	-	2.73%	-	-	3,750,000	-	-	(138,725)	-
2 to 5 years	3.64%	3.64%	3.19%	3,750,000	3,750,000	7,500,000	(309,123)	(520,380)	(778,768)
5 years +		-	-		-	-	-	-	-
				7,500,000	7,500,000	7,500,000	(357,943)	(659,105)	(778,768)

At 31 March 2013, the group has two interest rate swap agreements under which it pays fixed rates of between 2.73% and 3.64% per annum in respect of amounts drawn under the facilities. The swaps expire between 26 February 2014 and 1 April 2015.

The fair value of the interest rate swaps at 31 March 2013 was a liability of £357,943 (2012 – liability of £659,105).

The interest rate swaps settle on a quarterly basis. The floating rate on the interest rate swaps is three months LIBOR. The group will settle the difference between the fixed and floating interest rate on a net basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 March 2013

23. FINANCIAL INSTRUMENTS (continued)

Interest rate sensitivity analysis

The group's interest rate risk arises due to commercial lending being made on fixed rate contracts, whereas borrowings are all at a variable rate. There is a natural hedge in so far as uninvested cash is invested in variable rate treasury deposits, but a risk arises, outside this natural hedge, when borrowings exceed the uninvested cash on treasury deposit. This risk is covered by interest rate swaps. However, where borrowings are to support our investments in equity instruments, any exposure here is not covered by swaps due to the uncertain cash flows. At 31 March 2013 the cash on treasury deposit exceeded borrowings by £76,081,099 therefore there was no exposure (2012 net exposure £nil). The following table details the group's sensitivity to a 1% increase in interest rates for the year to 31 March.

	2013 £	2012 £
Increase in interest payable	(502,000)	(547,000)
Increase in interest receivable	1,400,000	1,167,000
Increase in profit	898,000	620,000

Credit risk management

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

	2013 £	2012 £
Reduction in profit	770,000	762,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 March 2013

23. FINANCIAL INSTRUMENTS (continued)

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 group's short, medium and long-term funding and liquidity management requirements. The group 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 group result is not seen as a risk but as part of the normal pattern for businesses involved in making long-term investments.

Liquidity and interest risk tables

The following tables detail the group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the group can be required to pay. The table includes both interest and principal cash flows.

	Weighted average effective interest rate	Less than 6 months £'000	6 months - 1 year £'000	1 – 2 years £'000	2 – 5 years £'000	5+ years £'000	Total £'000
2012							
Variable interest rate instruments	3.37%	1,100	10,801	11,671	57,382	-	80,954
		1,100	10,801	11,671	57,382	-	80,954
2013							
Variable interest rate instruments	2.68%	681	4,862	20,086	36,000		61,629
		681	4,862	20,086	36,000		61,629

With the exception of financial assets as disclosed in note 16, financial assets are current and are non-interest bearing.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 March 2013

24. CALLED UP SHARE CAPITAL

	2013 £	2012 £	2011 £
Authorised and allotted			
50,000 ordinary shares of £1 each	50,000	50,000	50,000
Called up, allotted and part paid			
50,000 ordinary shares, 25p part paid	12,500	12,500	12,500

25. OPERATING LEASE ARRANGEMENTS

	2013 £	2012 £	2011 £
Minimum lease payments under operating leases recognised as an expense in the year	338,058	299,567	289,656

At the balance sheet date, the group had outstanding commitments for future minimum lease payments under non-cancellable operating leases in respect of office properties which fall due as follows:

	2013 £	2012 £	2011 £
Within one year	277,528	298,143	300,380
In the second to fifth years inclusive	221,995	538,177	794,407
After five years	-	47,762	82,568
	449,523	884,082	1,177,355

The operating lease payments represent rentals payable by the group for its office properties. None of the figures in the above table has been discounted to present value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 March 2013

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

	2013 £	2012 £
Loss for the year	(8,641,300)	(8,954,976)
Adjustments for:		
Investment revenues	(1,501,154)	(820,771)
Other gains and losses	1,035,495	(1,499,127)
Finance costs	2,058,895	2,782,535
Depreciation of property, plant and equipment	56,680	48,502
Profit on sale of available-for-sale financial assets	(457,484)	1,089,345
Proceeds on disposal of available-for-sale investments	1,538,680	498,175
Acquisition of investment in available-for-sale financial asset	(11,401,589)	(4,353,529)
Net loans made	(3,508,577)	(10,435,923)
Release of deferred income	(7,630,881)	(4,768,739)
Impairments against loans receivable	6,581,264	7,983,060
Impairments against financial assets classified as available-for-sale	5,358,631	4,943,891
Impairments against financial assets classified as fair value through profit or loss	1,431,896	689,586
Operating cash flows before movements in working capital	(15,079,444)	(12,797,971)
Increase in receivables	(573,944)	(292,920)
Increase in payables	3,496,317	2,975,265
Cash consumed during operations	(12,157,071)	(10,115,626)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 March 2013

27. RELATED PARTY TRANSACTIONS

Transactions between the company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Trading transactions

Transactions between the group and its associates, who are not members of the group, during the year are as follows:

Sale of services			Loans to related parties			Equity investments in related parties		
2013	2012	2011	2013	2012	2011	2013	2012	2011
£	£	£	£	£	£	£	£	£
360,326	717,013	331,560	5,945,167	12,022,177	7,191,256	4,773,311	6,483,273	4,920,707

Sales of services to related parties were made at the group's usual prices. The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No provisions have been made for doubtful debts in respect of the amounts owed by related parties.

28. ULTIMATE CONTROLLING PARTY

Finance Wales plc regards the Welsh Ministers, acting through the Welsh Government, as the ultimate controlling party. A management arrangement sets out the accountability and reporting arrangements between Finance Wales plc and its parent organisation.

COMPANY BALANCE SHEET
As at 31 March 2013

	Note	2013 £	2012 £
FIXED ASSETS			
Tangible assets		102,223	113,116
Investments	32	162,011,735	180,411,734
		162,113,958	180,524,850
CURRENT ASSETS			
Debtors: due within one year	33	587,690	164,990
Debtors: due after one year	33	12,122,465	16,691,874
Cash at bank and in hand		24,862,309	8,703,246
		37,572,464	25,560,110
CREDITORS: amounts falling due within one year	34	(6,004,763)	(1,791,350)
NET CURRENT ASSETS		31,567,701	23,768,760
TOTAL ASSETS LESS CURRENT LIABILITIES		193,681,659	204,293,610
CREDITORS: amounts falling due after more than one year	35	(53,500,000)	(72,450,000)
ACCRUALS AND DEFERRED INCOME		(12,646,819)	(17,260,204)
NET ASSETS EXCLUDING PENSION LIABILITY		127,534,840	114,583,406
Pension liability	21	(1,520,000)	(1,750,000)
NET ASSETS INCLUDING PENSION LIABILITY		126,014,840	112,833,406
CAPITAL AND RESERVES			
Public equity		150,556,334	134,556,334
Called up share capital	37	12,500	12,500
Capital reserve		10,100	10,100
Profit and loss account		(24,564,094)	(21,745,528)
SHAREHOLDERS' FUNDS		126,014,840	112,833,406

The financial statements of Finance Wales plc, registered number 4055414, were approved by the Board of Directors and authorised for issue on 22 July 2013.

Signed on its behalf by

S Lloyd-Jones
Director

NOTES TO THE COMPANY FINANCIAL STATEMENTS
Year ended 31 March 2013

29. ACCOUNTING POLICIES

Basis of accounting

The separate financial statements of the company are presented as required by the Companies Act 2006 and have been prepared in accordance with applicable United Kingdom Accounting Standards and law. They have been prepared under the historical cost convention and under the going concern assumption. Further details of the directors' considerations in relation to going concern are included in the Directors' report on page 3.

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

Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment.

Tangible fixed assets are depreciated on a straight-line basis over their expected useful economic lives. The rates of depreciation are as follows:

Fixtures and fittings	3 to 4 years

Investments

Equity investments are treated as fixed assets and stated in the balance sheet at cost less any provision for impairment. Accounts identified as being in difficulty are specifically provided and a general provision is made on all other accounts.

Loans are held as current assets and are valued at the lower of cost and net realisable value.

Although the company may hold more than 20% of the equity of certain companies, the directors consider that, in view of the current investment objectives of the company and Finance Wales having no significant influence over the day-to-day operations of those companies, it would not be appropriate to treat these holdings as investments in associated undertakings.

Financial instruments

The company is exposed to interest rate risk arising from borrowing at a margin over London Inter Bank Offered Rate (LIBOR) and lending to SMEs at a fixed rate. The group holds interest rate swap contracts to hedge their exposure to movements in LIBOR. Details of the interest rate swaps held are given in note 18.

The use of financial derivatives is governed by the company's policies approved by the Board of directors, which provide written principles on the use of financial derivatives to manage these risks. The company does not use derivative financial instruments for speculative purposes.

Taxation

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 at the balance sheet date.

Deferred tax is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is no commitment to sell the asset, or on unremitted earnings of subsidiaries and associates where there is no commitment to remit these earnings.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

NOTES TO THE COMPANY FINANCIAL STATEMENTS
Year ended 31 March 2013

29. ACCOUNTING POLICIES (continued)

Public equity

The Welsh Ministers, acting through the Welsh Government, have from time to time provided funds for investment purposes. These funds have largely been accounted for within Finance Wales Investments Limited (Small Loans Fund), Finance Wales Investments (3) Limited (Rescue and Restructuring Finance), Finance Wales Investments (4) Limited (the Creative Industries Fund), Finance Wales Investments (5) Limited (the Interim Fund) and Finance Wales Investments (6) Limited (the JEREMIE Fund). Some of this Welsh Government funding was originally made as Public Dividend Capital (PDC) whilst the remainder was classified as Grant in Aid or Core Funding for Investment purposes.

The funding was to invest in the long-term sustainability of Finance Wales and within the Welsh Government's own accounting arrangements the funds were 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.

Related party transactions

The company has taken advantage of the exemption conferred by paragraph 17 of Financial Reporting Standard Number 8 "Related party disclosures" and has not disclosed transactions with its wholly-owned subsidiaries.

Pensions

The company operates a defined benefit pension scheme which is administered by Rhondda Cynon Taff County Borough Council. The company accounts for its share of the surplus or deficit and administration costs of this scheme.

The level of contributions made to the scheme and the cost of contributions included in the financial statements are based on the recommendations of independent actuaries.

The scheme assets are an estimate of the company's notional share of the total fund assets measured at market value at each balance sheet date and liabilities are measured using the projected unit method, discounted using a corporate bond rate. The company's notional share of assets is assumed to be invested in the same proportion as the fund as a whole in the different asset classes. The resulting pension scheme surplus or deficit is recognised immediately on the balance sheet, net of deferred tax where applicable, and any resulting actuarial gains and losses are recognised immediately in the statement of comprehensive income.

NOTES TO THE COMPANY FINANCIAL STATEMENTS
Year ended 31 March 2013

30. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	2013	2012
	£	£
Directors' emoluments		
Emoluments	448,350	421,968

	£	£
Remuneration of highest paid director	210,334	207,246

Two directors of the company and two directors of subsidiary companies were members of the defined benefit pension scheme (2012 - one and two).

	£	£
Aggregate payroll costs (excluding directors)		
Wages and salaries	1,317,053	1,417,997
Social security costs	120,654	129,026
Pension costs (see note 21)	201,673	213,116
	1,639,380	1,760,139

	No.	No.
Average number of persons employed (excluding directors) – administration	38	38

NOTES TO THE COMPANY FINANCIAL STATEMENTS
Year ended 31 March 2013

31. LOSS FOR THE YEAR

As permitted by section 408 of the Companies Act 2006, the profit and loss account of the parent company is not presented as part of these financial statements. The parent company's loss for the financial year amounted to £2,968,566 (2012 – loss of £2,063,409), Auditor's remuneration for audit services for the company was £27,021 (2012 - £25,046). Auditor's remuneration for non-audit services for the company was £5,000 (2012 - £5,000).

32. INVESTMENTS

	Shares in joint venture £	Shares in subsidiary undertaking £	Investments in and loans to subsidiary undertakings and joint venture £	Investment in HSBC Enterprise Fund £	Total 2013 £	Total 2012 £
At 1 April	100	155,010	180,073,291	183,333	180,411,734	112,161,730
Additions	-	1	-	-	1	77,600,004
Disposals	-	-	(18,400,000)	-	(18,400,000)	(9,350,000)
At 31 March	100	155,011	161,673,291	183,333	162,011,735	180,411,734

The company's investments in group companies relate to:

Subsidiaries				
Finance Wales Investments Limited	United Kingdom	100%	£1 ordinary shares	
Finance Wales Investments (2) Limited	United Kingdom	100%	£1 ordinary shares	
Finance Wales Investments (3) Limited	United Kingdom	100%	£1 ordinary shares	
Finance Wales Investments (4) Limited	United Kingdom	100%	£1 ordinary shares	
Finance Wales Investments (5) Limited	United Kingdom	100%	£1 ordinary shares	
Finance Wales Investments (6) Limited	United Kingdom	100%	£1 ordinary shares	
Finance Wales Investments (8) Limited	United Kingdom	100%	£1 ordinary shares	
Finance Wales Investments (9) Limited	United Kingdom	100%	£1 ordinary shares	
Finance Wales Investments (10) Limited	United Kingdom	100%	£1 ordinary shares	
FW Capital Limited	United Kingdom	100%	£1 ordinary shares	
NE Growth 500 LP Limited	United Kingdom	100%	£1 ordinary shares	
FW Development Capital (North West) GP Ltd	United Kingdom	100%	£1 ordinary shares	Incorporated 10 Jan 2013
xènos – The Wales Business Angel Network Limited	United Kingdom	100%	£1 ordinary shares	

The activities of the subsidiaries consist of the provision of financial services to small and medium sized enterprises and fund management activities.

NOTES TO THE COMPANY FINANCIAL STATEMENTS
Year ended 31 March 2013

33. DEBTORS

	2013	2012	2011
	£	£	£
Debtors due within one year:			
Loans receivable within one year	849	2,663	62,502
Trade debtors	(4,872)	-	603
Amount owed by group undertakings	16,620	8,595	7,501,793
Other debtors	476,764	53,956	80,881
Prepayments and accrued income	98,329	99,776	103,024
	587,690	164,990	7,748,803

	£	£	£
Debtors due after one year:			
Loans receivable after one year	6,856	6,384	(20,657)
Amount owed by group undertakings	12,115,609	16,685,490	10,893,229
	12,122,465	16,691,874	10,872,572

34. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2013	2012	2011
	£	£	£
Trade creditors	173,610	107,203	133,558
Amount owed to group undertakings	1,663,559	1,687,001	866,958
Bank loans	4,100,000	-	2,050,000
Other creditors	67,594	(2,854)	11,457
	6,004,763	1,791,350	3,061,973

35. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2013	2012	2011
	£	£	£
Bank loans	53,500,000	72,450,000	72,700,000

NOTES TO THE COMPANY FINANCIAL STATEMENTS
Year ended 31 March 2013

36. BORROWINGS

	2013 £	2012 £	2011 £
Unsecured borrowings are repayable as follows:			
Within one year		-	2,050,000
In the second year	900,000	2,322,000	-
In the third year	2,000,000	1,428,000	3,022,000
In the fourth to fifth years inclusive	-	2,000,000	3,428,000
More than five years	-	-	-
	2,900,000	5,750,000	8,500,000
Secured borrowings are repayable as follows:			
Within one year	4,100,000	9,500,000	3,900,000
In the second year	17,900,000	6,600,000	11,600,000
In the third year	17,100,000	17,900,000	6,600,000
In the fourth to fifth years inclusive	15,600,000	32,700,000	35,000,000
More than five years		-	15,600,000
	54,700,000	66,700,000	72,700,000
Total borrowings	57,600,000	72,450,000	81,200,000

Loans received for making investments within Finance Wales Investments (5) Limited and Finance Wales Investments (6) Limited are repayable in line with the original repayment schedule over a remaining period of three and four years respectively. All other loans will either be repayable when there is surplus cash or at the end of ten years from inception. Repayments of £14,850,000 (2012 - £8,750,000) were made in the year. Interest is paid annually based on the outstanding daily capital balance at rates between 0.85% and 2.55% above LIBOR rate.

At 31 March 2013, the company has two interest rate swap agreements under which it pays fixed rates of between 2.73% and 3.64% per annum in respect of amounts drawn under the facilities. The effective notional amount outstanding at 31 March 2013 was £7,500,000 (2012 - £7,500,000). The swaps expire between 26 February 2014 and 1 April 2015.

The fair value of the interest rate swaps at 31 March 2013 was a liability of £357,942 (2012 – liability of £659,105).

The interest rate swaps settle on a quarterly basis. The floating rate on the interest rate swaps is three months LIBOR. The company will settle the difference between the fixed and floating interest rate on a net basis.

NOTES TO THE COMPANY FINANCIAL STATEMENTS
Year ended 31 March 2013

37. CALLED UP SHARE CAPITAL

	2013 £	2012 £	2011 £
Authorised and allotted			
50,000 ordinary shares of £1 each	50,000	50,000	50,000
Called up, allotted and part paid			
50,000 ordinary shares, 25p part paid	12,500	12,500	12,500

38. COMBINED RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS AND STATEMENT OF MOVEMENTS ON RESERVES

	Public equity £	Share capital £	Capital reserve £	Profit and loss account £	Total 2013 £	Total 2012 £
Balance at 1 April	134,556,334	12,500	10,100	(21,745,528)	112,833,406	30,906,815
Loss for the financial year	-	-	-	(2,968,566)	(2,968,566)	(2,063,409)
Actuarial gain/(loss) for the year	-	-	-	150,000	150,000	(510,000)
Additional public equity	16,000,000	-	-	-	16,000,000	84,500,000
Balance at 31 March	150,556,334	12,500	10,100	(24,564,094)	126,014,840	112,833,406

Extracted from Finance Wales' Management Arrangement. This is the document which governs the relationship between Finance Wales plc and the Welsh Ministers acting by the Welsh Government.

Background

1.4.1 In October 1999 the NAW resolved to establish a development fund "to provide SME's with flexible and sustained finance for development". The National Assembly for Wales' Economic Development Committee approved the establishment of the Company on 12 April 2000. Approval from Ministers acting on behalf of the NAW was given by letter dated 22 May 2000 (Annex 3 to this Management Arrangement).

1.4.2 The Company was incorporated and established on 18 August 2000.

Legislation

1.3.1 The Company was established and operates pursuant to the powers and functions provided by section 1(3) (b) (d) and 1 (7) (a), (b) and (d) of the Welsh Development Agency Act 1975 (as amended). The said powers and functions were transferred to the National Assembly for Wales ("the NAW") under the Welsh Development Agency (Transfer of Functions to the National Assembly for Wales and Abolition) Order 2005, with effect from 1st April 2006. These powers and functions were subsequently transferred to the Welsh Ministers pursuant to paragraph 30 of Schedule 11 of the Government of Wales Act 2006 ('GOWA 2006') such transfer being effected at the end of the 'initial period' as defined by GOWA 2006 namely 26th May 2007.

ANNEX 6

Cynulliad Cenedlaethol Cymru
The National Assembly for Wales

Parc Cathays / Cathays Park
Caerdydd / Cardiff
CF10 3NQ

Brian Willott Esq CB
Chief Executive
Welsh Development Agency
Principality House
The Friary
CARDIFF
CF1 4AE

Eich cyf / Your Ref

Ein cyf / Our Ref

22 May 2000

Dear Brian,

FINANCE WALES

Following consideration by the First Secretary and discussion at the Economic Development Committee 12 April, approval has been given for the formation of a new, wholly owned subsidiary company with the title Finance Wales to act as a development fund for small and medium sized enterprises in Wales. There are a number of issues which we need to take forward with the Agency and other partners. These are listed in the annex to this letter and there may be others. I think it would be helpful if we could arrange an early meeting to discuss them and we will be contacting Alan Morgan and Alistair Denton to make the arrangements.

This programme is in furtherance of the Agency's purpose set out in section 1(2) (a) of the Welsh Development Act 1975 as amended ('the Act') and its functions set out in section 1(3)(b) and (d) of the Act 1975. The project exercises the Agency's powers as set out in section 1(7)(a), (b) and (d) of the Act.

The Assembly Secretary for Economic Development's consent to the carrying out of this programme by the Agency is given in accordance with section 1(15) of the Act.

The Assembly Secretary's consent is limited to the programme described and neither constitutes consent, approval or authorisation under any other section of the Act nor a consent, approval or authorisation which may be necessary under any other statute; and is without prejudice to any other consent or approval given or to be given under any other statute.

A copy of this letter goes to both Alan and Alistair.

Yours sincerely,
S

STEVEN PHILLIPS
Head of Economic Policy
Division

Tel: 029 2082 3634
GTN: 1208 3634
Ffacs / Fax: 029 2082 3797
E-bost / E-mail: steven.Phillips@Wales.gsi.gov.uk

The Agency's existing Finance Programmes activities and their associated assets and liabilities will be transferred into Finance Wales. Finance Wales will be required to comply with the State Aid rules and the Agency, with the assistance of Assembly officials, should prepare a State Aid notification for the European Commission covering the new fund.

A Memorandum and Articles of Association should be prepared for the new subsidiary company to be submitted for our comments.

Operational guidelines for Finance Wales, incorporating a Code of Practice and criteria for the appraisal of applications for support should also be prepared.

Assembly officials will prepare a Financial Memorandum for the new company, which will set out the relationship between the Assembly, the Agency and Finance Wales and will define the framework within which Finance Wales will operate.

The Agency will be responsible for appointing the Directors and Chair of Finance Wales but, as stated in the Economic Development Committee paper (EDC-08-00 p4), the views of the Partnership should be sought before determining the composition of the Board.

Fund	Sub-Fund	Loan Range	No of Loans	Avg Loan Size	TOTAL INVESTED
JEREMIE	Loans	£25,001 - £2m	270	180,036	48,609,785
JEREMIE	Micro	£5,000 - £25,000	155	20,058	3,108,937
Wales Micro Business	Loans	£1,000 - £50,000	78	20,612	1,607,764
Wales SME	Loans	£50,001 - £2m	25	193,462	4,836,550
Wales Property	Loans	£250,000 - £1m	5	415,276	2,076,379
			533		**60,239,415**