

SCOTTISH FUTURES TRUST INVESTMENTS LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2015

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 fifth 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.

The Company has continued to make excellent progress in 2014/15 with hub North Scotland completing and handing over its second revenue funded project, the Forres, Woodside and Tain health bundle to NHS Highland and NHS Grampian. Together with the Aberdeen Community Health and Care Village the company now has two investments generating regular cash returns.

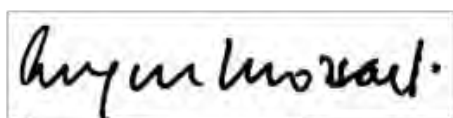
The five hub companies continued to make excellent progress and during the past 12 months financial close was reached and construction started on a further six hub revenue funded projects worth over £200m. The projects in which SFTi invested included:

- Alford Community Campus for Aberdeenshire Council (Total capital cost: £26m) - £747,036 invested;
- Eastwood and Maryhill Health Centres for NHS Greater Glasgow & Clyde (Total capital cost: £25m) - £186,042 invested;
- The Royal Edinburgh Hospital Phase 1 Redevelopment for NHS Lothian (Total capital cost: £43m) - £410,685 invested;
- Wick Community Campus for Highland Council (Total capital cost: £49m) - £1,568,509 invested;
- Levenmouth High School for Fife Council (Total capital cost: £37m) - £1,608,000 invested; and
- Greenfaulds High School for North Lanarkshire Council (Total capital cost: £32m) - £271,509 invested.

Looking ahead, the introduction of revised European Budgetary Guidance has impacted upon the progress of a number of hub projects. SFT has been well placed to respond to the new guidance and with Scottish Government has sought clarity, within the emerging position of the Regulators, in this complex arena. SFT's persistence has now allowed hub DBFM projects to move forward with revised arrangements. In 2015/16, three of the hub investment projects will become operational, which will provide additional income to be used by SFTi to offset costs and potentially for investment in future projects.

SFTi is also an investor in 26 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 make a significant contribution to SFT over many years.



Sir Angus Grossart
Chairman

30 November 2015

SCOTTISH FUTURES TRUST INVESTMENTS LIMITED

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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 staff 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 £7.1m into ten separate revenue funded projects delivered by the Scotland-wide hub programme:

1. The Aberdeen Community Health and Care Village (ACHCV) was completed by hub North and opened in December 2013 with SFTi investing £576,191. The completed ACHCV is a high quality building from where a range of first-class community health and care services are now being delivered. The investment is performing as anticipated for SFTi and the first cash payment of subordinated debt interest was received early in the 2014/15 financial year.
2. The construction of the £13.6m Forres, Woodside and Tain Health Bundle for NHS Grampian and NHS Highland was completed with each of the three health centres being handed over by hub North by summer 2014. SFTi's investment in this project totalled £133,884 and the first cash payment of subordinated debt interest was received on schedule in the first half of 2014/15.
3. The first phase of the £34m James Gillespie's High School in Edinburgh was completed and handed over on time and on budget to City of Edinburgh Council on 3 April 2015. Teaching has now commenced in the new facility while the construction of the remaining phases of the school is due to be completed in Summer 2016. SFTi's investment in the project is £1,252,424. The school is being delivered by hub South East and was their first completed DBFM project.

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STRATEGIC REPORT (continued)

Business Review (continued)

4. The £43m East Kilbride, Wishaw and Kilsyth health bundle for NHS Lanarkshire which reached financial close in December 2013, with SFTi investing £325,055, saw its first health centre at Kilsyth completed and handed over on time and on budget on 17 April 2015. Construction is at an advanced stage on the other two facilities with completion due of the final facility in August 2015 with all ancillary site works due to be completed by March 2016. This is the first DBFM project in the South West hub territory.
5. The £26m Alford Community Campus being delivered by hub North for Aberdeenshire Council reached Financial close in June 2014 although construction activity had been underway for several months before under a separate enabling Design and Build contract. Construction is on progress and is due to be completed by October 2015. SFTi have invested £747,036 in this project.
6. In October 2014 hub West reached financial close on its first DBFM project, the £25m Eastwood and Maryhill health centre bundle for NHS Greater Glasgow & Clyde. The two health centres are currently in construction and on schedule to be completed in March 2016. SFTi invested £186,042 in what is hub West's first DBFM project.
7. Hub East Central reached financial close in December 2014 on the £43m Phase 1 of the Royal Edinburgh Hospital project for NHS Lothian. SFTi invested £410,685 in this project. Construction activity to prepare the site had been underway for several months before under a separate enabling Design and Build contract. The new hospital is currently under construction and is on programme to be completed in December 2016.
8. Hub North reached financial close on its fourth DBFM project in December 2014 with the agreement to build the £49m Wick High School for Highland Council. This project which also incorporated a combined primary school had commenced construction some months earlier under a separate enabling Design and Build contract and is on schedule to be completed by August 2016. SFTi invested £1,568,509 in this project.
9. Hub East Central reached financial close in December 2014 with its first DBFM project to build a new Levenmouth High School for Fife Council. SFTi invested £1,608,000 in this £37m project. Construction activity to prepare the site had been underway for several months before under a separate enabling Design and Build contract. The main construction programme is making excellent progress on this two phase school and Phase 1 is on schedule to be completed in August 2016 with the remainder of the school to be completed in July 2017.
10. Greenfaulds Academy is a £32m project in which SFTi invested £271,509 and is being delivered by hub South West for North Lanarkshire Council. The project is in the early stages of construction and is a multi phase project on programme to meet its first handover date in September 2016 with the completed school due to be handed over in June 2017 and finally the track and playing fields completed in Summer 2018 .

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STRATEGIC REPORT (continued)

Business Review (continued)

In addition, SFTi has invested into one additional Limited Liability Partnership (LLP) across the National Housing Trust programme bringing its involvement to 26 LLPs across the country.

The National Housing Trust was established to increase the supply of homes to be let at affordable rent. As at 31 March 2015, contracts have been signed to build 1,393 new homes on 31 individual NHT sites across 10 local authority areas.

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;
- the establishment this Financial Year of an Investment Committee of the Board which is required to authorise all investments made and monitor 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.

SCOTTISH FUTURES TRUST INVESTMENTS LIMITED ANNUAL REPORT AND FINANCIAL STATEMENTS

STRATEGIC REPORT (continued)

Business Review (continued)

Results

SFTi is primarily funded through capital grant income received from SFT of £3,195,056 (2014: £1,711,369) and loan funding from SFT of £1,596,725 (2014: £Nil). In addition, investment returns received in the year, including a small amount of bank interest, totalled £445,108 (2014: £147,635). After allowing for costs of £260,902 (2014: £129,595) there was an operational surplus of £3,379,262 (2014: £1,729,409) representing funds provided to SFTi for investment.

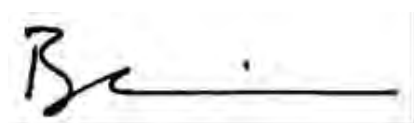
In 2014/15 investments of £4,791,781 (2014: £1,711,363) were made in the sub-ordinated debt of projects delivered through HUB. This was funded by the surplus noted above and the loan received from SFTi's parent, SFT. The ten investments made to date in DBFM projects are all performing satisfactorily to their base cases. 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.

Future Plans

In 2015/16, SFTi will continue to progress hub projects with investment levels dependent on resolution of the budgetary impact of Design, Build, Finance and Maintain projects and the pace of progress of individual projects to financial close. Two investments have been made in the early part of 2015/16. Up to 17 further hub DBFM projects may progress during the next financial year and SFTi will have the opportunity to invest in these as they reach financial close. The value of that investment will be dependent on the take-up of investment opportunities by Local Authorities and is likely to be in the range of £5m to £8m. SFTi will only invest if it is granted or loaned 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:



Barry White
Executive Director

30 November 2015

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 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 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.

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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.

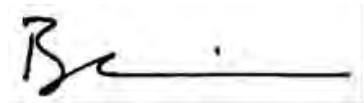
Disclosure of Information to the Auditor

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, the Scottish Government and the Company occur on a regular basis.

On behalf of the Board

A handwritten signature in black ink, appearing to be 'B. White', is written over a horizontal line. The signature is contained within a rectangular box.

**Barry White
Executive Director**

30 November 2015

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 2015, 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, including their terms and conditions of employment, 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 Ethical Standards in Public Life 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, 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.

Three Board meetings were held during the year.

Board balance and independence

In the year ended 31 March 2015, 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, and follows the same election process as, the Board of the Parent company, SFT.

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.

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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.

With the exception of the Board Chairman, all members of the Board are members of the Committee. 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
Number of meetings	3	3	7
Sir Angus Grossart	3	-	-
Graeme Bissett	2	3	3
Carolyn Dwyer	3	-	7
James Fletcher	2	3	4
Fiona MacKenzie	3	1	7
Barry White	3	1	2
Peter Reekie	3	2	7

Fiona MacKenzie was appointed to the Group Audit Committee in October 2014 and was therefore eligible to attend one meeting of the Committee in the Financial Year 2014/15.

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.

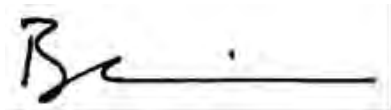
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REPORT ON CORPORATE GOVERNANCE (continued)

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', is enclosed in a thin black rectangular border.

**Barry White
Executive Director**

30 November 2015

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.

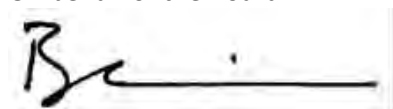
Corporate Information Systems

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

30 November 2015

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REPORT ON DIRECTORS' REMUNERATION

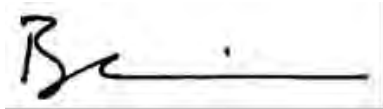
Details of directors' remuneration are as follows:

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 be 'Barry White', written over a horizontal line.

Barry White
Executive Director

30 November 2015

SCOTTISH FUTURES TRUST INVESTMENTS LIMITED ANNUAL REPORT AND FINANCIAL STATEMENTS

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 2015 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 internal control systems and standards.

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REPORT OF THE AUDIT COMMITTEE (continued)

Auditor and audit tenure

Scott Moncrieff has been auditor since the company's incorporation in 2010. 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. A formal tender process took place in early 2014 and Scott Moncrieff were re-appointed as external auditor.

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 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.

There were no non-audit services provided to the Company by the Auditor except for basic corporation tax compliance and VAT advice. 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)

Significant issue	How the issue was addressed
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.</p>
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 loans and interest receivable	The Investment Committte 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.

On behalf of the Audit Committee



Graeme Bissett
Chairman, Audit Committee

30 November 2015

SCOTTISH FUTURES TRUST INVESTMENTS LIMITED ANNUAL REPORT AND FINANCIAL STATEMENTS

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

We have audited the financial statements of Scottish Futures Trust Investments Limited for the year ended 31 March 2015 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 6 and 7, 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.

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 SHAREHOLDERS 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 2015 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 has two sources of income. The main source of income is capital grant funding provided by SFT to fund investments. We confirmed the funding provided to bank statements, remittance and Board minutes. SFTi also receives interest 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.
- **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 SHAREHOLDERS OF SCOTTISH FUTURES TRUST INVESTMENTS LIMITED (continued)

Our application of materiality

The materiality for the financial statements as a whole was set at £168,000. This has been assessed with reference to a benchmark of total gross assets (representing 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.

We set a performance (testing) materiality, which we assessed as being 50% of the overall materiality of £168,000, i.e. £84,000. 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 of £168,000, i.e. £126,000. 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 £126,000 were audited whilst for higher risk items we tested all balances and transactions above £84,000. 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 £2,500; 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.

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.

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

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

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 is 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.

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 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

Seample Street

Edinburgh

EH3 8BL

30 November 2015

SCOTTISH FUTURES TRUST INVESTMENTS LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2015

	Note	2015	2014
		£	£
Continuing operations			
Revenue		-	-
Cost of sales		-	-
		-	-
Gross profit			
Other income	5	445,108	147,635
Capital grant income	6	3,195,056	1,711,369
Administrative expenditure	7	(260,902)	(129,595)
Profit on ordinary activities before taxation		3,379,262	1,729,409
Taxation on profit on ordinary activities	8	(36,841)	(3,608)
Net Profit for the year		3,342,421	1,725,801
Other comprehensive income for the year, after tax		-	-
Total comprehensive income for the year		3,342,421	1,725,801
Attributable to Equity holder of the Company		3,342,421	1,725,801

STATEMENT OF CHANGES IN EQUITY AS AT 31 MARCH 2015

	Share Capital	Retained Earnings	Total
	£	£	£
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

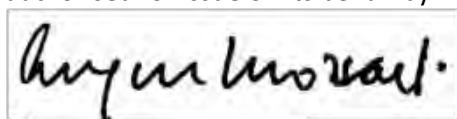
The accompanying notes form an integral part of these financial statements

SCOTTISH FUTURES TRUST INVESTMENTS LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS

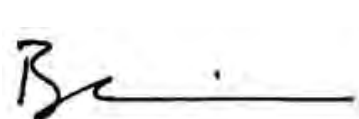
STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2015

	Note	2015 £	2014 £
ASSETS			
Non-current assets			
Investments			
Investments in share capital	9	87	86
Financial assets - Working capital loans	9a	400,000	490,000
Financial assets – subordinated debt	9b	7,079,335	2,287,554
		<u>7,479,422</u>	<u>2,777,640</u>
Current assets			
Trade and other receivables	10	592,118	262,656
Financial assets - Working capital loans	9a	90,000	-
Cash and cash equivalents	11	234,622	92,771
		<u>916,740</u>	<u>355,427</u>
Current liabilities			
Trade and other payables	12	(466,693)	(248,941)
Deferred income	13	(160,485)	(87,521)
Current tax liabilities	8	(36,841)	(3,608)
		<u>(664,019)</u>	<u>(340,070)</u>
Net current assets		252,721	15,357
Non-current liabilities			
Loan from related party	14	(1,596,725)	-
		<u>(1,596,725)</u>	<u>-</u>
Net assets		<u>6,135,418</u>	<u>2,792,997</u>
Equity			
Called up share capital	15	1	1
Retained earnings	15	6,135,417	2,792,996
		<u>6,135,418</u>	<u>2,792,997</u>
Total shareholders' funds		<u>6,135,418</u>	<u>2,792,997</u>

These financial statements were approved by the Board of Directors on 30 November 2015 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 2015

	Note	2015	2014
		£	£
Cash flows from operating activities			
Profit from operations for the year		3,379,262	1,729,409
Increase in trade and other receivables	10	(329,462)	(148,320)
Increase in trade and other payables	12	217,752	132,530
Increase in loan from related party	14	1,596,725	-
Increase in deferred income	13	72,964	87,521
		<u>4,937,241</u>	<u>1,801,140</u>
Corporation tax	8	(3,608)	(231)
Cash flows from investing activities			
Purchase of investments	9	(1)	(6)
Provision of subordinated debt	9b	(4,791,781)	(1,711,363)
		<u>(4,791,782)</u>	<u>(1,711,369)</u>
Net cash used in investing activities			
Net increase in cash and cash equivalents		141,851	89,540
Cash and cash equivalents at beginning of year		92,771	3,231
		<u>234,622</u>	<u>92,771</u>
Cash and cash equivalents at end of year	11	<u>234,622</u>	<u>92,771</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 2015

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 historic 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 forecasted 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 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 2015 (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 2015 (continued)

2. New and amended standards adopted by the Company

No new or amended IFRSs had a material impact on the 2014/15 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 should 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.

SCOTTISH FUTURES TRUST INVESTMENTS LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR TO 31 MARCH 2015 (continued)

5. Other income

	2015	2014
	£	£
Interest income from working capital loans and subordinated debt (notes 9a and 9b)	444,962	147,536
Bank Interest	146	99
	<u>445,108</u>	<u>147,635</u>

6. Capital grant income

	2015	2014
	£	£
SFT capital grant received for SFTi investments in hubCo's and DBFM projects (note 9b)	3,195,056*	1,711,369
	<u>3,195,056*</u>	<u>1,711,369</u>

*In addition to this capital grant, SFT using funds provided by the Scottish Government lent £1,596,725 to SFTi which was used to invest in subordinated debt in a number of projects as detailed in note 9. These funds are due to be paid back to SFTi who would repay SFT. SFT would then repay the Scottish Government. See note 14.

7. Administrative expenditure

	2015	2014
	£	£
Profit before taxation is stated after charging:		
Management fee payable to SFT	260,812	129,595
Bank charges	90	-
	<u>260,902</u>	<u>129,595</u>

8. Taxation

	2015	2014
	£	£
Corporation tax charge @ 20%	36,841	3,608
	<u>36,841</u>	<u>3,608</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 2015 (continued)

9. Investments – Share capital

	2015	2014
	£	£
Cost and Net Book Value		
At beginning of year	86	80
Additions	1	6
	<u> </u>	<u> </u>
At 31 March 2015	<u>87</u>	<u>86</u>

SFTi invested £1 in one housing partnership LLP during the current year. 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

	2015	2014
	£	£
Non-current assets		
Cost and Net Book Value		
At beginning of year	490,000	490,000
Transferred to current assets	(90,000)	-
	<u> </u>	<u> </u>
At 31 March 2015	<u>400,000</u>	<u>490,000</u>

	hub Co working capital	Total
	£	£
Current assets		
Cost and Net book value		
At 31 March 2014	-	-
Transferred from non-current assets (note 9a)	90,000	90,000
	<u> </u>	<u> </u>
At 31 March 2015	<u>90,000</u>	<u>90,000</u>

SFTi loaned working capital of £100,000 to hub South East Scotland Limited on 30 July 2010. This working capital facility is available until 30 July 2015 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. Hub South East has applied for an extension to 31 March 2017 and this had been granted. The loan has therefore been classified as a non-current asset as at 31 March 2015. 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.

SCOTTISH FUTURES TRUST INVESTMENTS LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR TO 31 MARCH 2015 (continued)

9. a) Financial assets - working capital loans (continued)

SFTi loaned working capital of £90,000 to hub North Scotland Limited on 28 January 2011. This working capital facility is available until 27 January 2016 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 a reserve account, and 4.5% p.a. on all other sums. Interest will be payable semi-annually (on 31 December and 30 June). This item has been treated as a current asset as at 31 March 2015.

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 shall be: the interest (net of tax) received where amounts are held in the reserve account, and 5% p.a. on all other sums. Interest will be payable semi-annually (on 31 December and 30 June).

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 will be payable semi-annually (on 31 December and 30 June).

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 will be payable semi-annually (on 31 December and 30 June).

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

9. b) Financial assets – subordinated debt

	2015	2014
Cost and Net Book Value	£	£
At beginning of year	2,287,554	576,191
Additions	4,791,781	1,711,363
	<hr/>	<hr/>
At 31 March 2015	7,079,335	2,287,554
	<hr/> <hr/>	<hr/> <hr/>

SCOTTISH FUTURES TRUST INVESTMENTS LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR TO 31 MARCH 2015 (continued)

9. b) Financial assets – subordinated debt (continued)

SFTi made its first investment in a project in March 2012 when it invested in the Aberdeen Community Health Village DBFM, a special purpose company wholly owned by hub North Scotland Limited, in the form of £576,191 of 10.2% fixed coupon unsecured loans. Interest is expected annually in the operational phase of the project with the principal being returned in 25 years following completion of construction, so by 2039.

On 16 April 2013 the investment of £133,884 by SFTi in Forres, Tain and Woodside DBFM, a special purpose company owned by hub North Scotland Limited, was completed. This investment was in the form of 10.2% fixed coupon unsecured loans. Interest is expected annually in the operational phase of the project with the principal being returned in 25 years following completion of construction, so by 2039.

On 9 December 2013 SFTi invested £1,252,424 in James Gillespie's Campus, a special purpose company owned by hub South East Scotland Limited. This investment was in the form of 10.87% fixed coupon unsecured loans. Interest is expected annually in the operational phase of the project with the principal being returned in 25 years following completion of construction, so in 2041.

On 19 December 2013 SFTi invested £325,055 in NHS North Lanarkshire Bundle DBFM, a special purpose company owned by hub South West Scotland Limited. This investment was in the form of 10.50% fixed coupon unsecured loans. Interest is expected annually in the operational phase of the project with the principal being returned in 25 years following completion of construction, so in 2040.

On 2 June 2014 SFTi invested £747,036 in Alford Community Campus DBFM, a special purpose company owned by hub North Scotland Limited. This investment was in the form of 10.2% fixed coupon unsecured loans. Interest is expected annually in the operational phase of the project with the principal being returned in 25 years following completion of construction, so in 2040.

On 10 October 2014 SFTi invested £186,042 in Eastwood Health Centre and Maryhill Health Care Centre, a special purpose company owned by hub West Scotland Limited. This investment was in the form of a 9.75% secured loan with the principal being returned in 25 years following completion of construction, so in 2041.

On 18 December 2014 SFTi invested £410,685 in Royal Edinburgh Hospital, a special purpose company owned by hub South East Scotland Limited. This investment was in the form of an advance with interest payable annually at 2.48% during the construction phase and interest payable annually at 10.75% during the operational phase. The principal is being returned in 25 years following completion of construction, so in 2042.

On 19 December 2014 SFTi invested £1,568,509 in Wick Community Campus DBFM, a special purpose company owned by hub North Scotland Limited. This investment was in the form of 10.2% fixed coupon unsecured loans. Interest is expected annually in the operational phase of the project with the principal being returned in 25 years following completion of construction, so in 2042.

On 22 December 2014 SFTi invested £1,608,000 in Levenmouth High School DBFM, a special purpose company owned by hub East Central Scotland Limited. This investment was in the form of 10% fixed

SCOTTISH FUTURES TRUST INVESTMENTS LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR TO 31 MARCH 2015 (continued)

9 b) Financial assets – subordinated debt (continued)

coupon unsecured loans. Interest is expected annually in the operational phase of the project with the principal being returned in 25 years following completion of construction, so in 2041.

On 8 January 2015 SFTi invested £271,509 in Greenfaulds DBFM, a special purpose company owned by hub South West Scotland Limited. This investment was in the form of an advance with interest payable annually at 2.33% during the construction phase and interest payable annually at 10.5% during the operational phase. The principal is being returned in 25 years following completion of construction, so in 2041.

10. Trade and other receivables

	2015	2014
	£	£
Amount receivable from related party – SFT	27	26
Accrued interest income	592,091	219,568
Recoverable VAT	-	43,062
	<u>592,118</u>	<u>262,656</u>

11. Cash and cash equivalents

	2015	2014
	£	£
Cash at bank	234,622	92,771
	<u>234,622</u>	<u>92,771</u>

12. Trade and other payables

	Note	2015	2014
		£	£
Amount payable to related party – SFT		466,666	248,916
Accruals		27	25
		<u>466,693</u>	<u>248,941</u>

13. Deferred income

	2015	2014
	£	£
At beginning of the year	87,521	-
Increase in period	72,964	87,521
	<u>160,485</u>	<u>87,521</u>
At 31 March 2015	<u>160,485</u>	<u>87,521</u>

SCOTTISH FUTURES TRUST INVESTMENTS LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR TO 31 MARCH 2015 (continued)

14. Loan from related party

	2015	2014
	£	£
At beginning of the year	-	-
Increase in period	1,596,725	-
	<u>1,596,725</u>	<u>-</u>
At 31 March 2015	<u>1,596,725</u>	<u>-</u>

SFT made a loan of £1,596,725 to the company during the year. This was used to invest in subordinated debt in the year. The funds had been lent to SFT by the Scottish Government for this purpose. The loan is non-interest bearing and repayable between September 2016 and March 2042.

This is expected to be paid:

	2015	2014
	£	£
1-2 years	1,971	-
2-5 years	121,181	-
>5 years	1,473,573	-
	<u>1,596,725</u>	<u>-</u>
At 31 March 2015	<u>1,596,725</u>	<u>-</u>

15. Called up share capital and investment reserve

	2015	2014
	£	£
Share capital		
<i>Authorised, issued but not yet fully paid – 1 ordinary share of £1 each</i>		
As at 31 March 2015	<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.

	2015	2014
	£	£
Retained Earnings		
As at beginning of year	2,792,996	1,067,195
Total comprehensive income for the year	3,342,421	1,725,801
	<u>6,135,417</u>	<u>2,792,996</u>
As at 31 March 2015	<u>6,135,417</u>	<u>2,792,996</u>

The retained earnings reserve comprises the cumulative profits of the company.

**SCOTTISH FUTURES TRUST INVESTMENTS LIMITED
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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR TO 31 MARCH 2015 (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.

	2015	2014
	£	£
<u>Income Statement</u>		
<i>Scottish Futures Trust Limited Funding received</i>		
Capital grant funding received for investment	3,195,056	1,711,369
	<u> </u>	<u> </u>
<i>Payments made to Scottish Futures Trust Limited</i>		
SFT Management Fee	260,812	129,595
	<u> </u>	<u> </u>
<i>Nature of funding receipt</i>		
Payments made directly by SFT on behalf of SFTi	4,791,781	1,711,363
Year end receivable	1	6
	<u> </u>	<u> </u>
	<u>4,791,782</u>	<u>1,711,369</u>
	<u> </u>	<u> </u>
	2015	2014
	£	£
<u>Statement of Financial Position</u>		
Balance owed by SFT to SFTi - included in other receivables	27	26
Balance owed to SFT by SFTi - included in other payables	(466,666)	(248,916)
Loan from related party	(1,596,725)	-
	<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 2015 (continued)

16. Related party transactions (continued)

Hub South East Scotland Limited

John Hope, an 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:

	2015	2014
	£	£
<u>Statement of Financial Position</u>		
Financial assets – Working capital loans	100,000	100,000
Financial assets – subordinated debt	1,663,109	1,252,424
Trade and other receivables – accrued interest income	200,086	52,577
<u>Income Statement</u>		
Other income – Interest income	147,509	46,404
	<u> </u>	<u> </u>

Hub North Scotland Limited

Andrew Bruce, an 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:

	2015	2014
	£	£
<u>Statement of Financial Position</u>		
Financial assets – Working capital loans	90,000	90,000
Financial assets – subordinated debt	3,025,620	710,075
Trade and other receivables – accrued interest income	272,382	145,145
<u>Income Statement</u>		
Other income – Interest income	195,813	82,616
	<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 2015 (continued)

16. Related party transactions (continued)

Hub East Central Scotland Limited

John Hope, an 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:

	2015	2014
	£	£
<u>Statement of Financial Position</u>		
Financial assets – Working capital loans	100,000	100,000
Financial assets – subordinated debt	1,608,000	-
Trade and other receivables – accrued interest income	44,607	529
<u>Income Statement</u>		
Other income – Interest income	46,296	2,151
	<u> </u>	<u> </u>

Hub West Scotland Limited

John Hope, an 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:

	2015	2014
	£	£
<u>Statement of Financial Position</u>		
Financial assets – Working capital loans	100,000	100,000
Financial assets – subordinated debt	186,042	-
Trade and other receivables – accrued interest income	24,873	10,043
<u>Income Statement</u>		
Other income – Interest income	16,475	6,597
	<u> </u>	<u> </u>

Hub South West Scotland Limited

John Hope, an 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:

	2015	2014
	£	£
<u>Statement of Financial Position</u>		
Financial assets – Working capital loans	100,000	100,000
Financial assets – subordinated debt	596,564	325,055
Trade and other receivables – accrued interest income	50,143	11,274
<u>Income Statement</u>		
Other income – Interest income	38,869	9,768
	<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 2015 (continued)

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 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.

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.

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.

19. Post Balance Sheet Event

Following the year end, SFT has been considering the level of its investments in the equity and subordinated debt in hub DBFM projects. This follows the introduction of new European Budgetary Guidance in September 2014. A final decision on these matters had not been reached at the time of signing the accounts and the investments continue to be classified as investments in non-current assets which reflects the position as at 31 March 2015.

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