

SCOTTISH FUTURES TRUST INVESTMENTS LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2016

SCOTTISH  
FUTURES  
TRUST  
*investments*

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

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

### CHAIRMAN'S STATEMENT

I am pleased to present the Annual Report of Scottish Futures Trust Investments Limited (SFTi), a company wholly owned by Scottish Futures Trust Limited (SFT), and whose purpose is to hold investments in infrastructure companies, assets and projects across Scotland.

During the 2015/16 financial year, SFT continued to work towards resolving complex issues brought about by the introduction of the new European Budgetary Guidance, introduced in September 2014, which had impacted on revenue-funded projects due to be delivered through the hub programme.

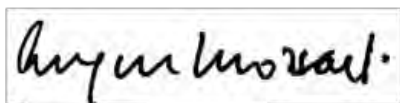
As a result of SFT's innovative thinking and energetic persistence, on 26 November 2015, Scottish Parliament was advised that on the basis of an ONS review of new SFT proposals, hub DBFM projects could proceed.

At the end of the 2015/16 financial year, an unprecedented 13 projects had reached financial close, allowing construction to start, and supporting thousands of jobs. In finalising these projects, with a capital value of around £380m, into which SFTi invested over £3.8m during the year, the five hub companies and their public sector partners should be congratulated.

Since the establishment of the hub programme, SFTi has invested in 23 projects and in 2015/16, the number of hub investment projects that became operational and cash generating rose to nine, with this portfolio continuing to generate an increased level of additional income, to be used by SFTi to offset costs and potentially to be used for investment in future projects.

SFTi is also an investor in 28 Limited Liability Partnerships across the National Housing Trust Programme, established to deliver affordable-rented housing.

This continuing growth of the investment portfolio is encouraging and an important part of the Group's business. The future value and returns will provide a significant contribution to SFT over many years.



**Sir Angus Grossart**  
Chairman

**22 August 2016**

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**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 as an investment company. The Company has no employees or other operations. Investments by SFTi are managed by its Directors, who are represented on Companies in which SFTi invests by members of the SFT staff.

**Strategy**

SFTi's strategy is to continue to invest funds and loans provided by the Scottish Government as subordinated debt into Design, Build, Finance and Maintain (DBFM) projects in the 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 support the operation of the Group as determined by the Directors from time to time.

**Business Review**

To date, SFTi has invested £10.9m into twenty-three separate revenue-funded projects delivered by the Scotland-wide hub programme. The table below summarises the operational projects SFTi has invested in and from which it is earning interest income:

<b>Project</b>	<b>HubCo</b>	<b>Commercial Close Date</b>	<b>Operational Date</b>	<b>SFTi Investment £'000</b>
Aberdeen Community Health Village	hub North	April 2012	December 2013	576
Forres, Woodside & Tain Health Centre Bundle	hub North	April 2013	May – August 2014 – phased handover	134
James Gillespie’s High School	hub South East	December 2013	April 2015 – phase 1 July 2016 – phase 2	1,252
East Kilbride, Wishaw & Kilsyth health bundle	hub South West	December 2013	March 2015 – August 2015 – phased handover	325
Alford Community Campus	hub North	May 2014	October 2015	747

Returns from operational projects are performing as anticipated.

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**STRATEGIC REPORT (continued)**

**Business Review (continued)**

The table below details all projects in which SFTi has invested sub-ordinated debt during the financial year 2015/16 and which are in construction:

<b>Project</b>	<b>HubCo</b>	<b>Commercial Close Date</b>	<b>Operational Date</b>	<b>SFTi Investment £'000</b>
Forfar Community Campus	hub East Central	June 2015	February 2017 – phase 1 October 2017 – phase 2	364
Anderson High School	hub North	July 2015	September 2017	343
Ayr Academy	hub South West	January 2016	August 2017	490
Dalbeattie High School	hub South West	January 2016	November 2017 – phase 1 February 2018 – phase 2	209
Newbattle High School	hub South East	February 2016	March 2018	310
Kelso High School	hub South East	February 2016	November 2017	205
East Ayrshire Learning Campus	hub South West	February 2016	February 2019	368
Elgin High School	hub North	February 2016	October 2017	254
Baldragon Academy	hub East Central	February 2016	December 2017	300
Inverclyde Care Home	hub West	February 2016	June 2017	70
Barrhead High School	hub West	March 2016	August 2017	214
Campbeltown and Oban High Schools	hub North	March 2016	February/March 2018	492
Our Lady & St Patricks School	hub West	March 2016	October 2017	228

In addition, SFTi has invested in the following hub projects in prior years which are in the course of construction:

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**STRATEGIC REPORT (continued)**

**Business Review (continued)**

<b>Project</b>	<b>HubCo</b>	<b>Commercial Close Date</b>	<b>Operational Date</b>	<b>SFTi Investment £'000</b>
Eastwood and Maryhill health centre bundle	hub West	October 2014	July 2016	186
Royal Edinburgh Hospital – phase 1	hub South East	December 2014	December 2016	411
Wick High School	hub North	December 2014	September 2016	1,569
Levenmouth High School	hub East Central	December 2014	July 2016 – phase 1 August 2017 – phase 2	1,608
Greenfaulds Academy	hub South West	January 2015	September 2016 – phase 1 June 2017 – phase 2 Phase 3 – Summer 2018	272

All hub projects in construction are performing as anticipated.

In addition to hub projects, SFTi has invested in one additional Limited Liability Partnership (LLP) across the National Housing Trust programme bringing its involvement to 28 LLPs across the country.

The National Housing Trust was established to increase the supply of homes to be let at affordable rent. To date, contracts have been signed to build 1,189 new homes on 31 individual NHT sites across 10 local authority areas. The sale of 85 units (held by 3 LLPs) took place on 16 May 2016.

**Risks and Mitigation**

The most significant risk to the Company is investment performance. Currently, all investments are performing according to their base cases and making returns as anticipated. The investment risk is mitigated by:

- SFT'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;

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

### STRATEGIC REPORT (continued)

#### Risks and Mitigation (continued)

- SFTi's Investment Committee oversees the investment process and monitors investment performance; and
- close operational management of investments by the relevant SFT staff member, who is a hub director, becoming a director of the special purpose company established to deliver each project.

A further risk to the Company is cash flow. During the construction phase of each project in which the Company invests, interest is rolled up and no cash returns made. However, the Company makes an accounting profit on which, net of costs, tax is due. The Company anticipates that over the coming years, tax due may be greater than cash available but has reassurance that it will be supported by its Parent, SFT, over this period.

#### 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

In 2015/16 SFTi was primarily funded through loan funding from SFT of £3,958,012 (2014/15: £1,596,725) with capital grant income received from SFT of £2 (2015: £3,195,056). In addition, investment returns received in the year, including a small amount of bank interest, totalled £847,851 (2014/15: £445,108). After allowing for costs of £254,858 (2014/15: £260,902) there was an operational surplus before tax of £592,995 (2014/15: £3,379,262). This surplus after tax of £473,969 (2014/15: £3,342,421) will be applied to fund future projects and the activities and wider programmes delivered by the SFT group.

In 2015/16 investments of £3,847,939 (2014/15: £4,791,781) were made in the sub-ordinated debt of projects delivered through hub. This was funded by the loan received from SFTi's parent, SFT. The twenty-three investments made to date in DBFM projects are all performing satisfactorily to their base cases. Two projects commenced capital repayments in the year which totalled £8,939 (2015: £nil). The NHT LLP investments 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

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.

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**STRATEGIC REPORT (continued)**

**Future Plans**

During 2016/17 SFTi will continue to invest in new hub revenue-funded projects and it is anticipated that a further nine projects will progress to financial close. It is anticipated that SFTi will also invest in the equity of the projects in addition to the subdebt investment it currently makes. The value of new investment in the year is likely to be in the range of £3m to £4m. SFTi will only invest if it is granted appropriate funds to do so on a project by project basis by the Scottish Government.

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

A handwritten signature in black ink, appearing to read 'Barry White', with a stylized flourish extending to the right.

**Barry White**  
**Executive Director**

**22 August 2016**



# 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 post year end are as follows:

Sir Angus Grossart	Chairman
Graeme Bissett	Non-Executive Director
James Fletcher	Non-Executive Director
Fiona Mackenzie	Non-Executive Director
Carolyn Dwyer	Non-Executive Director
Barry White	Executive Director
Peter Reekie	Executive Director

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 a 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.

The directors are responsible for keeping adequate accounting records that disclose with reasonable accuracy at any time the financial position of the Company and to 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.

## 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 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 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 their sole shareholder the Scottish Government occur on a regular basis.

On behalf of the Board:



**Barry White**  
Executive Director

**22 August 2016**

## 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 2016, 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 employment for both SFTi and SFT non executive board appointments are determined by the Company's ultimate shareholder, the Scottish Ministers;
- in view of the Company's responsibilities to take account of public sector guidelines, compliance is not appropriate with the provision in the UK Corporate Governance Code that performance-related elements of remuneration should form a significant proportion of Executive Directors' total pay package;
- 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 Public Appointments in Scotland whose policy on diversity and equality is available on their website;
- there is no Remuneration Committee as the Company has no direct employees;
- the Board has not identified a Senior Independent Director as the shareholder appoints and appraises the performance of the Chairman, 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 Audit Committee to regularly review the need for an internal audit function. Due principally to the size and nature of the organisation, alongside a clear controls framework the Audit Committee has to date not identified such a need.

#### 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.

The roles of the Chairman and the executive directors 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. Executive directors have responsibility for all operational business and act in accordance with the authority delegated from the Board. Responsibility for the implementation of policy, strategy and operational management is delegated to the executive directors.

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

### **REPORT ON CORPORATE GOVERNANCE (continued)**

#### **Board of Directors (continued)**

The Chairman's other significant commitments are chairmanship of: Noble Grossart Ltd (and related entities), Scotland International Ltd, Fine Art Society Plc, Lyon & Turnbull Ltd, Wright Health Group Ltd, Edinburgh Partners Ltd, Charlotte Street Partners, the Burrell Renaissance and The Edinburgh International Cultural Summit. The Chairman is also a non-executive Director of Culture and Sport Glasgow, The Great Steward of Scotland's Dumfries House Trust (resigned 3 December 2015), Major's Place Industries Ltd and FALS Property Ltd.

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**

In the year ended 31 March 2016, the Board included five non-executive directors (including the Chairman). 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 Board of SFTi is the same as, the Board of the Parent Company, SFT. The non-executive directors have been appointed and re-appointed by Scottish Ministers in accordance with the The Commissioner for Ethical Standards and Public Information in Scotland's Code of Practice for Ministerial Appointments to Public Bodies in Scotland. The Chairman's term of office will end during financial year 2016/17 and a new Chair is currently being recruited.

#### **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 Sub-Committee meetings are available on the SFT's website following their approval.

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

### REPORT ON CORPORATE GOVERNANCE (continued)

#### Performance Evaluation

The performance of the non-executive directors and the executive directors is assessed by the Chairman. 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 seven 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. The Committee Chair is Fiona MacKenzie.

#### 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
<b>Number of meetings</b>	<b>4</b>	<b>3</b>	<b>7</b>
Sir Angus Grossart	4	-	-
Graeme Bissett	4	3	6
Carolyn Dwyer	4	-	6
James Fletcher	2	2	3
Fiona MacKenzie	4	2	5
Barry White	4	2*	3
Peter Reekie	4	1*	6

\*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.

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**REPORT ON CORPORATE GOVERNANCE (continued)**

**Relations with Ultimate Shareholder**

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

On behalf of the Board:

A handwritten signature in black ink, appearing to read 'Barry White', with a long horizontal stroke extending to the right.

**Barry White  
Executive Director**

**22 August 2016**

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

### STATEMENT OF 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 present reports to the Audit Committee which include any significant internal control matters which they have identified.

Separate controls and governance structures are in place across SFT's programmes. The Audit Committee receives an annual update on these.

#### 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, and 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. 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:



**Barry White**  
Executive Director

**22 August 2016**

**SCOTTISH FUTURES TRUST INVESTMENTS LIMITED  
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**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:

A handwritten signature in black ink, appearing to read 'Barry White', with a stylized flourish at the end.

**Barry White  
Executive Director**

**22 August 2016**



# SCOTTISH FUTURES TRUST INVESTMENTS LIMITED

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### REPORT OF THE 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 are:

- Graeme Bissett is a Chartered Accountant, who spent 19 years in the accountancy profession, has been CFO in international groups and has chaired or is chairing several Audit Committees for listed companies.
- James Fletcher, Councillor and Leader of East Renfrewshire Council who has extensive experience in providing financial oversight to a variety of entities.
- Fiona MacKenzie 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.

In the year ended 31 March 2016 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 Audit Committee included:

- considering and recommending to the Board for approval the annual financial statements and reviewing the external auditor's report thereon;
- 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 of the audit engagement partner and the audit team, and making a recommendation to the Board with respect to the reappointment of the auditor;
- reviewing the appropriateness of the Company's accounting policies; and
- ensuring the adequacy of the Company's internal control systems and standards.

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

### **REPORT OF THE AUDIT COMMITTEE (continued)**

#### **Auditor and Audit Tenure**

Scott Moncrieff has been auditor since the company's incorporation in 2010 and were reappointed through a formal tender process in early 2014. The 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 SFTi Director of Corporate Services and Low Carbon. The 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 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.

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**REPORT OF THE AUDIT COMMITTEE (continued)**

<b>Significant issue</b>	<b>How the issue was addressed</b>
Revenue being over or understated in the financial statements	<p>The company has two sources of funding:</p> <p>1) The funding provided by SFT in the form of capital grants and loans; and</p> <p>2) The interest it receives on the working capital loans and subordinated debt invested in the hub Companies and its project companies.</p> <p>The Audit Committee members as Board members of both SFT and SFTi, authorise all funding paid by SFT to SFTi and thus can ensure that the funding provided to SFTi is accounted for correctly.</p> <p>The Investment Committee 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.</p>
Loans from the Scottish Government to SFT which are then on-lent to SFTi	<p>SFT draws down loans from the Scottish Government which are then on-lent 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 on-lent to SFTi to fund these investments. Through the review of the management accounts and the statutory financial statements, the Board ensure that all loans from the Scottish Government by SFT which are on-lent to SFTi are recorded and disclosed correctly.</p>
The risk that investments are not consolidated in SFT group accounts when they should be.	<p>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.</p>
Risk of the recoverability of investments in terms of repayment of loans and interest receivable	<p>The Investment Committee reviews investment performance. SFT 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.</p>

On behalf of the Audit Committee:



**Graeme Bissett  
Chairman, Audit Committee**

**22 August 2016**

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

### **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SCOTTISH FUTURES TRUST INVESTMENTS LIMITED**

We have audited the financial statements of Scottish Futures Trust Investments Limited for the year ended 31 March 2016 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 related notes. 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.

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

#### **Respective Responsibilities of the Directors and the Auditor**

As explained more fully in the Statement of Directors' Responsibilities set out on pages 8 and 9, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

#### **Scope of the Audit of the Financial Statements**

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's web-site at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate).

In addition to our audit of the financial statements, the directors have engaged us to review their Corporate Governance Statement as if the Company were required to comply with the Listing Rules of the Financial Conduct Authority in relation to those matters. We review whether the Corporate Governance Statement 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 statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the company's corporate governance procedures or its risk and control procedures.

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

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

#### Opinion on Financial Statements

In our opinion:

- the financial statements give a true and fair view of the state of the company's affairs as at 31 March 2016 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.

#### Our assessment of the Risks of Material Misstatement

In arriving at our opinions set out in this report, the risks that had the greatest effect on our audit and the key procedures we applied to address them are set out below. Those procedures were designed in the context of the financial statements as a whole and, consequently, where we set out findings we do not express any opinion on these individual risks.

#### Revenue Recognition

- **The risk:** There is a risk that revenue is either over or understated 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 revenue.
- **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 five hub companies and their respective specific projects and through reviewing the underlying agreements and the sums invested we confirmed the interest income recognised in the year was accurate. Only £2 of grant income was received by SFTi to fund the investment of £1 each in two LLPs. This grant income was agreed to supporting documentation.
- **Our findings:** From the work performed we gained assurance in respect of the completeness and occurrence of revenue transactions in the year.

#### Treatment of Investments made by Scottish Futures Trust Investments Limited

**The risk:** There is a risk that the accounts of SFTi are incomplete as they may not include all entities that SFTi has invested in which perhaps 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, Leadership Team and a review of underlying agreements.
- **Our findings:** The investments held by SFTi were reviewed and we concluded that no significant influence or control existed and therefore consolidation was not required for any of the investments held.

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

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

#### *Loans from the Scottish Government to SFT which are then on-lent to SFTi*

- **The risk:** There is a risk that loans received by SFT from the Scottish Government which are then on-lent to SFTi to fund the investment in sub-ordinated debt and the share capital of hub projects via special purpose investment vehicles are not correctly recorded in the financial statements of SFT or SFTi.
- **Our response:** All loans received from the Scottish Government by SFT in the year which were then on-lent 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 loans received from the Scottish Government in the year by SFT which were then on-lent to SFTi.

#### *Potential impairment of Investments*

- **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. The progress of each project is in line with expectations.
- **Our findings:** No impairment has been identified in respect of any of SFT's investments.

#### **Our application of Materiality**

The materiality for the financial statements as a whole was set at £250,000. This has been assessed with reference to a benchmark of total gross assets (representing approx. 2% of total gross assets) which we consider to be one of the principal considerations for members of the company in assessing the financial performance of the company.

For identified audit risks we set a performance (testing) materiality of 50% of the overall materiality of £250,000, i.e. £125,000. In respect, of other areas we performed audit procedures on all transactions and balances that exceeded our low risk level performance materiality which was assessed as being 75% of the overall materiality of £250,000, i.e. £187,500. 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 £187,500 were audited whilst for higher risk items we tested all balances and transactions above £125,000. We tested smaller balances and transactions as we deemed necessary.

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 £5,000; and (iii) other misstatements below that threshold that we believe warranted reporting on qualitative grounds.

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

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

#### **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.

#### **Opinion on other matter 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; and
- 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.

#### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following:

Under the ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Company acquired in the course of performing our audit; or
- is otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report to be fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed.

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

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

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.

We have nothing to report in respect of the following:

- the directors' statement in relation to going concern: or
- the part of the Report on Corporate Governance relating to the company's compliance with the provisions of the UK Corporate Governance Code specified for our review.



**Nick Bennett (Senior Statutory Auditor)**

**For and on behalf of Scott Moncrieff, Chartered Accountants and Statutory Auditor**

**Exchange Place 3**

**Seemple Street**

**Edinburgh**

**EH3 8BL**

**22 August 2016**



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

**STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2016**

	Note	2016	2015
Continuing operations		£	£
<b>Revenue</b>		-	-
<b>Cost of sales</b>		-	-
		-	-
<b>Gross profit</b>		-	-
Other income	5	847,851	445,108
Grant income	6	2	3,195,056
Administrative expenditure	7	(254,858)	(260,902)
<b>Profit on ordinary activities before taxation</b>		592,995	3,379,262
Taxation on profit on ordinary activities	8	(119,026)	(36,841)
<b>Net Profit for the year</b>		473,969	3,342,421
Other comprehensive income for the year		-	-
Total comprehensive income for the year		473,969	3,342,421
<b>Attributable to Equity holder of the Company</b>		473,969	3,342,421

**STATEMENT OF CHANGES IN EQUITY**

As at 31 March 2016 and 31 March 2015	Share Capital	Retained Earnings	Total
	£	£	£
At 1 April 2015	1	6,135,417	6,135,418
Total comprehensive income for the year	-	473,969	473,969
At 31 March 2016	1	6,609,386	6,609,387
At 1 April 2014	1	2,792,996	2,792,997
Total comprehensive income for the year	-	3,342,421	3,342,421
At 31 March 2015	1	6,135,417	6,135,418

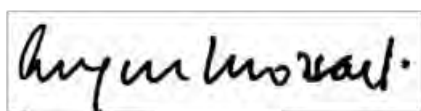
The accompanying notes form an integral part of these financial statements

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

**STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2016**

	Note	2016 £	2015 £
<b>ASSETS</b>			
<b>Non-current assets</b>			
<b>Investments</b>			
Investments in share capital	9	332	87
Financial assets - working capital loans	9a	200,000	400,000
Financial assets – subordinated debt	9b	10,918,335	7,079,335
Trade and other receivables on more than one year	10	968,380	590,631
		<u>12,087,047</u>	<u>8,070,053</u>
<b>Current assets</b>			
Trade and other receivables in less than one year	10	220,028	1,487
Financial assets - working capital loans	9a	200,000	90,000
Cash and cash equivalents	11	497,417	234,622
		<u>917,445</u>	<u>326,109</u>
<b>Current liabilities</b>			
Trade and other payables	12	(721,770)	(466,693)
Deferred income	13	-	(160,485)
Current tax liabilities	8	(118,598)	(36,841)
		<u>(840,368)</u>	<u>(664,019)</u>
<b>Net current assets</b>		77,077	(337,910)
<b>Non-current liabilities</b>			
Loan from parent	14	(5,554,737)	(1,596,725)
<b>Net assets</b>		<u>6,609,387</u>	<u>6,135,418</u>
<b>Equity</b>			
Called up share capital	15	1	1
Retained earnings		<u>6,609,386</u>	<u>6,135,417</u>
<b>Total shareholders' funds</b>		<u>6,609,387</u>	<u>6,135,418</u>

These financial statements were approved by the Board of Directors on 22 August 2016 and authorised for issue on its behalf by:



**Sir Angus Grossart**  
**Chairman**



**Barry White**  
**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 TO 31 MARCH 2016**

	Note	2016	2015
		£	£
<b>Cash flows from operating activities</b>			
Profit from operations for the year		592,995	3,379,262
Increase in trade and other receivables	10	(596,290)	(329,462)
Increase in trade and other payables	12	255,077	217,752
Increase in loan from related party	14	3,958,012	1,596,725
(Decrease)/increase in deferred income	13	(160,485)	72,964
		<u>                    </u>	<u>                    </u>
Net cash from operating activities		4,049,309	4,937,241
		<u>                    </u>	<u>                    </u>
<b>Corporation tax</b>	8	(37,269)	(3,608)
<b>Cash flows from investing activities</b>			
Purchase of investments	9	(2)	(1)
Purchase of share capital in SPVs	9	(243)	-
Return of working capital loan	9a	90,000	-
Repayment of subordinated debt	9b	8,939	-
Investment in subordinated debt of hub projects	9b	(3,847,939)	(4,791,781)
		<u>                    </u>	<u>                    </u>
<b>Net cash used in investing activities</b>		(3,749,245)	(4,791,782)
		<u>                    </u>	<u>                    </u>
<b>Net increase in cash and cash equivalents</b>		262,795	141,851
<b>Cash and cash equivalents at beginning of year</b>		234,622	92,771
		<u>                    </u>	<u>                    </u>
<b>Cash and cash equivalents at end of year</b>	11	497,417	234,622
		<u>                    </u>	<u>                    </u>

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 TO 31 MARCH 2016

#### 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, 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 properly budgeted and controlled funding from Scottish Futures Trust Limited and has forecast income to be received 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 or available-for-sale. Management determines the classification of its financial assets at initial recognition.

##### ***Investments***

These are investments by SFTi in hub companies, special purpose vehicles and limited liability partnerships and are held at cost as their fair value cannot be measured reliably. 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 TO 31 MARCH 2016 (continued)

#### 1. Basis of preparation and accounting policies (continued)

##### ***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 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.

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

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR TO 31 MARCH 2016 (continued)**

**2. New and Amended Standards Adopted by the Company**

No new or amended IFRSs had a material impact on the 2015/16 financial statements.

**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 which 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. There were no estimates or assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year.

**5. Other income**

	<b>2016</b>	<b>2015</b>
	<b>£</b>	<b>£</b>
Interest income from working capital loans and subordinated debt (notes 9a and 9b)	811,094	444,962
Bank Interest	182	146
Other income – directors’ fees	36,575	-
	<u>847,851</u>	<u>445,108</u>

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

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR TO 31 MARCH 2016 (continued)**

**6. Grant Income**

	<b>2016</b>	<b>2015</b>
	<b>£</b>	<b>£</b>
SFT grant received for SFTi investments in hubCo's and DBFM projects (note 9b)	2**	3,195,056*

\*In the prior year £3,195,056 of capital grant funding was received from SFT and £1,596,725 of a loan from SFT.

\*\*In 2015/16, £2 was receivable in grant funding to fund the investment of £2 in LLPs. £3,958,012 was lent by SFT to SFTi, which was used to fund the remaining investment of £243 in share capital (note 9a) and fund the investment of £3,847,939 in subordinated debt (note 9b).

**7. Administrative expenditure**

	<b>2016</b>	<b>2015</b>
	<b>£</b>	<b>£</b>
Profit before taxation is stated after charging:		
Management fee payable to SFT	254,768	260,812
Bank charges	90	90
	<u>254,858</u>	<u>260,902</u>

**8. Taxation**

	<b>2016</b>	<b>2015</b>
	<b>£</b>	<b>£</b>
Under provision in prior year	428	-
Corporation tax charge @ 20%	118,598	36,841
	<u>119,026</u>	<u>36,841</u>

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

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

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR TO 31 MARCH 2016 (continued)**

**9. Investments – Share Capital**

	<b>2016</b>	<b>2015</b>
	<b>£</b>	<b>£</b>
Cost and Net Book Value		
At beginning of year	87	86
Additions	245	1
	<hr/>	<hr/>
At 31 March 2016	332	87
	<hr/> <hr/>	<hr/> <hr/>

SFTi invested £2 in one housing partnership LLP during the current year together with £243 in share capital of SPVs in connection with sub debt investments.

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.

**9. a) Financial Assets - Working Capital Loans**

	<b>2016</b>	<b>2015</b>
	<b>£</b>	<b>£</b>
<b>Non-current assets</b>		
<b>Cost and Net Book Value</b>		
At beginning of year	400,000	490,000
Transferred to current assets	(200,000)	(90,000)
	<hr/>	<hr/>
At 31 March 2016	200,000	400,000
	<hr/> <hr/>	<hr/> <hr/>

	<b>2016</b>	<b>2015</b>
	<b>£</b>	<b>£</b>
<b>Current assets</b>		
<b>Cost and Net book value</b>		
At beginning of year	90,000	-
Repaid in current year	(90,000)	
Transferred from non-current assets (investments)	200,000	90,000
	<hr/>	<hr/>
At 31 March 2016	200,000	90,000
	<hr/> <hr/>	<hr/> <hr/>



**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR TO 31 MARCH 2016 (continued)**

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

**Working Capital Loans - Non-Current Assets**

SFTi loaned working capital of £100,000 to hub West Scotland Limited on 27 April 2012. This working capital facility is available until 26 April 2017 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. The rate of interest applicable shall be: the interest (net of tax) received where amounts are held in the reserve account, and 6.5% p.a. on all other sums. Interest is payable semi-annually (on 31 December and 30 June). This item has been treated as a non-current asset at 31 March 2016.

SFTi loaned working capital of £100,000 to hub South West Scotland Limited on 17 November 2012. This working capital facility is available until 16 November 2017 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. The rate of interest applicable shall be: the interest (net of tax) received where amounts are held in the reserve account, and 6% p.a. on all other sums. Interest is payable semi-annually (on 31 December and 30 June). This item has been treated as a non-current asset at 31 March 2016.

**Working Capital Loans - Current Assets**

SFTi loaned working capital of £100,000 to hub South East Scotland Limited on 30 July 2010. This working capital facility was originally available until 30 July 2015 but was extended until 31 March 2017. At this date the full amount of the working capital facility shall be due and payable on demand. The rate of interest applicable shall be: the amount of interest (net of tax) received where amounts are held in a reserve account, or 5% p.a. on all other sums. Interest is payable semi-annually (on 31 December and 30 June).

SFTi loaned working capital of £100,000 to hub East Central Scotland Limited on 7 February 2012. This working capital facility is available until 6 February 2017 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. The rate of interest applicable is: the interest (net of tax) received where amounts are held in the reserve account, and 5% p.a. on all other sums. Interest is payable semi-annually (on 31 December and 30 June).

**Working Capital Loans – Repaid**

SFTi loaned working capital of £90,000 to hub North Scotland Limited on 28 January 2011. This working capital facility was repaid in February 2016. It was treated as a current asset in the previous year.

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

**Capital Management**

Scottish Government grants SFT funds which SFT grants on to SFTi for investment in subordinated debts, share capital in special purpose vehicles and working capital in hub Cos. Scottish Government also loans SFT funds which SFT loans on to SFTi for investment in subordinated debts, share capital in special purpose vehicles and working capital in hub Cos. These investments are detailed in note 9b.

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

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR TO 31 MARCH 2016 (continued)**

**9. b) Financial Assets – Subordinated Debt**

	<b>2016</b>	<b>2015</b>
<b>Cost and Net Book Value</b>	<b>£</b>	<b>£</b>
At beginning of year	7,079,335	2,287,554
Additions	3,847,939	4,791,781
Principal repaid in year	(8,939)	-
	<hr/>	<hr/>
At 31 March 2016	10,918,335	7,079,335
	<hr/> <hr/>	<hr/> <hr/>

During 2015/16, SFTi invested £3,847,939 as subordinated debt within the following hub projects:

- Forfar Community Campus for Angus Council (Total capital cost: £34m) - £364,200 invested
- Anderson High School for Shetland Council (Total capital cost: £41m) - £342,962 invested
- Ayr Academy for South Ayrshire Council (Total capital cost: £24m) - £490,168 invested
- Dalbeattie Learning Campus for Dumfries & Galloway Council (Total capital cost: £24m) - £209,081 invested
- Newbattle High School for Midlothian Council (Total capital cost: £32m) - £310,265 invested
- Kelso High School for Scottish Borders Council (Total capital cost: £20m) - £205,150 invested
- East Ayrshire Learning Campus for East Ayrshire Council (Total capital cost: £42m) - £368,416 invested
- Elgin High School for Moray Council (Total capital cost: £27m) - £253,654 invested
- Baldragon Academy for Dundee City Council (Total capital cost: £27m) - £299,790 invested
- Inverclyde Care Home for NHS Glasgow & Clyde (Total capital cost: £7m) - £70,413 invested
- Barrhead High School for East Renfrewshire Council (Total capital cost: £22m) - £213,748 invested
- Campbeltown and Oban High Schools for Argyll & Bute Council (Total capital cost: £56m) - £491,691 invested
- Our Lady & St Patricks School for West Dunbartonshire Council (Total capital cost: £24m) - £228,401 invested

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 by hubco.

<b>Investment In:</b>	<b>Investment Type</b>	<b>Value</b>	<b>Interest Rate</b>	<b>Redemption Date</b>
<b>Hub North territory</b>				
Aberdeen Community Health Village Ltd	Fixed coupon unsecured loans	£576,191 less £1,759 principal repaid totals £574,432	10.2%	2039
hub North Scotland (FWT) Ltd	Fixed coupon unsecured loans	£133,884 less £7,180 principal repaid totals £126,704	10.2%	2039
hub North Scotland (Alford) Ltd	Fixed coupon unsecured loans	£747,036	10.2%	2040

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

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR TO 31 MARCH 2016 (continued)**

**9. b) Financial Assets – Subordinated Debt**

<b>Investment In:</b>	<b>Investment Type</b>	<b>Value</b>	<b>Interest Rate</b>	<b>Redemption Date</b>
<b>Hub North territory (continued)</b>				
hub North Scotland (Wick) Ltd	Fixed coupon unsecured loans	£1,568,509	10.2%	2042
hub North Scotland (Anderson) Ltd	Fixed coupon unsecured loans	£342,962	10.2%	2043
hub North Scotland (Elgin High School) Ltd	Fixed coupon unsecured loans	£253,654	10.2%	2043
hub North Scotland (O & C) Ltd	Fixed coupon unsecured loans	£491,691	10.2%	2043
<b>hub North territory total</b>		<b>£4,104,988</b>		
<b>hub South East territory</b>				
James Gillespie's Campus Subhub Holdings Ltd	Fixed coupon unsecured loans	£1,252,424	10.87%	2041
REH Phase 1 Subhub Holdings Ltd	Fixed coupon unsecured loans	£410,685	2.48% during construction and 10.75% during operation	2042
Newbattle DBFM Holdco Ltd	Fixed coupon unsecured loans	£310,265	3.35% during construction and 10.5% during operation	2043
KHS DBFM Holdco Ltd	Fixed coupon unsecured loans	£205,150	3.35% during construction and 10.5% during operation	2042
<b>hub South East territory total</b>		<b>£2,178,524</b>		
<b>hub South West territory</b>				
Hub SW NHSL Holdco Ltd	Fixed coupon unsecured loans	£325,055	10.5%	2040
Hub SW Greenfaulds Holdco Ltd	Fixed coupon unsecured loans	£271,509	2.33% during construction and 10.5% during Operation	2041

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

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR TO 31 MARCH 2016 (continued)**

**9. b) Financial Assets – Subordinated Debt**

<b>Investment In:</b>	<b>Investment Type</b>	<b>Value</b>	<b>Interest Rate</b>	<b>Redemption Date</b>
<b>Hub South West territory (continued)</b>				
Hub SW Ayr Holdco Ltd	Fixed coupon unsecured loans	£490,168	3.78% during construction and 10.65% during operation	2042
Hub SW Dalbeattie Holdco Ltd	Fixed coupon unsecured loans	£209,081	3.62% during construction and 10.85% during operation	2042
Hub SW EALC Holdco Ltd	Fixed coupon unsecured loans	£368,416	3.26% during construction and 10.5% during operation	2043
<b>hub South West territory total</b>		<b>£1,664,229</b>		
<b>hub West territory</b>				
Hub West Scotland Project Company (No.1) Ltd	Fixed coupon secured loan	£186,042	9.75%	2041
Hub West Scotland Project Company (No.2) Ltd	Fixed coupon unsecured loan	£70,413	9.75%	2042
Hub West Scotland Project Company (No.3) Ltd	Fixed coupon unsecured loan	£213,748	9.75%	2042
Hub West Scotland Project Company (No.4) Ltd	Fixed coupon unsecured loan	£228,401	9.75%	2042
<b>hub West territory total</b>		<b>£698,604</b>		
<b>hub East Central territory</b>				
Hub East Central (Levenmouth) Ltd	Fixed coupon unsecured loans	£1,608,000	10.2%	2041
Hub East Central Scotland (Baldragon) Ltd	Fixed coupon unsecured loans	£299,790	10%	2042
Hub East Central (Forfar) Ltd	Fixed coupon unsecured loans	£364,200	10%	2041
<b>hub East Central territory total</b>		<b>£2,271,990</b>		
<b>Total sub-ordinated debt</b>		<b>£10,918,335</b>		

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

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR TO 31 MARCH 2016 (continued)**

**10. Trade and other Receivables**

	<b>2016</b>	<b>2015</b>
	<b>£</b>	<b>£</b>
<b>Due in more than 1 year</b>		
Accrued interest income from sub-ordinated debt investments	968,380	590,631
<b>Due in less than 1 year</b>		
Amount receivable from related party – SFT	213,778	27
Accrued interest income from sub-ordinated debt investments	4,405	1,460
Other debtors	1,845	-
	<u>220,028</u>	<u>1,487</u>

**11. Cash and Cash Equivalents**

	<b>2016</b>	<b>2015</b>
	<b>£</b>	<b>£</b>
Cash at bank	497,417	234,622

**12. Trade and other Payables**

	<b>Note</b>	<b>2016</b>	<b>2015</b>
		<b>£</b>	<b>£</b>
Amount payable to related party – SFT		721,434	466,666
Other taxes and social security		308	-
Accruals		28	27
		<u>721,770</u>	<u>466,693</u>

**13. Deferred Income**

	<b>2016</b>	<b>2015</b>
	<b>£</b>	<b>£</b>
At beginning of the year	160,485	87,521
(Decrease)/increase in period	(160,485)	72,964
At 31 March 2016	<u>-</u>	<u>160,485</u>

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

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR TO 31 MARCH 2016 (continued)**

**14. Loan from Parent**

	<b>2016</b>	<b>2015</b>
	<b>£</b>	<b>£</b>
At beginning of the year	1,596,725	-
Increase in period	3,958,012	1,596,725
	<u>          </u>	<u>          </u>
At 31 March 2016	<u>5,554,737</u>	<u>1,596,725</u>

SFT made a loan of £3,958,012 (2015: £1,596,725) to SFTi during the year. £3,847,939 (2015: £1,596,725) was used to invest in subordinated debt in the year. The loan is non-interest bearing and repayable between September 2017 and March 2043.

The expected repayment profile is:

	<b>2016</b>	<b>2015</b>
	<b>£</b>	<b>£</b>
1-2 years	2,250	1,971
2-5 years	559,909	121,181
>5 years	4,992,578	1,473,573
	<u>          </u>	<u>          </u>
At 31 March 2016	<u>5,554,737</u>	<u>1,596,725</u>

**15. Called up Share Capital and Investment Reserve**

	<b>2016</b>	<b>2015</b>
	<b>£</b>	<b>£</b>
<b>Share capital</b>		
<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.

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 administrative expenses.

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

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR TO 31 MARCH 2016 (continued)**

**16. 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.

	<b>2016</b>	<b>2015</b>
	<b>£</b>	<b>£</b>
<b><u>Income Statement</u></b>		
<b><i>Scottish Futures Trust Limited Funding received</i></b>		
Grant funding received for investment	2	3,195,056
	<u>          </u>	<u>          </u>
<b><i>Payments made to Scottish Futures Trust Limited</i></b>		
SFT Management Fee	254,768	260,812
	<u>          </u>	<u>          </u>
	<b>2016</b>	<b>2015</b>
	<b>£</b>	<b>£</b>
<b><u>Statement of Financial Position</u></b>		
Balance owed by SFT to SFTi - included in other receivables	213,778	27
Balance owed to SFT by SFTi - included in other payables	(721,434)	(466,666)
Loan from related party	(5,554,737)	(1,596,725)
	<u>          </u>	<u>          </u>

**Hub South East Scotland Limited**

John Hope, a senior associate director of SFT, is a non-executive director of hub South East Scotland Limited. Details of material transactions with hub South East Scotland Limited are included below:

	<b>2016</b>	<b>2015</b>
	<b>£</b>	<b>£</b>
<b><u>Statement of Financial Position</u></b>		
Financial assets – Working capital loans	100,000	100,000
Financial assets – subordinated debt	2,178,524	1,663,109
Trade and other receivables – accrued interest income	352,250	200,086
Trade and other receivables – hub director fees	1,845	-
<b><u>Income Statement</u></b>		
Other income – hub director fees	6,075	-
Other income – Interest income	173,208	147,509
	<u>          </u>	<u>          </u>

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

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR TO 31 MARCH 2016 (continued)**

**16. Related party transactions (continued)**

**Hub North Scotland Limited**

Andrew Bruce, a Senior Associate Director of SFT, is a non-executive director of hub North Scotland Limited. Details of material transactions with hub North Scotland Limited are included below:

	<b>2016</b>	<b>2015</b>
	<b>£</b>	<b>£</b>
<b><u>Statement of Financial Position</u></b>		
Financial assets – Working capital loans	-	90,000
Financial assets – subordinated debt	4,104,988	3,025,620
Trade and other receivables – accrued interest income	470,019	272,382
<b><u>Income Statement</u></b>		
Other income – Interest income	397,910	195,813

**Hub East Central Scotland Limited**

John Hope, a senior associate director of SFT, is a non-executive director of hub East Central Scotland Limited. Details of material transactions with hub East Central Scotland Limited are included below:

	<b>2016</b>	<b>2015</b>
	<b>£</b>	<b>£</b>
<b><u>Statement of Financial Position</u></b>		
Financial assets – Working capital loans	100,000	100,000
Financial assets – subordinated debt	2,271,990	1,608,000
Trade and other receivables – accrued interest income	1,688	44,607
<b><u>Income Statement</u></b>		
Other income – Interest income	166,164	46,296

**Hub West Scotland Limited**

John Hope, a senior associate director of SFT, is a non-executive director of hub West Scotland Limited. Details of material transactions with hub West Scotland Limited are included below:

	<b>2016</b>	<b>2015</b>
	<b>£</b>	<b>£</b>
<b><u>Statement of Financial Position</u></b>		
Financial assets – Working capital loans	100,000	100,000
Financial assets – subordinated debt	698,604	186,042
Trade and other receivables – accrued interest income	43,914	24,873
<b><u>Income Statement</u></b>		
Other income – hub director fees	30,500	-
Other income – Interest income	19,041	16,475

An amount of £7,410 was payable to hub West Scotland by SFT as at 31 March 2016 (2015: £nil) being reimbursement of costs incurred.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR TO 31 MARCH 2016 (continued)**



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

**16. Related party transactions (continued)**

**Hub South West Scotland Limited**

John Hope, a senior associate director of SFT, is a non-executive director of hub South West Scotland Limited. Details of material transactions with hub South West Scotland Limited are included below:

	<b>2016</b>	<b>2015</b>
	<b>£</b>	<b>£</b>
<b><u>Statement of Financial Position</u></b>		
Financial assets – Working capital loans	100,000	100,000
Financial assets – subordinated debt	1,664,229	596,564
Trade and other receivables – accrued interest income	104,914	50,143
<b><u>Income Statement</u></b>		
Other income – Interest income	54,771	38,869
	<u>                    </u>	<u>                    </u>

**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 affordable 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. Barry White, Chief Executive of SFT and SFTi is currently SFTi’s nominated Trustee. Details of material transactions, between SFT, SFTi’s parent and the LAR Housing Trust are noted below. There were no financial transactions between SFTi and LAR.

	<b>2016</b>	<b>2015</b>
	<b>£</b>	<b>£</b>
<b><u>Statement of Financial Position</u></b>	-	-
<b><u>Income statement</u></b> – secondment of staff	74,455	-
	<u>                    </u>	<u>                    </u>

**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. Peter Reekie, Deputy Chief Executive of SFT and SFTi is currently SFTi’s nominated Trustee. Details of material transactions with Hub Community Foundation are noted below:

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

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR TO 31 MARCH 2016 (continued)**

**16. Related Party Transactions (continued)**

	<b>2016</b>	<b>2015</b>
	<b>£</b>	<b>£</b>
<b><u>Statement of Financial Position</u></b>	-	-
<b><u>Income statement</u></b>	-	-

**17. 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.

**18. 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

Sir Angus Grossart (Chairman)  
Graeme Bissett (Non-Executive Director)  
James Fletcher (Non-Executive Director)  
Fiona Mackenzie (Non-Executive Director)  
Carolyn Dwyer (Non-Executive Director)  
Barry White (Executive Director)  
Peter Reekie (Executive Director)

### Chief Executive

Barry White

### 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](http://www.scottishfuturestrust.org.uk)