

SCOTTISH FUTURES TRUST INVESTMENTS LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2019

SCOTTISH FUTURES TRUST INVESTMENTS LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS

CONTENTS

CHAIRMAN'S STATEMENT.....	1
STRATEGIC REPORT.....	2
DIRECTORS' REPORT	9
REPORT ON CORPORATE GOVERNANCE.....	11
STATEMENT ON INTERNAL CONTROL.....	15
REPORT ON DIRECTORS' REMUNERATION	16
REPORT OF THE GROUP AUDIT COMMITTEE.....	17
INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF SCOTTISH FUTURES TRUST INVESTMENTS LIMITED	20
STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2019.....	26
STATEMENT OF CHANGES IN EQUITY	267
STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2019.....	28
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2019.....	29
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019	30
OFFICERS AND PROFESSIONAL ADVISORS	51

SCOTTISH FUTURES TRUST INVESTMENTS LIMITED ANNUAL REPORT AND FINANCIAL STATEMENTS

CHAIRMAN'S STATEMENT

It is my pleasure to present SFTi's annual report and accounts for the year ended 31 March 2019.

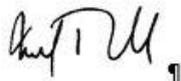
The purpose of SFTi, which is a wholly owned subsidiary of Scottish Futures Trust Limited, is to make and hold investments in infrastructure companies, assets and projects across Scotland.

During 2018/19, SFTi invested approximately £1.4m in a further four revenue-funded education and community health projects. The projects, which are being delivered through the SFT-managed hub programme, have a combined construction value of £152m and are supporting over 900 jobs in the construction industry.

To-date SFTi has invested £16.4m in 41 projects since the establishment of the hub programme. SFTi appoints a director to sit on the board of each investee company. Of the 41 projects, 29 were operational and cash generating at the year end, with the remaining at various stages of construction. Following the publication of the Scottish Government's Medium Term Financial Strategy, no further investments are anticipated within the hub DBFM programme. However, SFTi will continue to invest and support the delivery of infrastructure in other programmes in which it is involved.

SFTi continues actively to support the delivery and provision of mid market rent housing working with Local Authorities, Scottish Government and wider stakeholders. As part of the National Housing Trust programme, 19 homes were transferred during the year to two Housing Associations ensuring that the existing tenants continue to occupy their homes for as long as they want to do so.

SFTi's investment portfolio plays a strategic part in the wider SFT Group's business with the investment income being used to offset SFT's operating costs and potentially being available for investment in future projects.



Ian Russell
Chairman

Date: 17 September 2019

SCOTTISH FUTURES TRUST INVESTMENTS LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

STRATEGIC REPORT

The directors consider the Annual Report and Financial Statements taken as a whole, is fair, balanced and understandable and provides the information necessary to assess the Company's performance, business model and strategy.

Principal Activity

SFTi is a wholly owned subsidiary of SFT and its sole activity is to act as an investment company. The Company has no employees or other operations. Investments made by SFTi are managed by its directors. SFT staff represent the directors on the boards of companies in which SFTi invests. SFTi pays SFT a management charge for providing this service.

Strategy

SFTi's strategy is to invest in companies to support the development of infrastructure in Scotland. This includes investing funds provided by the Scottish Government as subordinated debt into Design, Build, Finance and Maintain (DBFM) projects in the SFT managed hub programme. Returns from these investments will deliver cash income to the Group following completion of the construction phase of these respective projects and these returns will be used to make further investments, or to support the operation of the Group as determined by the Directors from time to time. SFTi also invests in LLPs to support the development of affordable and mid-market housing in Scotland.

Business Review

As at 31 March 2019, SFTi has investments of £16.4m in 41 separate revenue-funded projects delivered by the Scotland-wide hub programme. Of these investments, £12.6m (29) relate to prior year projects now earning investment income and £3.8m (12) relate to projects in the course of construction as at 31 March 2019.

The table overleaf summarises the operational projects SFTi has invested in, in prior years, and from which it is now earning interest income:

SCOTTISH FUTURES TRUST INVESTMENTS LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS

STRATEGIC REPORT (continued)

Business Review (continued)

Project Company	HubCo	Commercial Close Date	Operational Date	SFTi Sub debt Investments £'000	Interest income £'000
Aberdeen Community Health Village Ltd	hub North	April 2012	December 2013	573	2019: 68 2018: 68
Hub North Scotland (FWT) Ltd <i>(Forres/Tain/Woodside Health Centre Bundle)</i>	hub North	April 2013	May – August 2014: – phased handover	119	2019: 14 2018: 14
James Gillespie's Campus Subhub Holdings Ltd	hub South East	December 2013	April 2015 – phase 1 July 2016 – phase 2	1,220	2019: 175 2018: 180
Hub SW NHSL Holdco Ltd <i>(NHS Lanarkshire Health Centre bundle)</i>	hub South West	December 2013	March 2015 – August 2015: – phased handover	402	2019: 42 2018: 54
Hub North Scotland (Alford) Ltd	hub North	May 2014	October 2015	715	2019: 82 2018: 84
Hub West Scotland Project Company (No.1) Ltd <i>(Eastwood/Maryhill Health Centres)</i>	hub West	October 2014	June – July 2016: - phased handover	180	2019: 20 2018: 22
Hub East Central (Levenmouth) Ltd	hub East Central	December 2014	July 2016	1,608	2019: 161 2018: 161
Hub SW Greenfaulds Holdco Ltd	hub South West	January 2015	September 2016	298	2019: 31 2018: 31
REH Phase 1 Subhub Holdings Ltd <i>(Royal Edinburgh Hospital)</i>	hub South East	December 2014	December 2016	409	2019: 46 2018: 46
Hub North Scotland (Wick) Ltd	hub North	December 2014	January 2017	1,569	2019: 191 2018: 198
Hub East Central (Forfar) Ltd	hub East Central	June 2015	February 2017	364	2019: 37 2018: 36
Hub North Scotland (Anderson) Ltd	hub North	July 2015	September 2017	319	2019: 42 2018: 43
Hub SW Ayr Holdco Ltd	hub South West	January 2016	August 2017	507	2019: 54 2018: 42
Hub SW Dalbeattie Holdco Ltd	hub South West	January 2016	October 2017	224	2019: 24 2018: 10

SCOTTISH FUTURES TRUST INVESTMENTS LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS

STRATEGIC REPORT (continued)

Business Review (continued)

Project Company	HubCo	Commercial Close Date	Operational Date	SFTi Sub debt Investments £'000	Interest income £'000
KHS DBFM Holdco Ltd Kelso High School	hub South East	February 2016	November 2017	203	2019: 23 2018: 14
Hub North Scotland (Elgin High School) Ltd	hub North	February 2016	October 2017	186	2019: 33 2018: 30
Hub East Central Scotland (Baldragon) Ltd	hub East Central	February 2016	December 2017	300	2019: 30 2018: 30
Hub West Scotland Project Company (No. 2) Ltd (<i>Inverclyde Care Home</i>)	hub West	February 2016	June 2017	69	2019: 8 2018: 8
Hub West Scotland Project Company (No. 3) Ltd (<i>Barrhead Secondary School</i>)	hub West	March 2016	June 2017	205	2019: 23 2018: 23
Hub West Scotland Project Company (No.4) Ltd (<i>Our Lady & St Patrick's High School</i>)	hub West	March 2016	October 2017	219	2019: 25 2018: 25
LBP DBFM Holdco Ltd (<i>NHS Lothian Health Centre Bundle</i>)	hub South East	April 2016	August – October 2017:– phased handover	241	2019: 27 2018: 16
Hub SW Largs Holdco Ltd	hub South West	May 2016	March 2018	423	2019: 30 2018: 14
Newbattle DBFM Holdco Ltd	hub South East	February 2016	March 2018	309	2019: 35 2018: 11
Hub SW EALC Holdco Ltd (<i>East Ayrshire Learning Campus</i>)	hub South West	February 2016	February 2019	368	2019: 16 2018: 13
Hub North Scotland (O & C) Ltd (<i>Oban & Campbeltown Grammar Schools</i>)	hub North	March 2016	February - March 2018: – phased handover	492	2019: 63 2018: 60
Hub North Scotland (New Academy - South of the City)	hub North	June 2016	June 2018	320	2019: 40 2018: 36

SCOTTISH FUTURES TRUST INVESTMENTS LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS

STRATEGIC REPORT (continued)

Business Review (continued)

Project Company	HubCo	Commercial Close Date	Operational Date	SFTi Sub debt Investments £'000	Interest income £'000
Hub North Scotland (I & F) Ltd <i>(Inverurie & Foresterhill Health Centres)</i>	hub North	December 2016	March – July 2018: – phased handover	167	2019: 20 2018: 18
WCHS DBFM Holdco Ltd <i>(West Calder High School)</i>	hub South East	December 2016	June 2018	286	2019: 26 2018: 10
Hub East Central (PSS) Ltd <i>(Pharmaceutical Special Services)</i>	hub East Central	December 2016	December 2018	276	2019: 28 2018: 28
Sub Total		29 Projects		12,571	2019: 1,414 2018: 1,325

In addition, SFTi has invested in the following hub projects which were in the course of construction as at 31 March 2019:

Project Company	HubCo	Commercial Close Date	Operational Date	SFTi Sub debt Investments £'000	Interest income
ELCH DBFM Holdco Ltd <i>(East Lothian Community Health Centre)</i>	hub South East	September 2016	February 2018 – January 2020: – phased handover	601	2019: 19 2018: 18
Hub East Central (SCV) Ltd <i>(Stirling Care Village)</i>	hub East Central	December 2016	June 2018 – October 2019: – phased handover	354	2019: 36 2018: 36
Hub West Scotland Project Company (No.5) Ltd Gorbals & Woodside Health Centres	hub West	April 2017	Originally October 2018 but part delayed due to fire	288	2019: 32 2018: 29

SCOTTISH FUTURES TRUST INVESTMENTS LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS

STRATEGIC REPORT (continued)

Business Review (continued)

Project Company	HubCo	Commercial Close Date	Operational Date	SFTi Sub debt Investments £'000	Interest income £'000
Hub West Scotland Project Company (No.6) Ltd <i>(Blairdardie & Carntyne Primary Schools)</i>	hub West	October 2017	April 2019	149	2019: 16 2018: 7
Hub East Central (Angus Schools) Ltd	hub East Central	November 2017	April 2019	156	2019: 16 2018: 6
Hub SW Cumbernauld Holdco Ltd	hub South West	June 2017	July 2019	310	2019: 11 2018: 8
Hub East Central (Bertha Park) Ltd	hub East Central	September 2017	July 2019	333	2019: 33 2018: 17
Hub SW QMA Holdco Ltd <i>(Queen Margaret Academy)</i>	hub South West	November 2017	November 2019	234	2019: 8 2018: 3
hub North Scotland (Inverurie Campus) Ltd <i>(Inverurie Community Campus)</i>	hub North	April 2018	March 2020	470	2019: 11 2018: nil
QHS DBFM Holdco Ltd <i>(Queensferry High School)</i>	hub South East	June 2018	March 2020	341	2019: 10 2018: nil
JICC DBFM Holdco Ltd <i>(Jedburgh Community Campus)</i>	hub South East	October 2018	March 2020	290	2019: 4 2018: nil
Hub West Scotland Project Company (No.7) Ltd <i>(Greenock & Stobhill Health Centres)</i>	hub West	December 2018	Stobill June 2020 and Greenock September 2020	259	2019: 7 2018: nil
Sub Total		(12 Projects)		3,785	2019: 203 2018: 124
Total investments				16,356	2019: 1,617 2018: 1,449

In addition to hub projects, SFTi has invested in Limited Liability Partnerships (LLPs) under the Housing Delivery Partnership programme, which aims to increase the supply of affordable housing in conjunction with our Local Authority partners. SFTi also remains invested in the National Housing rust programme, with 27 operational LLPs in place across the country with an equity valuation of £27.

SCOTTISH FUTURES TRUST INVESTMENTS LIMITED ANNUAL REPORT AND FINANCIAL STATEMENTS

STRATEGIC REPORT (continued) Business Review (continued)

Risks and Mitigation

The most significant risk to the Company is investment performance. Three projects are being monitored closely where operational performance has led to delays in subordinated debt interest payments. The Board do not anticipate any losses as payments are anticipated to be received in all cases and hence with the exception of minor re-profiling, investments are performing according to their base cases and making returns as anticipated. The investment risk is mitigated by:

- SFTi's representative on the Board of each territory hub Company, which gives clear visibility of investment pipeline and delivery capabilities;
- investing through a well understood and closely controlled Design, Build, Finance and Maintain contract structure, which passes significant risk to sub-contractors outwith the investment vehicle;
- SFTi's Investment Committee oversees the investment process and monitors investment performance and investment management; and
- close operational management of investments by the relevant SFT staff member (and his alternate[s]), who is a hub director and a director of the special purpose company established to deliver each project.

Risk Management and Internal Control

The directors monitor SFTi's risk management and internal control systems as detailed within the Statement of Internal Control.

Financial Results

Investment returns received in the year, including a small amount of bank interest, totalled £1,632,103 (2017/18: £1,462,688) and grant income of £nil (2017/18: £2). After allowing for costs of £545,914 (2017/18: £569,495) there was an operational surplus before tax of £1,086,189 (2017/18: £893,195). A tax charge of £206,376 (2017/18: £169,707) was incurred in respect of the profit generated.

The surplus after tax of £879,813 (2017/18: £723,488) will be applied to fund future projects and the activities and wider programmes delivered by the SFT group. A dividend of £860,000 (2017/18: £590,000) was declared during the year.

Following the implementation of IFRS 9, investments in SPV's were revalued from their historical cost to their fair value, this resulted in a gain on transition of £668,177 and a gain on investments made in the year of £18,060.

SCOTTISH FUTURES TRUST INVESTMENTS LIMITED ANNUAL REPORT AND FINANCIAL STATEMENTS

STRATEGIC REPORT (continued)

Business Review (continued)

In 2018/19 investments of £1,360,057 (2017/18: £1,469,171) were made in the sub-ordinated debt of projects delivered through hub. This was funded by the repayable grant received from SFTi's parent, SFT (this repayable grant was provided by the Scottish Government to SFT).

The forty one investments made to date in DBFM projects are performing satisfactorily, except three which at the year end were being monitored closely and whose performance had led to delays in subordinated debt interest payments. The Board do not anticipate any losses as payments are anticipated to be received in all cases and hence, with the exception of minor re-profiling, investments are performing according to their base cases and making returns as anticipated. Ten projects made capital repayments in the year which totalled £158,272 (2017/18: £65,399). The NHT LLP investments and investments in hubCos are not anticipated to make material financial returns to the Company.

As an investment company SFTi does not maintain separate non-financial key performance indicators.

Going Concern and viability statement

The directors believe it is appropriate for the SFTi Financial Statements to adopt the going concern basis of accounting. This is based on the investments held and related income streams which are expected to generate income for a period in excess of 20 years. In addition, SFTi's parent company, SFT, has expressed its continued support.

As such the directors believe SFTi will be able to continue in operation and meet its liabilities taking account of its current position and principal risks and issues as detailed above and within the Report of the Audit Committee.

Future Plans

SFTi will continue to invest in SPV companies which support the development of infrastructure in areas such as housing, schools and other community projects. It is anticipated that no further investments will be made in hub DBFM projects as this programme draws to a close.

The Strategic Report is approved by its parent SFT and the Board of Directors and signed on its behalf by:



Peter Reekie
Executive Director

Date: 17 September 2019

SCOTTISH FUTURES TRUST INVESTMENTS LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

DIRECTORS' REPORT

Directors

The business review of the Company is included in the Strategic Report in accordance with the Companies Act 2006 s.414 (C11). The directors who held office during the year and up to the signing of these financial statements are as follows:

Ian Russell	Chairman
Peter Reekie	Chief Executive Director
Vivienne Cockburn	Executive Director (appointed 18 March 2019)
Ann Faulds	Non-Executive Director
Graham Watson	Non-Executive Director
Bill Matthews	Non-Executive Director (appointed 1 January 2019)
Ann Allen	Non-Executive Director (appointed 1 January 2019)
Pauline Mills	Non-Executive Director (appointed 1 January 2019)
Fiona Mackenzie	Non-Executive Director (resigned 31 December 2018)
Carolyn Dwyer	Non-Executive Director (resigned 31 December 2018)

The Company is wholly owned by Scottish Futures Trust Limited, a company wholly owned by the Scottish Ministers. Under section 251 of the Companies Act 2006, the Scottish Ministers are considered to be the Shadow Director of the Company.

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND FINANCIAL STATEMENTS

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 they have elected to prepare the Company's financial statements in accordance with International Financial Reporting Standards (IFRS's) and International Financial Reporting Interpretations Committee (IFRIC) interpretations endorsed by the European Union.

The Company's financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss for that year.

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

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

SCOTTISH FUTURES TRUST INVESTMENTS LIMITED ANNUAL REPORT AND FINANCIAL STATEMENTS

DIRECTORS' REPORT (continued)

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND FINANCIAL STATEMENTS (continued)

The directors are responsible for keeping adequate accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The directors have decided to prepare voluntarily, a Report on Corporate Governance as if the Company were required to comply with the Listing Rules of the Financial Conduct Authority in relation to those matters.

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

Disclosure of Information to the Auditor

The directors who held office at the date of approval of this Directors' Report confirm that, so far as they are aware, there is no relevant audit information of which the auditor is unaware and each director has taken all the steps that they ought reasonably 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.

Auditor

The auditor, Scott-Moncrieff, is deemed to be reappointed under section 487(2) of the Companies Act 2006. The Company has elected to dispense with the holding of the AGM, the laying of financial statements in a general meeting and the annual appointment of the auditor as meetings between the sole shareholder, Scottish Futures Trust and its sole shareholder the Scottish Government occur on a regular basis.

On behalf of the Board:



Peter Reekie
Executive Director

Date: 17 September 2019

SCOTTISH FUTURES TRUST INVESTMENTS LIMITED ANNUAL REPORT AND FINANCIAL STATEMENTS

REPORT ON CORPORATE GOVERNANCE

The Company is committed to high standards of corporate governance, business integrity and professionalism in all its activities.

Throughout the accounting year ending 31 March 2019, the Company has complied with all the relevant provisions of the UK Corporate Governance Code issued by the Financial Reporting Council as best practice guidance, except as explained below, notwithstanding that the Company is not a listed company to which the provisions are directed. The following exceptions are noted:

- there is no Nominations Committee as non-executive Board appointments to SFTi reflect those of the parent company, SFT. The terms and conditions of appointment for both SFTi and SFT non executive board appointments are determined by the Company's ultimate shareholder, the Scottish Ministers;
- directors are not subject to election or re-election at General Meetings as required by the Code. Non-executive directors are appointed to the Board by the Scottish Ministers - these appointments are made under a system regulated and monitored by the Commissioner for Ethical Standards in Public Life in Scotland whose policies on term of office and diversity are available on their website;
- there is no Remuneration Committee as the Company has no direct employees;
- in view of the Group's responsibilities to take account of the provisions set out in the Management Statement and Financial Memorandum (MSFM) agreed with the Scottish Government, compliance is not appropriate with the provision in the UK Corporate Governance Code that performance-related elements of remuneration to be transparent, stretching and rigorously applied. The Board carries out the role of a Remuneration Committee as remuneration of non-executive directors is set by the Scottish Government;
- the Board has not identified a Senior Independent Director as the sole shareholder in SFT appoints and appraises the performance of the Chairman of SFTi, and the Chairman was independent on his appointment and has no financial interest in the performance of the Company; and
- the Board has requested the Group Audit Committee to regularly review the need for an internal audit function. The size and nature of the organisation, alongside a clear controls framework and a 3 year Internal Controls Review Plan, has led the Audit Committee to conclude to date that such a function is not required.

Board of Directors

The Board is the principal decision-making forum. It has overall responsibility for leading and controlling the Company and is accountable to the Company's ultimate shareholder, the Scottish Ministers, for financial and operational performance. The Board approves Company strategy, authorises key investment decisions and monitors performance. The Board has adopted a formal schedule of matters, in accordance with those matters reserved by the Board of the Parent Company, SFT, which are specifically reserved for its decision, which is reviewed on an annual basis.

SCOTTISH FUTURES TRUST INVESTMENTS LIMITED ANNUAL REPORT AND FINANCIAL STATEMENTS

REPORT ON CORPORATE GOVERNANCE (continued)

The roles of the Chairman and the Chief Executive Director are distinct and separate, with a clear division of responsibilities. The Chairman leads the Board and ensures the effective engagement and contribution of all the directors. The Chief Executive Director has responsibility for all operational business and acts in accordance with the authority delegated from the Board. Responsibility for the implementation of policy, strategy and operational management is delegated to the Chief Executive Director.

The Chairman's other significant commitments are: chairmanship of HICL Infrastructure Company Limited, directorship of Herald Investment Trust plc (being appointed Chair in April 2019) and Chairman of National Infrastructure Commission for Scotland; and trustee of National Museums Scotland.

Board Meetings take place throughout each year as regularly as is required for the specific investment business that the Company undertakes. Board meetings are structured to allow open discussion and all directors participate in discussing the Company's strategic aims and performance and financial and risk management.

Four Board meetings were held during the year.

Board balance and independence

As at 31 March 2019, the Board included six non-executive directors (including the Chairman). During the year, three non-executive directors were appointed on 1 January 2019, with two non-executive directors resigning in the year following completion of their time in office. The Board considers that, based on the criteria set out in the provisions of the UK Corporate Governance Code, all non-executive directors (including the Chairman at the time of his appointment) are independent. The non-executive directors combine broad business and commercial experience gained in the private and public sectors with independent and objective judgement and constructively challenge and assist development of strategic matters.

The Board functions effectively and efficiently and is considered to be of an appropriate size in relation to the Company's level of business and associated responsibilities.

The Board aims to achieve a balance between non-executive and executive directors so as to promote clear and effective leadership and maintain the highest standards of integrity and professionalism across the Company's business activities.

Election of Directors

The non-executive directors have been appointed by Scottish Ministers in accordance with the Office for the Commissioner for Ethical Standards in Public Life in Scotland's 2013 Code of Practice for Ministerial Appointments to Public Bodies in Scotland.

SCOTTISH FUTURES TRUST INVESTMENTS LIMITED ANNUAL REPORT AND FINANCIAL STATEMENTS

REPORT ON CORPORATE GOVERNANCE (continued)

Information

As permitted by the Companies Act 2006, the Board has dispensed with the appointment of a Company Secretary. The Chairman is responsible for advising the directors on all governance matters and for ensuring that Board procedures are followed. All directors are entitled to obtain independent professional advice at the Company's expense. Minutes of Board and the Group Audit Committee meetings are available on SFT's website following their approval.

Performance Evaluation

The performance of non-executive directors is assessed by the Chairman and the performance of executive directors is assessed by the Chairman and the non-executive directors. The Chairman's performance is assessed by the Scottish Government.

Board Committees

Due to the restricted nature of its business, the Company Board does not have an extensive committee structure, although the Company does have an Investment Committee whose members are the full Board with the exception of the Chairman. The Investment Committee met three times during the year. There is also a Group Audit Committee whose membership is determined by the Parent company.

Investment Committee

The Board has constituted an Investment Committee, which has Terms of Reference to perform diligence on investments approved in principle by the Board and if considered beneficial for the Company, approve the investment. Members of the Investment Committee are all members of the Board with the exception of the Chairman.

**SCOTTISH FUTURES TRUST INVESTMENTS LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS**

REPORT ON CORPORATE GOVERNANCE (continued)

Attendance at Board and Committee Meetings

Attendance by Board Members at Board and Committee meetings held during the year was as follows:

	SFTi Board	Group Audit Committee	SFTi Investment Committee
Number of meetings	4	3	3
Ian Russell	4	3*	2*
Carolyn Dwyer ¹	2	2	-
Fiona MacKenzie ¹	2	2	3
Ann Faulds	4	3	1
Graham Watson	4	3	3
Bill Matthews ²	2	1	-
Ann Allen ²	1	-	-
Pauline Mills ²	2	1	-
Peter Reekie	4	3*	3

*In attendance, not members of the Committee

Attendance at SFTi Investment Committee is on the basis of the necessary quorum being present, reflecting the nature of the agenda and the frequency of the meetings.

Note 1: Carolyn Dwyer and Fiona Mackenzie resigned from all Boards and Committees on 31 December 2018. The number of meetings that took place in this period: 2 SFTi Boards, 2 Group Audit Committees and 3 SFTi Investment Committees.

Note 2: Ann Allen, Bill Matthews and Pauline Mills were appointed to all Boards and Committees on 1 January 2019. The number of meetings that took place in this period: 2 SFTi Boards, 1 Group Audit Committee and no SFTi Investment Committees.

Vivienne Cockburn was appointed to the Board of SFTi on 18 March 2019. There were no meetings between that date and the year end.

Relations with Ultimate Shareholder

As disclosed in the Directors' Report, the Company's ultimate shareholder, the Scottish Ministers, is considered to be the Shadow Director of the Company. The Chairman, on behalf of the directors has met with Scottish Ministers and officials regularly during the year and post year end to understand their views and has reported these to the Board.

On behalf of the Board:



Peter Reekie

Executive Director

Date: 17 September 2019

SCOTTISH FUTURES TRUST INVESTMENTS LIMITED ANNUAL REPORT AND FINANCIAL STATEMENTS

STATEMENT ON INTERNAL CONTROL

The key elements of the system of internal control are as follows:

Control Structure

SFTi has in place the same internal control system as SFT. Given the nature and size of the Company, SFTi's control structure is the responsibility of the directors and there is no current need for a separate internal audit function, though this will be kept under review. The organisation has clear lines of responsibility and effective communication channels which ensures that best practice in managing risks and controls is consistently applied. In addition, the Company's external auditor presents reports to the Audit Committee which include any significant internal control matters which they have identified.

Identification and Monitoring of Business Risks

The Company has adopted a risk-based approach to internal control by evaluating the likelihood and impact of risk and putting in place appropriate levels of control to mitigate each risk. Procedures include an ongoing process of identifying, evaluating and managing key risks and, where appropriate, enhancing the systems which manage these risks. Regular review of the risks is undertaken by the Audit Committee and ultimately the Board.

Corporate Information Systems

The Company operates a budgeting and financial reporting system appropriate to its business as an investment vehicle. Standard financial control procedures are in place which provide assurance on the integrity of the Company's finances.

Effectiveness of Internal Controls

The directors are responsible for, reviewing the effectiveness of the Company's system of internal control, including internal financial control, which is designed to provide reasonable, but not absolute assurance regarding the safeguarding of assets against unauthorised use or disposition and the maintenance of proper accounting records and the reliability of financial information used within the business or for publication. The directors do this through a range of internal control reviews conducted by a separate team from the Company's auditors. In 2018/19, this included a review of the investment management processes operated by SFTi. These controls are designed to manage rather than eliminate the risk of failure to achieve business objectives due to circumstances which may reasonably be foreseen and can only provide reasonable and not absolute assurance against material misstatement or loss.

On behalf of the Board:



Peter Reekie

Executive Director

Date: 17 September 2019

**SCOTTISH FUTURES TRUST INVESTMENTS LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS**

REPORT ON DIRECTORS' REMUNERATION

Details of directors' remuneration are as follows:

Directors' Remuneration

None of the directors receive remuneration for their service to SFTi. Directors are remunerated through SFTi's parent company, SFT.

On behalf of the Board:



Peter Reekie

Executive Director

Date: 17 September 2019

SCOTTISH FUTURES TRUST INVESTMENTS LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

REPORT OF THE GROUP AUDIT COMMITTEE

Role and Responsibilities

The Group Audit Committee is responsible for assisting the Board in discharging its responsibilities in relation to the financial affairs of the Group, the arrangements for accounting, financial reporting and regulatory compliance, the standards and effectiveness of internal control, the arrangements for identifying, evaluating and managing the significant risks faced by the Group and the arrangements for external audit. The Group Audit Committee meets regularly throughout the accounting year and, in addition, it meets the external auditor privately.

Composition

Members of the Group Audit Committee during the financial year were:

- Graham Watson is a Chartered Accountant and experienced investment banker bringing extensive strategic leadership and financial expertise to the board. Graham was appointed chair of the Group Audit Committee from 1 September 2017.
- Ann Faulds was a partner in the law firm, CMS and has 30 years' experience in consenting processes for developments and infrastructure projects.
- Pauline Mills (appointed 1 January 2019) is a chartered town planner and member of the Royal Town Planning Institute. She is currently Land and Planning Director at Taylor Wimpey, responsible for managing the firm's land assets across the regional Board of which she is a member.
- Ann Allen MBE (appointed 1 January 2019) is a chartered surveyor with over 35 years' experience and is Director of Estates at the University of Glasgow and is currently leading the team delivering the campus development.
- Bill Matthews (appointed 1 January 2019) is a Chartered Engineer and has governance knowledge across a variety of policy areas and organisations. He was the founding Chair of hub West Scotland and has significant infrastructure development experience.
- Fiona MacKenzie (resigned 31 December 2018) is an honorary Professor of Management at Stirling University, was previously Chief Executive of Forth Valley NHS Board and has extensive experience of leading major public bodies.
- Carolyn Dwyer (resigned 31 December 2018) is the director of Built Environment at the City of London Corporation. She has over 30 years' experience in the Development Sector.

In the year ended 31 March 2019, there were three meetings of the Group Audit Committee.

The Board is satisfied that the Committee membership has relevant financial and business experience.

Responsibilities and Review of the External Auditor

During the year the principal activities of the Group Audit Committee included:

- considering and recommending to the Board for approval the annual financial statements and reviewing the external auditor's report thereon;

SCOTTISH FUTURES TRUST INVESTMENTS LIMITED ANNUAL REPORT AND FINANCIAL STATEMENTS

REPORT OF THE GROUP AUDIT COMMITTEE (continued)

- reviewing the scope, execution, results, cost effectiveness, independence and objectivity of the external auditor;
- reviewing and monitoring the independence of the external auditor in relation to non-audit assignments, taking into account relevant ethical guidance;
- reviewing and approving the external auditor's plan for the financial year, with a focus on the identification of areas of audit risk, and consideration of the appropriateness of the level of audit materiality adopted;
- reviewing the efficiency of the external audit process and the quality and independence of the audit engagement partner;
- reviewing the appropriateness of the Company's accounting policies; and
- ensuring the adequacy of the Company's internal control systems and standards.

Auditor and Audit Tenure

Scott Moncrieff has been auditor since the company's incorporation in 2010 and was reappointed through a formal tender process in 2014 and 2017. The Group Audit Committee reviews the auditor's performance on a regular basis, taking into consideration the services and advice provided to the Company and the fees charged for these services.

Safeguarding the Auditor's Objectivity and Independence

The Group has a policy in place whereby their Auditor can provide non-audit services to a value not exceeding 50% of the agreed external audit fee if authorised by the SFT Director of Corporate Services. The Group Audit Committee can authorise non-audit services up to 100% of the audit fee.

The Auditor cannot provide non-audit services to a value exceeding 100% of the external audit fee. This ensures the auditor's objectivity and independence.

The only non-audit services provided to the Company by the Auditor were basic corporation tax compliance advice, ad-hoc VAT advice, iXBRL tagging of the financial statements for submission to HMRC and a review of the SFT group internal controls which covered SFTi. This work was performed by staff from Scott-Moncrieff, who had no involvement with the external audit, thus the objectivity and independence of the external audit was not compromised. The audit and tax fees for SFTi were paid by SFT and recharged via the management charge.

Significant Issues Considered Regarding the Annual Report and the Financial Statements

During the year, the Audit Committee considered the significant issues and areas of key audit risk in respect of the Annual Report and Financial Statements. The Audit Committee reviewed the external audit plan at an early stage and concluded that the appropriate areas of audit risk relevant to the Company had been identified and that suitable audit procedures had been put in place to obtain reasonable assurance that the financial statements as a whole would be free of material misstatements.

SCOTTISH FUTURES TRUST INVESTMENTS LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS

REPORT OF THE GROUP AUDIT COMMITTEE (continued)

Significant issue	How the issue was addressed
Income recognition	The company's main source of income is the interest it receives on the working capital loans and subordinated debt invested in the hub Companies and the DBFM SPV companies. The Investment Committee/ SFTi Board approves each investment made and reviews the performance of each investment. In addition, at the year end, amounts due from investments are confirmed directly with the companies in which the investments have been made. This provides a completeness check of revenue due.
The incorrect accounting of repayable grants from the Scottish Government to SFT which are then granted on to SFTi	SFT draws down repayable grants from the Scottish Government which are then granted on to SFTi to make investments in the subordinated debt and share capital of special purpose investment vehicles. The Investment Committee approves each investment made by SFTi and the funding that is drawdown from the Scottish Government and then granted on to SFTi to fund these investments. Through the review of the management accounts and the statutory financial statements, the Board ensure that all repayable grants drawdown from the Scottish Government by SFT which are granted on to SFTi are recorded and disclosed correctly.
The risk that investments are not consolidated in SFT group accounts when they should be.	Through discussions with the auditor, the Audit Committee reviews the criteria regarding consolidation and the relationship the group has with the companies the group has invested in, in order to establish if consolidation is required.
Risk of the recoverability of investments in terms of repayment of the loans and interest receivable	The SFTi Board reviews investment performance. SFTi also has board representation on all hubcos which provides additional reassurance regarding the performance of hubcos to whom SFTi provides working capital loans and their project companies to whom SFTi may provide subdebt.
The risk that the fair value of investments is over or under stated in the financial statements	The Company implemented IFRS 9 <i>Financial Instruments</i> this year which required the equity investments, in companies delivering infrastructure as part of wider SFT programmes, to be held at fair value. The fair value calculations are based on the discounted value of future cashflows. The future cashflows are based on operational models provided bi-annually by the companies in which SFTi holds the equity. These companies have a SFT nominated Director on their Boards who confirms the reasonableness of the operating models. The directors gain reassurance that the fair value calculations are reasonable based on the above controls.

On behalf of the Group Audit Committee:



Graham Watson
Chairman, Group Audit Committee
Date: 17 September 2019

SCOTTISH FUTURES TRUST INVESTMENTS LIMITED ANNUAL REPORT AND FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF SCOTTISH FUTURES TRUST INVESTMENTS LIMITED

Opinion

We have audited the financial statements of Scottish Futures Trust Investments Limited for the year ended 31 March 2019 which comprise the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Financial Position, the Statement of Cash Flows and the notes to the financial statements including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the Annual Report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the Annual Report that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation in the Annual Report that they have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity;
- the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the directors' statement relating to going concern is materially inconsistent with our knowledge obtained in the audit; or
- the directors' explanation in the Annual Report as to how they have assessed the prospects of the Company, over what period they have done so and why they consider that period to be

SCOTTISH FUTURES TRUST INVESTMENTS LIMITED ANNUAL REPORT AND FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF SCOTTISH FUTURES TRUST INVESTMENTS LIMITED (continued)

appropriate, and their statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Income Recognition

- **The risk:** There is a risk that income is misstated as a result of the accounting policies adopted or as a result of the Company recognising income transactions in such a way as to lead to a material misstatement in the reported income.
- **Our response:** The Company's main source of income in the year is interest received in respect of the working capital loans and subordinated debt invested in the hub companies and the Design Build Finance Maintain (DBFM) Special Purpose Vehicle (SPV) companies and through reviewing the underlying agreements and the sums invested we confirmed the interest income recognised in the year was accurate.
- **Our findings:** From the work performed we gained assurance in respect of the recognition of income in the year.

Repayable grants from the Scottish Government to SFT which are then granted on to SFTi

- **The risk:** There is a risk that repayable grants received by SFT from the Scottish Government which are then granted on to SFTi to fund the investment in sub-ordinated debt and the share capital of DBFM SPV companies are not correctly recorded in the financial statements of SFT or SFTi.
- **Our response:** All repayable grants received from the Scottish Government by SFT in the year which were then granted on to SFTi to fund SFTi's investments were agreed to supporting documentation, the bank statements and both SFTi's and SFT's accounting systems.
- **Our findings:** From the work performed, we have gained assurance over the repayable grants received from the Scottish Government in the year by SFT which were then granted on to SFTi.

SCOTTISH FUTURES TRUST INVESTMENTS LIMITED ANNUAL REPORT AND FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF SCOTTISH FUTURES TRUST INVESTMENTS LIMITED (continued)

Treatment of Investments made by Scottish Futures Trust Investments Limited

- **The risk:** There is a risk that the financial statements of SFTi are incomplete as they may not include all entities that SFTi has invested in which may be deemed subsidiaries or associates of SFTi.
- **Our response:** We performed a detailed review of the investments held in order to establish to what extent, if any, SFTi exerts significant influence or control over the financial and operational decisions of the investee. This included detailed discussions with the Audit Committee and Leadership Team and a review of underlying agreements.
- **Our findings:** The investments held were reviewed and we concluded that no significant influence or control existed and therefore consolidation was not required for any of the investments held.

Recoverability of investments in terms of the repayment of the loans and interest receivable

- **The risk:** Capital investments in hub companies and special purpose investment vehicles in terms of both share capital and subordinated debt are impaired.
- **Our response:** From our review of investments we did not identify any indication of impairment.
- **Our findings:** No impairment has been identified in respect of any of SFTi's investments.

The recognition of the equity investments at fair value in accordance with IFRS 9 *Financial Instruments*

- **The risk:** Equity investments are not recorded at their fair value.
- **Our response:** We reviewed the fair valuation calculations and are satisfied that the equity investments are held at fair value and that the transition to IFRS 9 has been accounted for correctly.
- **Our findings:** The equity investments are held at fair value in line with the requirements of IFRS 9.

Our application of Materiality

The materiality for the financial statements as a whole was set at £32,000. This has been assessed with reference to the benchmark of investment income (representing 2% of the reported figure) which we consider to be the principal considerations for the member of the company in assessing the financial performance of the company.

For significant risk areas we set a performance (testing) materiality, which we assessed as being 50% of the overall materiality. In respect of other areas, we performed audit procedures on all transactions and balances that exceeded our assessed low risk level performance materiality which was assessed as being 75% of the overall materiality. This meant that we performed a greater level of testing on the areas deemed to be of significant risk of material misstatement. All balances and transactions above 75% of overall materiality were audited whilst for higher risk items we tested all balances and transactions above 50% of overall materiality. We tested smaller balances and transactions as we deemed necessary.

SCOTTISH FUTURES TRUST INVESTMENTS LIMITED ANNUAL REPORT AND FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF SCOTTISH FUTURES TRUST INVESTMENTS LIMITED (continued)

We agreed with the Audit Committee to report to it the following misstatements that we identified through our audit: (i) all material corrected misstatements; (ii) uncorrected misstatements with a value in excess of £1,600; and (iii) other misstatements below that threshold that we believe warranted reporting on qualitative grounds.

An Overview of the Scope of our Audit

Each of the risks noted above were identified at the planning stage of the audit and as such procedures designed to mitigate the risk of material misstatement were selected at planning. In our audit, we tested and examined information using sampling and other audit techniques, to the extent we considered necessary to provide a reasonable basis for us to draw conclusions. We obtained evidence through performing a review of the significant accounting systems, substantive procedures and detailed analytical procedures.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report other than the financial statements and our Auditor's Report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- Fair, balanced and understandable – the statement given by the directors that they consider the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- Audit committee reporting – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or

SCOTTISH FUTURES TRUST INVESTMENTS LIMITED ANNUAL REPORT AND FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF SCOTTISH FUTURES TRUST INVESTMENTS LIMITED (continued)

- Directors' statement of compliance with the UK Corporate Governance Code – the parts of the directors' statement relating to the Company's voluntarily compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

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

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

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements:

- in the Strategic Report or the Directors' Report; or
- the information about internal control and risk management systems in relation to financial reporting processes.

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited 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.

Responsibilities of the directors

As explained more fully in the directors' responsibilities statement set out on pages 9 and 10, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

SCOTTISH FUTURES TRUST INVESTMENTS LIMITED ANNUAL REPORT AND FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF SCOTTISH FUTURES TRUST INVESTMENTS LIMITED (continued)

Auditor's responsibilities for the audit of the financial statements

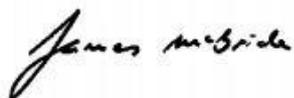
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditor's Report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our Auditor's Report.

In addition to our audit of the Financial Statements, the directors have engaged us to review their Report on Corporate Governance as if the Company was required to comply with the Listing Rules of the Financial Conduct Authority in relation to those matters. We review whether the Report on Corporate Governance reflects the Company's compliance with the UK Corporate Governance Code specified for our review by those rules, and we report if it does not. We are not required by the terms of our engagement to consider whether the Board's Statement on Internal Control covers all risks and controls, or to form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

Use of this report

This report is made solely to the Company's member, 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 member, as a body, 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 member, as a body, for our audit work, for this report, or for the opinions we have formed.



James McBride (Senior Statutory Auditor)
For and on behalf of Scott Moncrieff, Statutory Auditor
Exchange Place 3
Semple Street
Edinburgh
EH3 8BL
Date: 17 September 2019

SCOTTISH FUTURES TRUST INVESTMENTS LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2019

	Note	2019	2018
		£	£
Continuing operations			
Revenue		-	-
Cost of sales		-	-
		<u>-</u>	<u>-</u>
Gross Profit		<u>-</u>	<u>-</u>
Other income	5	1,632,103	1,462,688
Grant income	6	-	2
Operating expenditure	7	(545,914)	(569,495)
		<u>1,086,189</u>	<u>893,195</u>
Profit on ordinary activities before taxation		1,086,189	893,195
Taxation on profit on ordinary activities	8	(206,376)	(169,707)
		<u>879,813</u>	<u>723,488</u>
Net Profit for the year		879,813	723,488
Other comprehensive income		-	-
Gain on fair value of SPV investments		18,060	-
		<u>18,060</u>	<u>-</u>
Other comprehensive income for the year		18,060	-
Total comprehensive income for the year		<u>897,873</u>	<u>723,488</u>
		<u><u>897,873</u></u>	<u><u>723,488</u></u>
Attributable to Equity holder of the Company		<u><u>897,873</u></u>	<u><u>723,488</u></u>

The accompanying notes form an integral part of these financial statements

SCOTTISH FUTURES TRUST INVESTMENTS LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS

STATEMENT OF CHANGES IN EQUITY

As at 31 March 2019 and 31 March 2018	Share Capital	Retained Earnings	Fair Value Reserve	Total
	£	£	£	£
At 1 April 2018 as previously stated	1	7,477,627	-	7,477,628
IFRS 9 transitional adjustment	-	668,177	-	668,177
At 1 April 2018 as restated	1	8,145,804	-	8,145,805
Total comprehensive income for the year	-	897,873	-	897,873
Dividend payable	-	(860,000)	-	(860,000)
Transfer between reserves	-	(686,237)	686,237	-
At 31 March 2019	1	7,497,440	686,237	8,183,678
At 1 April 2017	1	7,344,139	-	7,344,140
Total comprehensive income for the year	-	723,488	-	723,488
Dividend payable	-	(590,000)	-	(590,000)
At 31 March 2018	1	7,477,627	-	7,477,628

The accompanying notes form an integral part of these financial statements

SCOTTISH FUTURES TRUST INVESTMENTS LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2019

	Note	2019	2018
		£	£
ASSETS			
Non-current assets			
Investments in share capital	9	687,160	802
Financial assets - working capital loans	9a	200,000	100,000
Financial assets - subordinated debt	9b	16,355,223	15,122,058
Trade and other receivables in more than one year	10	1,859,102	1,846,666
		<u>19,101,485</u>	<u>17,069,526</u>
Current assets			
Trade and other receivables in less than one year	10	720,072	263,402
Financial assets - working capital loans	9a	-	100,000
Cash and cash equivalents	11	822,531	859,697
		<u>1,542,603</u>	<u>1,223,099</u>
Current liabilities			
Trade and other payables	12	(1,549,537)	(1,283,472)
Current tax liabilities	8	(206,376)	(169,707)
		<u>(1,755,913)</u>	<u>(1,453,179)</u>
Net current liabilities		(213,310)	(230,080)
Non-current liabilities			
Repayable grant from parent	13	(10,704,497)	(9,361,818)
		<u>(10,704,497)</u>	<u>(9,361,818)</u>
Net assets		<u>8,183,678</u>	<u>7,477,628</u>
Equity			
Called up share capital	14	1	1
Retained earnings	14	7,497,440	7,477,627
Fair value reserve	14	686,237	-
		<u>8,183,678</u>	<u>7,477,628</u>
Total shareholder's funds		<u>8,183,678</u>	<u>7,477,628</u>

These financial statements were approved by the Board of Directors on 17 September 2019 and authorised for issue on its behalf by:



Ian Russell
Chairman



Peter Reekie
Executive Director

Registered Company Number: SC381388

The accompanying notes form an integral part of these financial statements

SCOTTISH FUTURES TRUST INVESTMENTS LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2019

	Note	2019	2018
Cash flows from operating activities		£	£
Profit from operations for the year		1,086,189	893,195
Increase in trade and other receivables	10	(500,486)	(459,735)
(Decrease)/increase in trade and other payables	12	(611,314)	198,385
		<hr/>	<hr/>
Net cash from operating activities		(25,611)	631,845
Corporation tax paid	8	(169,707)	(183,689)
Cash flows from investing activities			
Purchase of investments and SPV share capital	9	(121)	(23)
Disposal of investments	9	-	4
Repayment of subordinated debt	9b	158,272	65,399
Increase in repayable grants	13	1,360,058	1,469,189
Investment in subordinated debt of hub projects	9b	(1,360,057)	(1,469,171)
		<hr/>	<hr/>
Net cash used in investing activities		158,152	65,398
		<hr/>	<hr/>
Net (decrease)/increase in cash and cash equivalents		(37,166)	513,554
Cash and cash equivalents at beginning of year	11	859,697	346,143
		<hr/>	<hr/>
Cash and cash equivalents at end of year	11	822,531	859,697
		<hr/> <hr/>	<hr/> <hr/>

The accompanying notes form an integral part of these financial statements

SCOTTISH FUTURES TRUST INVESTMENTS LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

1. Basis of Preparation and Accounting Policies

The financial statements of Scottish Futures Trust Investments Limited have been prepared in accordance with International Financial Reporting Standards (IFRSs as adopted by the EU), IFRIC interpretations and the Companies Act 2006.

The financial statements are presented in British Pounds since this is the functional currency of the Company.

Scottish Futures Trust Investments Limited is a Company limited by shares, incorporated and domiciled in the United Kingdom. The address of its registered office is 11 – 15 Thistle Street, Edinburgh, EH2 1DF.

The report is prepared on an accruals basis and is based on historical costs and does not take into account changing money values or, except where specifically stated (for example equity investments), current valuations of non-current assets.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The following significant accounting policies have been adopted in the preparation of this report:

Going Concern

On the basis of the information available to them, the directors have a reasonable expectation that the Company will continue to receive the forecast income due from its investment activities. Consequently, in managing this capital, the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, the directors consider it appropriate to adopt the going concern basis in preparing the financial statements.

Share capital

The ordinary share of SFTi is classified as equity.

Financial Instruments

Classification, recognition and measurement

The Company classifies its financial assets as investments, loans and receivables. Management determines the classification of its financial assets at initial recognition.

Investments

These are investments by SFTi in hub companies, DBFM SPV companies and limited liability partnerships and are held at fair value. An irrecoverable election has been made to recognise the fair value movements through Other Comprehensive Income. SFTi has no intention of disposing of these investments.

SCOTTISH FUTURES TRUST INVESTMENTS LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (continued)

1. Basis of preparation and accounting policies (continued)

Financial Instruments (continued)

Impairment

The company reviews its investments for impairment based on changes in expected future cash flows. Where the discounted value of future cash flows exceeds the carrying value of investments no impairment is made; where it is less a provision is made for future expected credit losses.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortised cost using the effective interest method.

De-recognition

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

Cash and Cash Equivalents

In the Statement of Cash Flows, cash includes cash on hand and at call deposits with banks or financial institutions.

Trade and other Payables

Trade payables are obligations to pay for goods and services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. Trade payables are recognised at cost.

Revenue

Revenue comprises the fair value of the consideration received or receivable in the ordinary course of the Company's activities. The Company recognises revenues when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the Company.

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans and receivables is recognised using the original effective rate.

Capital grants

The Scottish Government provides capital grants to SFT which then grants these on to SFTi to fund investments. These grants are not repayable to the Scottish Government with returns generated from the investments to be recycled to fund new investments. As such the grant funding is recognised as income by SFTi when the investment is made.

SCOTTISH FUTURES TRUST INVESTMENTS LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (continued)

1. Basis of preparation and accounting policies (continued)

Repayable grants

The Scottish Government provides repayable grants to SFT who in turn grants these onto SFTi to fund investments. These repayable grants have been accounted for as deferred income. The amount expected to be repaid within 12 months is included in current liabilities with the balance in non-current liabilities. Repayment to the Scottish Government via SFT may occur as capital repayments are received from the investment. In the event of any impairment to an investment, the balance due to the Scottish Government via SFT would be reduced by an equal amount.

Taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the income statement, unless it relates to items recognised directly in reserves in which case it is recognised in reserves.

Current tax is provided at amounts expected to be paid or recovered using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Dividends

Dividends announced during the year are accrued if not paid by the year end.

2. New and Amended Standards Adopted by the Company

IFRS 9 Financial instruments came into force for accounting periods beginning on or after 1 January 2018, thus SFTi adopted this standard as part of its 2018/19 financial statements. The impact of this standard on the financial statements of SFTi can be summarised as:

- Equity investments – the Company historically held equity investments in hub SPV project companies at cost. Under IFRS 9 there is no option to hold investments at cost and thus, these investments are now held at their estimated fair value. The estimated fair value of the SPV investments is based on the expected dividend income over the remaining life of each project company (each project is scheduled to last 25 years following completion of the construction phase of the project) discounted by the Company's estimated risk premium which has been estimated at 11%. The estimated fair value at 1 April 2018, the date of application, is £668,177 and this transitional accounting policy adjustment resulted in an increase in the value of equity to £668,177. The date of transition and initial application is 1 April 2018 and this is when the change in accounting policy was applied. The fair value of the share capital investments in respect of hubCos and NHT LLP have been taken as the nominal cost as no investment return is expected. The value of these investments is insignificant.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (continued)

2. New and Amended Standards Adopted by the Company (continued)

- Debt instruments – the Company has assessed whether a general expected credit loss provision is required for the sub debt investments that it holds. The sub debt investments are in SPV project companies. The performance of these SPVS are reviewed on a quarterly basis by the Board. Due to the underlying conditions within the sub debt, the risk of non-payment of interest or capital is minimal and therefore no general expected credit loss provision is considered necessary. No specific expected lifetime credit loss provision is expected to be required as all projects are performing in line with initial expectations and SFT expects to receive the interest and capital repayments due.

3. Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Company

Guidance in Issue but not in Force – EU Endorsed

There is no guidance in issue but not in force and that has been EU Endorsed which we consider will have a material effect on the financial statements of SFTi.

Guidance in Issue but not in Force – not EU Endorsed

There is no guidance in issue but not in force and that has not been EU Endorsed which we consider will have a material effect on the financial statements of SFTi.

4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

The preparation of financial statements under IFRS requires the Company to make estimates and assumptions that affect the application of policies and reported amounts. Estimates and judgements are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. If in the future such estimates and assumptions deviate from actual circumstances, the original estimates and assumptions would be modified as appropriate in the year in which circumstances change.

The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below:

Fair value of investments

SFTi holds equity investments in a range of Special Purpose Vehicles (“SPVs”) whose purpose is to contribute to the delivery of SFT’s wider programmes of infrastructure investment. In accordance with IFRS 9, this equity is valued at fair value. The fair value is calculated based on the future cash flows expected to be generated from the SPVs discounted at 11%, the company’s risk rate of return.

The fair value calculations are based on bi-annual operating models provided by the SPVs which indicate the latest profile of forecast dividends. SFT appoints a Director to each of these companies providing reassurance regarding the reasonableness of the cash flow forecasts.

SCOTTISH FUTURES TRUST INVESTMENTS LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (continued)

4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty (continued)

Expected Credit Loss

SFTi holds sub-ordinated debt investments in SPVs responsible for delivering projects under the hub programme. The subordinated debt is held at cost and is reviewed annually to establish if an expected credit loss is required. This review focuses on projects where there has been a delay in the scheduled repayment of interest or principal. For these projects, the expected future returns from interest and principal are discounted at 11%, being the company's risk rate of return. If the discounted expected value of future cash flows is lower than the carrying value of the investment then an expected credit loss provision is created. As at 31 March 2019 no such provision was required.

5. Other income

	2019	2018
	£	£
Interest income from working capital loans and subordinated debt (notes 9a and 9b)	1,617,057	1,448,494
Bank Interest	432	113
Other income – directors' fees	14,614	14,081
	<u>1,632,103</u>	<u>1,462,688</u>

6. Grant Income

	2019	2018
	£	£
SFT grant received for SFTi investments in LLPs (note 9)	-	2
	<u>-</u>	<u>2</u>

In 2018/19, £nil (2017/18: £2) was received in grant funding to fund the investment of SFTi in LLPs.

7. Operating expenditure

	2019	2018
	£	£
Profit before taxation is stated after charging:		
Management fee payable to SFT	545,823	569,405
Bank charges	91	90
	<u>545,914</u>	<u>569,495</u>

SCOTTISH FUTURES TRUST INVESTMENTS LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (continued)

8. Taxation

	2019	2018
	£	£
Profit on ordinary activities before tax	1,086,189	893,195
Corporation tax charge @ 19% (2017/18: @ 19%)	206,376	169,707
Corporation tax creditor	206,376	169,707

The corporation tax charge is in respect of the profit generated as a result of the interest on working capital loans and sub-ordinated debt exceeding the administration expenses of the company.

9. Investments – Share Capital

	2019	2018
	£	£
Cost and Fair Value		
At beginning of year as previously stated	802	783
Gain on transition to IFRS 9 (note 2)	668,177	-
Fair value at beginning of year as restated	668,979	783
Additions	121	23
Disposals	-	(4)
Gain on revaluation	18,060	-
At 31 March 2019	687,160	802

SFTi invested £nil (2017/18: £2) in housing partnership LLPs during the current year and £121 in share capital of SPVs in connection with sub debt investments (2017/18: £21).

Share capital investments cannot be classified in any other category of financial asset. There is no intention to dispose of any of the existing investments.

SCOTTISH FUTURES TRUST INVESTMENTS LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (continued)

9. a) Financial Assets - Working Capital Loans (continued)

	2019	2018
	£	£
Non-current assets		
Cost and Net book value		
At beginning of year	100,000	100,000
Transferred from current assets	100,000	-
At 31 March 2019	<u>200,000</u>	<u>100,000</u>
	2019	2018
	£	£
Current assets		
Cost and Net book value		
At beginning of year	100,000	100,000
Transferred to non-current assets (investments)	(100,000)	-
At 31 March 2019	<u>-</u>	<u>100,000</u>

Working Capital Loans - Non-Current Assets

SFTi loaned working capital of £100,000 to hub South West Scotland Limited on 17 November 2012. This working capital facility was available until 16 November 2017 but was extended to 16 November 2018 and then further extended to 15 November 2021 by which date the full amount of the working capital facility shall be due and payable on demand unless a renewal or extension is agreed. All providers of working capital loans agreed to extend these facilities to support the ongoing operations of the company. The rate of interest applicable shall be: the interest (net of tax) received where amounts are held in the reserve account, and 2.5% p.a. on all other sums. Interest is accrued semi-annually (on 31 December and 30 June) and added to the loan. This item was treated as a current asset at 31 March 2018, but has been reclassified as a non-current asset as at 31 March 2019.

SFTi loaned working capital of £100,000 to hub West Scotland Limited on 27 April 2012. This working capital facility was available until 26 April 2017 but was extended to 31 December 2018 and further extended to 31 March 2022 by which date the full amount of the working capital facility shall be due and payable on demand unless a renewal or extension is agreed. All providers of working capital loans agreed to extend these facilities to support the ongoing operations of the company. The rate of interest applicable shall be: the interest (net of tax) received where amounts are held in the reserve account, and 2.5% p.a. on all other sums. Interest is payable semi-annually (30 June and 31 December). This item was treated as a non-current asset at 31 March 2019 and 31 March 2018.

SCOTTISH FUTURES TRUST INVESTMENTS LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (continued)

9. a) Financial Assets - Working Capital Loans (continued)

Working capital loans are held as financial assets – loans and receivables.

Capital Management

Scottish Government grants SFT capital funds which SFT grants on to SFTi for investment in subordinated debts, share capital in special purpose vehicles and working capital in hub companies. Scottish Government also provides repayable grant to SFT which SFT then grants onto SFTi for investment in subordinated debt, share capital in special purpose vehicles and working capital in hub companies. This repayable grant is accounted for as deferred income. These investments are detailed in note 9b.

9. b) Financial Assets – Subordinated Debt

	2019	2018
Cost and Net Book Value	£	£
At beginning of year	15,122,058	13,557,010
Additions	1,360,057	1,469,171
Interest capitalised into subordinated debt	31,380	161,276
Principal repaid in year	(158,272)	(65,399)
	<hr/>	<hr/>
At 31 March 2019	16,355,223	15,122,058
	<hr/> <hr/>	<hr/> <hr/>

During 2018/19, SFTi invested £1,360,057 (2017/18: £1,469,171) as subordinated debt within the following hub projects:

- Inverurie Community Campus for Aberdeenshire Council (Total capital cost: £54m) - £470,061 invested
- Queensferry High School for the City of Edinburgh Council (Total capital cost: £38m) - £340,774 invested
- Jedburgh Intergenerational Community Campus for Scottish Borders Council (Total capital cost: £32m) - £290,222 invested
- Greenock and Stobhill Health Centres for Greater Glasgow and Clyde Health Board (Total capital cost: £29m) - £259,000 invested

SCOTTISH FUTURES TRUST INVESTMENTS LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (continued)

9. b) Financial Assets – Subordinated Debt (continued)

During the year accrued interest was capitalised and new loan notes issued in relation to four South West territory investments as detailed in the tables below.

Further details on SFTi's investment in the subordinated debt of hub projects, including details of the principal invested, the coupon and the redemption dates can be found in the tables below, analysed by each hubco.

Investment In:	Investment Type	Value	Interest Rate	Financial Close Date	Redemption Date
hub North territory					
Aberdeen Community Health Village Ltd	Fixed coupon unsecured loan	£576,191 less £3,288 principal repaid totals £572,903	10.2%	04/2012	2039
hub North Scotland (FWT) Ltd <i>(Forres/Tain/Woods ide Health Centre Bundle)</i>	Fixed coupon unsecured loan	£133,884 less £14,460 principal repaid totals £119,424	10.2%	04/2013	2039
hub North Scotland (Alford) Ltd	Fixed coupon unsecured loan	£747,036 less £32,007 principal repaid totals £715,029	10.2%	05/2014	2040
hub North Scotland (Wick) Ltd	Fixed coupon unsecured loan	£1,568,509	10.2%	12/2014	2042
hub North Scotland (Anderson) Ltd	Fixed coupon unsecured loan	£342,962 less £24,097 principal repaid totals £318,865	10.2%	07/2015	2043
hub North Scotland (Elgin High School) Ltd	Fixed coupon unsecured loan	£253,654 less £67,783 principal repaid totals £185,871	10.2%	02/2016	2043
hub North Scotland (O & C) Ltd <i>(Oban & Campbeltown High Schools)</i>	Fixed coupon unsecured loan	£491,691	10.2%	03/2016	2043

**SCOTTISH FUTURES TRUST INVESTMENTS LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (continued)

9. b) Financial Assets – Subordinated Debt (continued)

Investment In:	Investment Type	Value	Interest Rate	Financial Close Date	Redemption Date
hub North territory (cont.)					
hub North Scotland <i>(New Academy - South of the City)</i>	Fixed coupon unsecured loan	£321,672 less £1,574 principal repaid totals £320,098	10.2%	06/2016	2043
hub North Scotland (I & F) Ltd <i>(Inverurie & Forresterhill Health Centres)</i>	Fixed coupon unsecured loan	£167,168	10.2%	06/2016	2044
hub North Scotland (Inverurie Campus) Ltd <i>(Inverurie Community Campus)</i>	Fixed coupon unsecured loan	£470,061	2.45% during construction and 10.2% during operation	04/2018	2044
hub North territory total		£4,929,619			

SCOTTISH FUTURES TRUST INVESTMENTS LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (continued)

9. b) Financial Assets – Subordinated Debt (continued)

Investment In:	Investment Type	Value	Interest Rate	Financial Close Date	Redemption Date
hub South East territory					
James Gillespie's Campus Subhub Holdings Ltd	Fixed coupon unsecured loan	£1,252,424 less £32,474 principal repaid totals £1,219,950	10.87%	12/2013	2041
REH Phase 1 Subhub Holdings Ltd (Royal Edinburgh Hospital)	Fixed coupon unsecured loan	£410,685 less £1,891 principal repaid totals £408,794	2.48% during construction and 10.75% during operation	12/2014	2042
Newbattle DBFM Holdco Ltd (Newbattle High School)	Fixed coupon unsecured loan	£310,265 less £1,603 principal repaid totals £308,662	3.35% during construction and 10.5% during operation	02/2016	2043
KHS DBFM Holdco Ltd (Kelso High School)	Fixed coupon unsecured loan	£205,150 less £1,860 principal repaid totals £203,290	3.35% during construction and 10.5% during operation	02/2016	2042
LBP DBFM Holdco Ltd (NHS Lothian Health Centre Bundle)	Fixed coupon unsecured loan	£243,750 less £2,416 principal repaid totals £241,334	3.37% during construction and 10.45% during operation	04/2016	2042
ELCH DBFM Holdco Ltd (East Lothian Community Campus)	Fixed coupon unsecured loan	£600,797	2.98% during construction and 10.45% during operation	09/2016	2044
WCHS DBFM Holdco Ltd (West Calder High School)	Fixed coupon unsecured loan	£286,654 less £708 principal repaid totals £285,946	3.47% during construction and 10.45% during operation	12/2016	2043
QHS DBFM Holdco Ltd (Queensferry High School)	Fixed coupon unsecured loan	£340,774	3.49% during construction and 10.3% during operation	06/2018	2045
JICC DBFM Holdco Ltd (Jedburgh Community Campus)	Fixed coupon unsecured loan	£290,222	3.40% during construction and 10.3% during operation	10/2018	2045
hub South East territory total		£3,899,769			

SCOTTISH FUTURES TRUST INVESTMENTS LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (continued)

9. b) Financial Assets – Subordinated Debt (continued)

Investment In:	Investment Type	Value	Interest Rate	Financial Close Date	Redemption Date
hub South West territory					
Hub SW NHSL Holdco Ltd <i>(NHS Lanarkshire Health Centre Bundle)</i>	Fixed coupon unsecured loan	£325,055 less £6,815 principal repaid plus £83,489 accrued interest capitalised in year totals £401,729	10.5%	12/2013	2040
Hub SW Greenfaulds Holdco Ltd	Fixed coupon unsecured loan	£271,509 less £5,565 principal repaid plus £32,308 accrued interest capitalised in year totals £298,252	2.33% during construction and 10.5% during operation	01/2015	2041
Hub SW Ayr Holdco Ltd	Fixed coupon unsecured loan	£490,168 less £13,107 principal repaid plus £29,550 accrued interest capitalised in year totals £506,611	3.78% during construction and 10.65% during operation	01/2016	2042
Hub SW Dalbeattie Holdco Ltd	Fixed coupon unsecured loan	£209,081 less £710 principal repaid plus £15,929 accrued interest capitalised in year totals £224,300	3.62% during construction and 10.85% during operation	01/2016	2042
Hub SW EALC Holdco Ltd <i>(East Ayrshire Learning Campus)</i>	Fixed coupon unsecured loan	£368,416	3.26% during construction and 10.5% during operation	02/2016	2043
Hub SW Largs Holdco Ltd	Fixed coupon unsecured loan	£391,130 plus £31,380 accrued interest capitalised in year totals £422,510	3.41% during construction and 10.15% during operation	05/2016	2043
Hub SW Cumbernauld Holdco Ltd	Fixed coupon unsecured loan	£310,007	3.52% during construction and 10.40% during operation	06/2017	2044
Hub SW QMA Holdco Ltd <i>(Queen Margaret Academy)</i>	Fixed coupon unsecured loan	£233,662	3.46% during construction and 10.45% during operation	11/2017	2044
hub South West territory total		£2,765,487			

SCOTTISH FUTURES TRUST INVESTMENTS LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (continued)

9. b) Financial Assets – Subordinated Debt (continued)

Investment In:	Investment Type	Value	Interest Rate	Financial Close Date	Redemption Date
hub West territory					
Hub West Scotland Project Company (No.1) Ltd <i>(Eastwood/Maryhill Health Centre Bundle)</i>	Fixed coupon secured loan	£186,042 less £5,896 principal repaid totals £180,146	9.75%	10/2014	2041
Hub West Scotland Project Company (No.2) Ltd <i>(Inverclyde Care Home)</i>	Fixed coupon unsecured loan	£70,413 less £1,038 principal repaid totals £69,375	9.75%	02/2016	2042
Hub West Scotland Project Company (No.3) Ltd <i>(Barrhead High School)</i>	Fixed coupon unsecured loan	£213,748 less £9,238 principal repaid totals £204,510	9.75%	03/2016	2042
Hub West Scotland Project Company (No.4) Ltd <i>(Our Lady & St Patrick's High School)</i>	Fixed coupon unsecured loan	£228,400 less £9,275 principal repaid totals £219,125	9.75%	03/2016	2042
Hub West Scotland Project Company (No.5) Ltd <i>(Gorbals/Woodside Health Centre)</i>	Fixed coupon unsecured loan	£288,202	9.75%	04/2017	2043
Hub West Scotland Project Company (No.6) Ltd <i>(Blairdardie & Carntyne Primary Schools)</i>	Fixed coupon unsecured loan	£149,300	9.75%	10/2017	2043
Hub West Scotland Project Company (No.7) Ltd <i>(Greenock & Stobhill Health Centres)</i>	Fixed coupon unsecured loan	£259,000	9.75%	12/2018	2045
hub West territory total		£1,369,658			

SCOTTISH FUTURES TRUST INVESTMENTS LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (continued)

9. b) Financial Assets – Subordinated Debt (continued)

Investment In:	Investment Type	Value	Interest Rate	Financial Close Date	Redemption Date
hub East Central territory					
Hub East Central (Levenmouth) Ltd	Fixed coupon unsecured loan	£1,608,000	10.2%	12/2014	2041
Hub East Central Scotland (Baldragon) Ltd	Fixed coupon unsecured loan	£299,790	10%	02/2016	2042
Hub East Central (Forfar) Ltd	Fixed coupon unsecured loan	£364,200	10%	06/2015	2041
Hub East Central (SCV) Ltd (<i>Stirling Care Village</i>)	Fixed coupon unsecured loan	£354,500	10%	12/2016	2044
Hub East Central (PSS) Ltd (<i>Pharmaceuticals Special Services</i>)	Fixed coupon unsecured loan	£276,200	10%	12/2016	2043
Hub East Central (Bertha Park) Ltd	Fixed coupon unsecured loan	£332,500	10%	09/2017	2044
Hub East Central (Angus Schools) Ltd	Fixed coupon unsecured loan	£155,500	10%	11/2017	2043
hub East Central territory total		£3,390,690			
Total sub-ordinated debt		£16,355,223			

The most significant risk to the Company is investment performance. Three projects are being monitored closely where operational performance has led to delay in subordinated debt payment. The Board do not anticipate any losses as payments are anticipated to be received in all cases and hence with the exception of minor re-profiling, investments are performing according to their base cases and making returns as anticipated.

SCOTTISH FUTURES TRUST INVESTMENTS LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (continued)

10. Trade and other Receivables

	2019	2018
	£	£
Due in more than 1 year		
Accrued interest income from sub-ordinated debt investments	1,859,102	1,846,666
Due in less than 1 year		
Accrued interest income from sub-ordinated debt investments	718,077	261,465
Other debtors	1,995	1,937
	<u>720,072</u>	<u>263,402</u>

11. Cash and Cash Equivalents

	2019	2018
	£	£
Cash at bank	822,531	859,697

12. Trade and other Payables

	2019	2018
	£	£
Amount payable to parent – SFT	1,405,823	1,159,405
Repayable grant from parent – SFT (note 13)	141,096	123,717
Other taxes and social security	2,590	323
Accruals	28	27
	<u>1,549,537</u>	<u>1,283,472</u>

SCOTTISH FUTURES TRUST INVESTMENTS LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (continued)

13. Repayable grant from Parent

	2019	2018
	£	£
At beginning of the year	9,485,535	8,016,346
Increase in period	1,360,058	1,469,189
At 31 March 2019	<u>10,845,593</u>	<u>9,485,535</u>

SFT made a repayable grant of £1,360,058 (2018: £1,469,189) to SFTi during the year which was used to invest in subordinated debt/share capital of SPVs in the year.

The expected repayment profile of the repayable grant is:

	2019	2018
	£	£
< 1 year	141,096	123,717
1-2 years	98,135	339,029
2-5 years	361,125	362,556
>5 years	10,245,237	8,660,233
At 31 March 2019	<u>10,845,593</u>	<u>9,485,535</u>
Disclosed as		
Current Liabilities (note 12)	141,096	123,717
Non-current Liabilities	10,704,497	9,361,818
	<u>10,845,593</u>	<u>9,485,535</u>

14. Capital and reserves

	2019	2018
	£	£
Share capital		
<i>Authorised, issued but not yet fully paid – 1 ordinary share of £1 each</i>		
As at 31 March	<u>1</u>	<u>1</u>

The share has attached to it full voting, dividend and capital distribution (including on winding up) rights; it does not confer any rights of redemption.

SCOTTISH FUTURES TRUST INVESTMENTS LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (continued)

14. Capital and reserves (continued)

The retained earnings reserve comprises the cumulative surpluses of the company which represent (i) the capital grant income provided by SFT in previous years to invest in the sub-ordinated debt of projects delivered by hub; and (ii) the interest earnings net of tax and operating expenses, less dividends declared/paid to SFT, less transfers of unrealised gains to the other reserve.

The fair value reserve comprises the IFRS9 fair value movement of the equity investments. As this unrealised gain is not distributable it has been transferred to the fair value reserve.

15. Related Party Transactions

During the year there were no salaried executive directors. No fees were paid to non-executive directors. Details of other transactions with related parties are included below:

Scottish Futures Trust Limited

The Company is wholly owned by Scottish Futures Trust Limited which is a company wholly owned by Scottish Ministers. Details of transactions with the Scottish Futures Trust Limited are included below.

	2019	2018
	£	£
Statement of Financial Position		
Balance owed to SFT by SFTi - included in other payables (note 12)	(1,405,823)	(1,159,405)
Repayable grant (note 13)	(10,845,593)	(9,485,535)
	<u> </u>	<u> </u>
	2019	2018
	£	£
Statement of Comprehensive Income		
Scottish Futures Trust Limited Funding received		
Grant funding received for investment	-	2
	<u> </u>	<u> </u>
Payments made to Scottish Futures Trust Limited		
SFT Management Fee (note 7)	545,823	569,405
	<u> </u>	<u> </u>

SCOTTISH FUTURES TRUST INVESTMENTS LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (continued)

15. Related party transactions (continued)

Hub South East Scotland Territory

SFTi holds 10% of the share capital of hub South East Scotland Limited and the various special purpose project companies within this territory which are detailed in note 9b. A Senior Associate Director of SFT, is a non-executive director of hub South East Scotland Limited and the various special purpose project companies but does not have a financial interest in any of them.

Details of material transactions with these joint ventures are included below:

	2019	2018
	£	£
<u>Statement of Financial Position</u>		
Financial assets – subordinated debt	3,899,769	3,293,154
Trade and other receivables – accrued interest income	696,690	625,747
Trade and other receivables – hub director fees	1,995	1,937
<u>Statement of Comprehensive Income</u>		
Other income – hub director fees	3,328	3,228
Other income – Interest income	364,513	295,424
	<u> </u>	<u> </u>

Hub North Scotland Territory

SFTi holds 10% of the share capital of hub North Scotland Limited and the various special purpose project companies within this territory which are detailed in note 9b. A Senior Associate Director of SFT, is a non-executive director of hub North Scotland Limited and the various special purpose project companies but does not have a financial interest in any of them.

Details of material transactions with these joint ventures are included below:

	2019	2018
	£	£
<u>Statement of Financial Position</u>		
Financial assets – subordinated debt	4,929,619	4,561,324
Trade and other receivables – accrued interest income	1,441,760	1,137,874
<u>Statement of Comprehensive Income</u>		
Other income – Interest income	563,644	547,966
	<u> </u>	<u> </u>

SCOTTISH FUTURES TRUST INVESTMENTS LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (continued)

15. Related party transactions (continued)

Hub East Central Scotland Territory

SFTi holds 10% of the share capital of hub East Central Scotland Limited and the various special purpose project companies within this territory which are detailed in note 9b. A Senior Associate Director of SFT, is a non-executive director of hub East Central Scotland Limited and the various special purpose project companies but does not have a financial interest in any of them.

Details of material transactions with these joint ventures are included below:

	2019	2018
<u>Statement of Financial Position</u>	£	£
Financial assets – subordinated debt	3,390,690	3,390,690
<u>Statement of Comprehensive Income</u>		
Other income – Interest income	339,883	312,394

Hub West Scotland Territory

SFTi holds 10% of the share capital of hub West Scotland Limited and the various special purpose project companies within this territory which are detailed in note 9b. A Senior Associate Director of SFT, is a non-executive director of hub West Scotland Limited and the various special purpose project companies but does not have a financial interest in any of them.

Details of material transactions with these joint ventures are included below:

	2019	2018
<u>Statement of Financial Position</u>	£	£
Financial assets – working capital loans	100,000	100,000
Financial assets – subordinated debt	1,369,658	1,132,716
Trade and other receivables – accrued interest income	257,342	207,710
<u>Statement of Comprehensive Income</u>		
Other income – Interest income (including working capital loan interest)	131,428	117,208

SCOTTISH FUTURES TRUST INVESTMENTS LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (continued)

15. Related party transactions (continued)

Hub South West Scotland Territory

SFTi holds 10% of the share capital of hub South West Scotland Limited and the various special purpose project companies within this territory which are detailed in note 9b. A Senior Associate Director of SFT, is a non-executive director of hub South West Scotland Limited and the various special purpose project companies but does not have a financial interest in any of them.

Details of material transactions with these joint ventures are included below:

	2019	2018
	£	£
<u>Statement of Financial Position</u>		
Financial assets – working capital loans	100,000	100,000
Financial assets – subordinated debt	2,765,487	2,744,174
Trade and other receivables – accrued interest income	181,387	136,800
<u>Statement of Comprehensive Income</u>		
Other income – hub director fees	11,286	10,853
Other income – Interest income (including working capital loan interest)	217,589	175,502

LAR Housing Trust

LAR Housing Trust was incorporated as a Scottish Charitable Incorporated Organisations (“SCIO”) on 25 April 2014 to assist in the provision of mid market rent housing. SFTi has the right to appoint a Partner Trustee to the organisation who is one of six Trustees – four being Independent Trustees and one an Executive Trustee. A Senior Associate Director of SFT is currently SFTi’s nominated Trustee. There were no financial transactions between SFTi and LAR.

The Edinburgh Homes Delivery Partnership

The Edinburgh Homes Delivery Partnership is a joint venture between City of Edinburgh Council and SFTi to create two LLPs for the delivery of mid-market and market rent accommodation. SFTi does not have joint control or significant influence over either joint venture as SFTi is merely an investor in these joint ventures.

Hub Community Foundation

The Hub Community Foundation was incorporated as a Scottish Charitable Incorporated Organisations (“SCIO”) on 10 December 2015 to assist in the delivery of community benefits through the hub programme and to provide finance to specific projects delivered by the hub programme. SFTi has the right to appoint a Partner Trustee to the organisation who is one of five Trustees – three being Independent Trustees and one Trustee representing the Private Sector Development Partners. A Senior Associate Director of SFT is currently SFTi’s nominated Trustee. There were no financial transactions between SFTi and Hub Community Foundation or its fully owned subsidiary HCF Investments Limited.

SCOTTISH FUTURES TRUST INVESTMENTS LIMITED ANNUAL REPORT AND FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (continued)

16. Financial Instruments

The Company's financial instruments comprise of cash resources which arise directly from its operations and subordinated debt issued to hub companies, special purpose vehicles and working capital loans made to hub companies. The Company has not entered into derivatives transactions. Each of the main risk exposures related to financial instruments are considered below.

Interest rate risk - As the Company has no borrowings subject to interest or significant amounts of cash on deposit it has no significant exposure to interest rate risk. Interest rates in respect of subordinated debt investment and working capital loans are fixed.

Credit Risk - The Company does not have a significant concentration of credit risk. Bank deposits are held with major national banks and the principal customer is the Scottish Government.

Liquidity Risk - The Company operates within a budget agreed with the Scottish Government and as such liquidity is not seen as a major risk area. Interest rates in respect of subordinated debt investment and working capital loans are fixed.

Fair value of financial assets and liabilities - The directors consider that there is no significant difference between the book value and fair value of the Company's financial assets and liabilities except for equity investments in hub projects whose fair value is estimated to be £687,160 as at 31 March 2019, as disclosed in Note 9, compared to a historical cost of £923.

17. Ultimate Controlling Party

The Company is wholly-owned by Scottish Futures Trust Limited which is a company wholly-owned by the Scottish Ministers.

SCOTTISH FUTURES TRUST INVESTMENTS LIMITED ANNUAL REPORT AND FINANCIAL STATEMENTS

OFFICERS AND PROFESSIONAL ADVISORS

Directors

Ian Russell (Chairman)

Peter Reekie (Executive Director)

Vivienne Cockburn (Executive Director) – appointed 18 March 2019

Ann Faulds (Non-Executive Director)

Graham Watson (Non-Executive Director)

Bill Mathews (Non-Executive Director) – appointed 1 January 2019

Ann Allen (Non-Executive Director) – appointed 1 January 2019

Pauline Mills (Non-Executive Director) – appointed 1 January 2019

Fiona Mackenzie (Non-Executive Director) – resigned 31 December 2018

Carolyn Dwyer (Non-Executive Director) - resigned 31 December 2018

Chief Executive

Peter Reekie

Registered Office & Principal Place of Business

11-15 Thistle Street

Edinburgh

EH1 2DF

Registered Company number

SC381388

Auditor

Scott-Moncrieff

Exchange Place 3

Semple Street

Edinburgh

EH3 8BL

Bankers

The Royal Bank of Scotland plc

36 St Andrews Square

Edinburgh

EH2 2YB

Website

www.scottishfuturestrust.org.uk