

SCOTTISH FUTURES TRUST INVESTMENTS LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2021

SCOTTISH FUTURES TRUST INVESTMENTS LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS

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CHAIRMAN'S STATEMENT

It is my pleasure to present SFTi's annual report and accounts for the year ended 31 March 2021.

The purpose of SFTi, which is a wholly owned subsidiary of Scottish Futures Trust Limited, is to make and hold investments in infrastructure companies, assets, and projects across Scotland. To date, this has involved supporting revenue funded investment in community infrastructure through the SFT-managed hub Programme as well as in affordable housing through both the National Housing Trust initiative and Housing Delivery Partnerships.

Regarding the hub Programme, SFTi has invested £16.5m in 41 Design, Build Finance and Maintain (DBFM) projects of which 40 were fully operational as of 31 March 2021. The last remaining hub DBFM project under construction (the Clydebank Health & Care Facility) is scheduled to reach completion during the 2021/22 financial year. The operational projects are performing well and, although having experienced COVID-19 related challenges, project companies, facilities management contractors and procuring authorities have worked well together to ensure continuation of public services.

To-date the COVID-19 pandemic has not impacted investment performance; furthermore, with established practices and robust procedures in place, the pandemic is not expected to impact materially on forecast returns.

In relation to housing, working closely with local authorities, Scottish Government and wider stakeholders, SFTi also continues to support actively the delivery and provision of mid-market rent housing. During the year SFTi worked closely with partners and four housing LLP's in the Highlands to secure the long-term retention of homes for mid-market rent.

SFTi's investment portfolio plays a strategic part in the wider SFT Group's business.

A handwritten signature in black ink, appearing to read 'Ian Russell', is written over a light yellow rectangular background.

Ian Russell
Chairman

Date: 13th September 2021

STRATEGIC REPORT

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

Principal Activity

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

Strategy

SFTi's strategy is to invest in companies to support the development of infrastructure in Scotland. To date, this has been focused upon investing funds provided by the Scottish Government as subordinated debt into Design, Build, Finance and Maintain (DBFM) projects in the SFT managed hub programme. Returns from these investments deliver cash income to the SFT Group and these returns will be used to support the operations of the Group. SFTi also invests in LLPs to support the development of affordable and mid-market housing in Scotland.

Business Review

As at 31 March 2021, SFTi has invested in the equity and sub-ordinated debt of 41 revenue-funded projects delivered by the Scotland-wide hub programme. These investments include equity whose fair value is £604k (2019/20: £525k) and sub-ordinated debt of £15.8m (2019/20: £15.9m). Of these investments, 40 relate to operational projects now earning investment income with 1 project in the course of construction as at 31 March 2021. Investment income comprises both interest due on subordinated debt provided to projects and dividend returns received on equity investments. The latter fluctuates year on year depending on the availability of cash to pay dividends once project costs and financial covenants have been met. Further details on amounts received are provided within Note 5.

Equity investments are held at fair value based upon the forecast dividend returns. As at 31 March 2021 their estimated fair value was £604k compared to £525k as at 31 March 2020. The variation in fair value of £79k (19/20; £162k) reflects the aggregate impact of: project dividends received in the year which decreased the fair value by £32k; movements in the dividends forecast by projects which resulted in a net increase of £71k in the fair value, the impact on dividends of tax rate changes creating a decrease of £22k and the effect of discounting where SFTi is, in general, one year closer to receiving dividend income which increased the fair value by £62k.

In addition to hub projects, SFTi also invests in Limited Liability Partnerships (LLPs) under the Housing Delivery Partnership programme, which aims to increase the supply of affordable housing in conjunction with Local Authority partners. SFTi also remains invested in the National Housing Trust programme, with 22 operational LLPs in place across the country with an equity valuation of £22.

STRATEGIC REPORT (continued)

Business Review (continued)

Risks and Mitigation

The most significant risk to the Company is investment performance. For financial year 2020/21, the greatest risk to investment performance was COVID-19. During the year three projects suffered COVID-19 related delays to construction completion. With the exception of Clydebank Health and Care Facility (part of the Greenock, Stobhill and Clydebank project bundle) all project facilities reached completion during the financial year. The Clydebank facility is due to reach completion during financial year 2021/22.

For projects in operations, the provision of maintenance and facilities management services has continued throughout the pandemic. The Board has however considered the potential long-term impact that COVID-19 could have on the project companies and investment performance. Given the project companies' sole customers are public sector bodies backed by the Scottish Government, and service performance across the portfolio has been strong throughout the pandemic, the Board considers the risk of a material impact on investment performance to be low. The directors have committed to carrying out regular reviews of the portfolio's performance to monitor the ongoing situation.

Other than Queensferry High School and the Inverurie Community Campus investments, no operational projects were in senior lender distribution lock-up at 31 March 2021. These projects were in lock-up due to funder requirement that the final phase of construction works (such as landscaping and car parking) are completed prior to the first distribution being permitted. In both cases the delays were caused by the COVID-19 pandemic. The Board do not anticipate any losses as payments are anticipated to be received in all cases and hence with the exception of minor re-profiling, investments are performing according to their base cases and making returns as anticipated.

Factors that may affect future dividend returns and valuation of equity are future tax charges: the Chancellor announced in the Budget on 3 March 2021, that there would be an increase in the rate of corporation tax for companies generating taxable profits of more than £250,000 (with marginal rates being applied at various profit bandings). This change becomes effective from 1 April 2023. Future tax assumptions for all project investments require to be agreed every 6 months with funders. The project companies are currently going through this process, and although the long-term impact on dividend returns and valuation of equity is not expected to be material, the likely impact will not be known until this validation process has been completed. The current valuation is based on an estimated impact.

STRATEGIC REPORT (continued)

Business Review (continued)

Risks and Mitigation (continued)

The investment risk is mitigated by:

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

Risk Management and Internal Control

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

Financial Results

Investment returns received in the year, including a small amount of bank interest and hub director fees, totalled £1,847,485 (2019/20: £1,852,314) and grant income of £nil (2019/20: £1). After costs of £578,554 (2019/20: £644,992) there was a profit before tax of £1,268,931 (2019/20: £1,207,323). A tax charge of £234,874 (2019/20: £202,040) was incurred in respect of the profit generated. Included in the costs is a £nil (2019/2020: £36,000) expected credit loss provision [in relation to the working capital loan provided to hub West Scotland Limited due to the potential for the company not to be able to repay the loan in full when it falls due if its unsecured pipeline of work is not delivered according to its base-case.]

The profit after tax was £1,034,057 (2019/20: £1,005,283). SFTi now generates a healthy return from its investment portfolio. Part of these profits is now transferred over to SFT via a dividend with these funds used by SFT to help fund its activities. In the current year, a dividend of £770K (19/20: £872k) was distributed by SFTi to SFT. This reduces the level of funding required from Scottish Government as the SFT group now self-funds part of its operations.

Following the implementation of IFRS 9, equity investments in hub SPVs are held at fair value based on the discounted future returns. At 31 March 2021 these were valued at £603,833 (2020: £524,785) an increase in value of £79,048.

In 2020/21 SFTi invested £nil (2019/20: £152,600) in the sub-ordinated debt of Hub West. No further investments have been made in hub DBFM projects following the announcement, in May 2019 in the Scottish Government's Medium-Term Financial Strategy that there would be no new hub DBFM projects.

STRATEGIC REPORT (continued)

Business Review (continued)

Financial Results (continued)

The forty one investments made to date in DBFM projects are performing satisfactorily, except Queensferry High School and Inverurie Community Campus, which although operational had suffered covid related delays to completion of final phased works and were in funder lock-up (that is, the funders require this work to be completed before sub-ordinated debt and dividend payments can be made to the project sponsors including SFTi). The Board do not anticipate any losses as payments are anticipated to be received and hence, with the exception of minor re-profiling, investments are performing according to their base cases and making returns as anticipated. Thirty-four projects made capital repayments in the year which totalled £217,293 (2019/20: £628,328).

The NHT LLP investments and investments in hubCos are not anticipated to make material financial returns to the Company.

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

Going Concern and viability statement

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

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

Future Plans

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

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



Peter Reekie
Executive Director

Date: 13th September 2021

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DIRECTORS' REPORT

Directors

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

Ian Russell	Chairman
Peter Reekie	Executive Director
Vivienne Cockburn	Executive Director (resigned 18 June 2021)
Ann Allen	Non-Executive Director
Ann Faulds	Non-Executive Director
Bill Matthews	Non-Executive Director
Pauline Mills	Non-Executive Director
Graham Watson	Non-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 the Shadow Director of the Company.

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

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the Company's financial statements in accordance with International Financial Reporting Standards (IFRS's) and International Financial Reporting Interpretations Committee (IFRIC) interpretations endorsed by the European Union. For the financial year ended 31 March 2022, the Company will prepare its financial statements in accordance with IFRS as adopted by the UK.

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 judgements 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.

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DIRECTORS' REPORT (continued)

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

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

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

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

Disclosure of Information to the Auditor

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

Auditor and AGM

In June 2020, Azets Audit Services were appointed for a further 2 years (after the completion of an initial 3 year contract), to carry out the 2021 and 2022 external audits.

The Company has elected to dispense with the holding of the AGM, the laying of financial statements in a general meeting and the annual appointment of the auditor as meetings between the sole shareholder, Scottish Futures Trust and its sole shareholder the Scottish Government occur on a regular basis.

On behalf of the Board:



Peter Reekie
Executive Director

Date: 13th September 2021

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 2021, the Company has complied with all the relevant provisions of the UK Corporate Governance Code issued by the Financial Reporting Council as best practice guidance, except as explained below, notwithstanding that the Company is not a listed company to which the provisions are directed. The following exceptions are noted:

- there is no Nominations Committee as non-executive Board appointments to SFTi reflect those of the parent company, SFT. The terms and conditions of appointment for both SFTi and SFT non-executive board appointments are determined by the Company's ultimate shareholder, the Scottish Ministers;
- directors are not subject to election or re-election at General Meetings as required by the Code. Non-executive directors are appointed to the Board by the Scottish Ministers - these appointments are made under a system regulated and monitored by the Commissioner for Ethical Standards in Public Life in Scotland, whose policies on term of office and diversity are available on their website;
- there is no Remuneration Committee as the Company has no direct employees;
- in view of the Group's responsibilities to take account of the provisions set out in the Management Statement and Financial Memorandum (MSFM) agreed with the Scottish Government, compliance is not appropriate with the provision in the UK Corporate Governance Code that performance-related elements of remuneration be transparent, stretching and rigorously applied. The SFT Board carries out the role of a Remuneration Committee as remuneration of non-executive directors is set by the Scottish Government;
- the Board has not identified a Senior Independent Director as the sole shareholder in SFT appoints and appraises the performance of the Chairman of SFTi, and the Chairman was independent on his appointment and has no financial interest in the performance of the Company; and
- the Board has requested the Group Audit Committee to regularly review the need for an internal audit function. At its June 2021 meeting the GAC agreed that it would continue with a programme of internal control reviews rather than a formal internal audit function. RSM were appointed in September 2020 to carry out the internal control reviews over the 3 year period 2020/21-2022/23. Prior to this, the internal audit division of Azets, SFT's external auditors, carried out this role.

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.

REPORT ON CORPORATE GOVERNANCE (continued)

Board of Directors (continued)

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

The Chairman's other significant commitments are: chairman of HICL Infrastructure plc and chairman of National Museums Scotland.

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

Three Board meetings were held during the year.

Board balance and independence

As at 31 March 2021, the Board included six 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 non-executive directors have been appointed by Scottish Ministers in accordance with the Office for the Commissioner for Ethical Standards in Public Life in Scotland's 2013 Code of Practice for Ministerial Appointments to Public Bodies in Scotland.

REPORT ON CORPORATE GOVERNANCE (continued)

Secretary and Meeting Minutes

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

Performance Evaluation

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

Board Committees

Due to the restricted nature of its business, the Company Board does not have an extensive committee structure. There is a Group Audit Committee whose membership is determined by the Parent company.

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
Number of meetings	3	3
Ian Russell	3	N/A
Ann Faulds	3	3
Graham Watson	2	3
Bill Matthews	3	3
Ann Allen	3	3
Pauline Mills	2	3
Peter Reekie	3	3*
Vivienne Cockburn	3	N/A

*In attendance, not member of the Committee

Relations with Ultimate Shareholder

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

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REPORT ON CORPORATE GOVERNANCE (continued)

On behalf of the Board:

A handwritten signature in black ink, appearing to read 'Peter Reekie'.

Peter Reekie
Executive Director

Date: 13th September 2021

STATEMENT ON INTERNAL CONTROL

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

Control Structure

SFTi has in place the same internal control system as SFT supplemented by the SFTi Investment Management Policy which was introduced in 2020/21. 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, although this will be kept under review. The organisation has clear lines of responsibility and effective communication channels which ensures that best practice in managing risks and controls is consistently applied. In addition, the Company's external auditor presents reports to the Audit Committee which include any significant internal control matters which they have identified.

Identification and Monitoring of Business Risks

The Company has adopted a risk-based approach to internal control by evaluating the probability and impact of risks 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. A formal risk register is kept and regularly reviewed by the Leadership Team, the Group Audit Committee and ultimately the Board.

In addition, the Board has developed a formal Risk Policy which describes the SFT Group's risk appetite and the formal responsibilities across the organisation for risk management. It also describes how workstream level risks should be managed and, if appropriate, escalated to the leadership team for possible inclusion in the corporate risk register

Corporate Information Systems

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

Effectiveness of Internal Controls

The directors are responsible for reviewing the effectiveness of the Company's system of internal control, including internal financial control, which is designed to provide reasonable, but not absolute assurance regarding the safeguarding of assets against unauthorised use or disposition and the maintenance of proper accounting records and the reliability of financial information used within the business or for publication. The directors do this through a range of internal control reviews conducted by RSM. In 2020/21, this included a review of Remote Working with no significant issues noted. 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.

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STATEMENT ON INTERNAL CONTROL (continued)

On behalf of the Board:



Peter Reekie
Executive Director

Date: 13th September 2021

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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:



Peter Reekie
Executive Director

Date: 13th September 2021

REPORT OF THE GROUP AUDIT COMMITTEE

Role and Responsibilities

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

Composition

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

- Graham Watson is a Chartered Accountant and experienced investment banker bringing extensive strategic leadership and financial expertise to the board. Graham was appointed chair of the Group Audit Committee from 1 September 2017.
- Ann Allen MBE is a chartered surveyor with over 35 years' experience. She is CEO of the Chartered Institution of Civil Engineering Surveyors (CICES) and Chair of Architecture and Design Scotland.
- Ann Faulds was a partner in the law firm, CMS and has 30 years' experience in consenting processes for developments and infrastructure projects.
- Bill Matthews is a Chartered Engineer and has governance knowledge across a variety of policy areas and organisations. He was the founding Chair of hub West Scotland and has significant infrastructure development experience.
- Pauline Mills is a chartered town planner and member of the Royal Town Planning Institute. She is currently Land and Planning Director at Taylor Wimpey, responsible for managing the firm's land assets across the regional Board of which she is a member.

In the year ended 31 March 2021, there were three meetings of the Group Audit Committee.

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

Responsibilities

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

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

REPORT OF THE GROUP AUDIT COMMITTEE (continued)

Responsibilities (continued)

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

Auditor and Audit Tenure

In June 2020, Azets Audit Services were appointed for a further 2 years (after the completion of an initial 3 year contract), to carry out the 2021 and 2022 external audits.

Safeguarding the Auditor's Objectivity and Independence

The Group has a policy in place whereby their Auditor can provide non-audit services to a value not exceeding 50% of the agreed external audit fee if authorised by the SFT Director of Corporate Services & Investments. The Group Audit Committee can authorise non-audit services up to 100% of the audit fee. The Auditor cannot provide non-audit services to a value exceeding 100% of the external audit fee. This ensures the auditor's objectivity and independence.

The only non-audit services provided to the Company by Azets Limited, a company in the same group as the Auditor were basic corporation tax compliance advice, ad-hoc VAT advice and iXBRL tagging of the financial statements for submission to HMRC. This work was performed by staff from Azets Holdings Limited, who had no involvement with the external audit, thus the objectivity and independence of the external auditor 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.

REPORT OF THE GROUP AUDIT COMMITTEE (continued)

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

On behalf of the Group Audit Committee:



Graham Watson
Chairman, Group Audit Committee

Date: 13th September 2021

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

Opinion

We have audited the financial statements of Scottish Futures Trust Investments Limited (the 'Company') for the year ended 31 March 2021 which comprise the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Financial Position, the Statement of Cash Flows and the notes to the financial statements including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted in the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the director's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors assessment of the Company's ability to continue to adopt the going concern basis of accounting included reviewing the financial position of the Company and the budgets prepared by management for 2021/22 as well as a discussion as to expectations for 2022/23 which are in line with the 2021/22 budget, alongside the investments held and cash reserves of the Company.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In relation to the Company's reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the director's considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

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

Our approach to the audit

Each of the key audit matters noted below 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.

Key audit matters

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

Income Recognition

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

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

- **The risk:** There is a risk that repayable grants received by SFT from the Scottish Government which are then granted on to SFTi to fund the investment in sub-ordinated debt and the share capital of DBFM SPV companies are not correctly recorded in the financial statements of SFT or SFTi.
- **Our response:** There was no further drawdown from the Scottish Government in the year.
- **Our findings:** From the work performed, we have gained assurance over the repayable grants received in the year from SFT and the closing balance at the year end.

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

Treatment of Investments made by Scottish Futures Trust Investments Limited

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

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

- **The risk:** Capital investments and working capital loans in hub companies and special purpose investment vehicles in terms of both share capital and subordinated debt are impaired.
- **Our response:** We discussed the risk of impairment with the senior management team and the directors. We also performed a detailed review of Board and Audit Committee minutes where the performance of investments is reported to identify any impairment indicators which would suggest an unrecorded impairment.
- **Our findings:** No unrecorded impairment has been identified in respect of any of SFTi's investments.

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

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

Our application of Materiality

The materiality for the financial statements as a whole was set at £18,000. This has been assessed with reference to the benchmark of investment income (representing 1% of the reported figure) which we consider to be the principal considerations for the member of the Company in assessing the financial performance of the company.

For significant risk areas we set a performance (testing) materiality, which we assessed as being 75% of the overall materiality. All balances and transactions above 75% of overall materiality were audited. We tested smaller balances and transactions as we deemed necessary.

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

We agreed with the Audit Committee to report to it the following misstatements that we identified through our audit: (i) all material corrected misstatements; (ii) uncorrected misstatements with a value in excess of £900; and (iii) other misstatements below that threshold that we believe warranted reporting on qualitative grounds.

Other information

The other information comprises the information included in the annual report other than the financial statements and our Auditor's Report thereon. The directors are responsible for the other information contained within the audit report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Companies Act 2006

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

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

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

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements 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.

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

Corporate governance statement

We are required to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Company's compliance with the provisions of the UK Corporate Governance Statement specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit:

- The Directors' statement with regards the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified (set out on page 5);
- The Directors' explanation as to the assessment of the Company's prospects, the period this assessment covers and why the period is appropriate (set out on page 5);
- The Directors' statement on the Annual Report and financial statements as a whole being fair, balanced and understandable (set out on page 2);
- The Board's confirmation that it has carried out a robust assessment of the emerging and principal risk (set out on pages 3 and 4);
- The section of the annual report that describes the review of effectiveness of risk management and internal financial controls (set out on page 4);
- The section describing the work of the Audit Committee (set out on page 15).

Responsibilities of the directors

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

Auditor's responsibilities for the audit of the financial statements

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

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

The extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above and on the FRC's website, to detect material misstatements in respect of irregularities, including fraud.

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

Auditor's responsibilities for the audit of the financial statements

We obtain and update our understanding of the Company, its activities, its control environment, and likely future developments, including in relation to the legal and regulatory framework applicable and how the Company is complying with that framework. Based on this understanding, we identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. This includes consideration of the risk of acts by the Company that were contrary to applicable laws and regulations, including fraud.

Our approach to identifying and assessing the risks of material misstatement in respect of irregularities, including non-compliance with laws and regulations, was as follows:

- the engagement partner ensured that the engagement team collectively had the appropriate competence, capabilities and skills to identify or recognise non-compliance with applicable laws and regulations;
- we identified the laws and regulations applicable to the Company through discussions with directors and other management, and from our commercial knowledge and experience;
- we focused on specific laws and regulations which we considered may have a direct material effect on the financial statements or the operations of the Company, including the Companies Act 2006, the UK Corporate Governance code, IFRS, taxation legislation and data protection, anti-bribery, environmental and health and safety legislation;
- we assessed the extent of compliance with the laws and regulations identified above through making enquiries of management and inspecting legal correspondence; and
- identified laws and regulations were communicated within the audit team regularly and the team remained alert to instances of non-compliance throughout the audit.

In response to the risk of irregularities and non-compliance with laws and regulations, we designed procedures which included, but were not limited to:

- agreeing financial statement disclosures to underlying supporting documentation;
- reading the minutes of meetings of those charged with governance;
- enquiring of management as to actual and potential litigation and claims; and
- reviewing correspondence with HMRC and the Company's legal advisors.

We assessed the susceptibility of the financial statements to material misstatement, including obtaining an understanding of how fraud might occur, by:

- making enquiries of management as to where they considered there was susceptibility to fraud, their knowledge of actual, suspected and alleged fraud; and
- considering the internal controls in place to mitigate risks of fraud and non-compliance with laws and regulations.

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

Auditor's responsibilities for the audit of the financial statements

To address the risk of fraud through management bias and override of controls, we:

- performed analytical procedures to identify any unusual or unexpected relationships;
- tested journal entries to identify unusual transactions;
- assessed whether judgements and assumptions made in determining the accounting estimates were indicative of potential bias; and
- investigated the rationale behind significant or unusual transactions.

Because of the inherent limitations of an audit, there is a risk that we will not detect all irregularities, including those leading to a material misstatement in the financial statements or non-compliance with regulation. This risk increases the more that compliance with a law or regulation is removed from the events and transactions reflected in the financial statements, as we will be less likely to become aware of instances of non-compliance. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

Use of this report

This report is made solely to the Company's member, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's member, as a body, those matters we are required to state to them in an Auditor's Report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's member, as a body, for our audit work, for this report, or for the opinions we have formed.

Azets Audit Services

**James McBride (Senior Statutory Auditor)
For and on behalf of Azets Audit Services, Statutory Auditor
Exchange Place 3
Semple Street
Edinburgh
EH3 8BL**

Date: 30 September 2021

SCOTTISH FUTURES TRUST INVESTMENTS LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2021

	Note	2021	2020
		£	£
Continuing operations			
Revenue		-	-
Cost of sales		-	-
		<u>-</u>	<u>-</u>
Gross Profit		<u>-</u>	<u>-</u>
Other income	5	1,847,485	1,852,314
Grant income	6	-	1
Operating expenditure	7	(578,554)	(644,992)
		<u>1,268,931</u>	<u>1,207,323</u>
Profit on ordinary activities before taxation		1,268,931	1,207,323
Taxation on profit on ordinary activities	8	(234,874)	(202,040)
		<u>1,034,057</u>	<u>1,005,283</u>
Net Profit for the year		1,034,057	1,005,283
Other comprehensive income			-
Gain/(loss) on fair value of SPV investments	9a	79,048	(162,375)
		<u>79,048</u>	<u>(162,375)</u>
Other comprehensive income for the year		79,048	(162,375)
Total comprehensive income for the year		<u>1,113,105</u>	<u>842,908</u>
		<u>1,113,105</u>	<u>842,908</u>
Attributable to Equity holder of the Company		<u>1,113,105</u>	<u>842,908</u>

The accompanying notes form an integral part of these financial statements

SCOTTISH FUTURES TRUST INVESTMENTS LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS

STATEMENT OF CHANGES IN EQUITY

As at 31 March 2021 and 31 March 2020	Share Capital	Retained Earnings	Other Reserve – Capital Grants for Investments	Fair Value Reserve	Total
	£	£		£	£
At 1 April 2020	1	7,630,723	-	523,862	8,154,586
Total comprehensive income for the year	-	1,113,105	-	-	1,113,105
Dividend payable	-	(770,000)	-	-	(770,000)
Transfer between reserves	-	(5,489,951)	5,410,903	79,048	-
At 31 March 2021	1	2,483,877	5,410,903	602,910	8,497,691
At 1 April 2019	1	7,497,440	-	686,237	8,183,678
Total comprehensive income for the year	-	842,908	-	-	842,908
Dividend payable	-	(872,000)	-	-	(872,000)
Transfer between reserves	-	162,375	-	(162,375)	-
At 31 March 2020	1	7,630,723	-	523,862	8,154,586

Other Reserve – Capital Grants for Investments is funding received pre 2015 from the Scottish Government to fund capital investments. This has been moved from retained earnings where it was in the 2019/2020 accounts to a separate reserve in these accounts. As the capital is returned to SFTi, the Board of SFT will discuss and agree with the Scottish Government regarding any funds to be returned via a distribution to Scottish Government.

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 2021

	Note	2021	2020
		£	£
ASSETS			
Non-current assets			
Investments - share capital	9a	603,833	524,785
Investments - working capital loans	9b	87,807	164,000
Investments - subordinated debt	9c	15,754,851	15,916,547
Trade and other receivables in more than one year	10	1,928,336	1,923,663
		<u>18,374,827</u>	<u>18,528,995</u>
Current assets			
Trade and other receivables in less than one year	10	471,980	382,972
Investments - working capital loans	9b	110,000	-
Cash and cash equivalents	11	1,423,974	1,315,221
		<u>2,005,954</u>	<u>1,698,193</u>
Current liabilities			
Trade and other payables	12	(911,097)	(1,071,381)
Current tax liabilities	8	(235,007)	(202,040)
		<u>(1,146,104)</u>	<u>(1,273,421)</u>
Net current assets		859,850	424,772
Non-current liabilities			
Repayable grant from parent	13	(10,736,986)	(10,799,181)
		<u>(10,736,986)</u>	<u>(10,799,181)</u>
Net assets		<u>8,497,691</u>	<u>8,154,586</u>
Equity			
Called up share capital	14	1	1
Retained earnings	14	2,483,877	7,630,723
Other reserve – Capital Grants for Investments	14	5,410,903	-
Fair value reserve	14	602,910	523,862
		<u>8,497,691</u>	<u>8,154,586</u>
Total shareholder's funds		<u>8,497,691</u>	<u>8,154,586</u>

These financial statements were approved by the Board of Directors on 13 September 2021 and authorised for issue on its behalf by:



Ian Russell
Chairman



Peter Reekie
Executive Director

Registered Company Number: SC381388

The accompanying notes form an integral part of these financial statements

SCOTTISH FUTURES TRUST INVESTMENTS LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2021

	Note	2021	2020
Cash flows from operating activities		£	£
Profit on ordinary activities before taxation		1,268,931	1,207,323
Expected credit (gain)/loss provision		-	36,000
(Increase)/decrease in trade and other receivables	10	(183,085)	235,487
Decrease in trade and other payables	12	(793,468)	(1,408,072)
Net cash from operating activities		292,378	70,738
Corporation tax paid	8	(201,907)	(206,376)
Cash flows from investing activities			
Purchase of investments and SPV share capital	9a	-	(1)
Disposal of investments	9a	-	1
Repayment of subordinated debt	9c	217,293	628,328
Increase in repayable grants	13	-	152,600
Investment in subordinated debt of hub projects	9c	-	(152,600)
Repayment of repayable grant to parent	13	(199,011)	-
Net cash used in investing activities		18,282	628,328
Net increase in cash and cash equivalents		108,753	492,690
Cash and cash equivalents at beginning of year	11	1,315,221	822,531
Cash and cash equivalents at end of year	11	1,423,974	1,315,221

The accompanying notes form an integral part of these financial statements

SCOTTISH FUTURES TRUST INVESTMENTS LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

1. Basis of Preparation and Accounting Policies

The financial statements of Scottish Futures Trust Investments Limited have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards as adopted in the European Union and IFRIC interpretations. The financial statements are presented in British Pounds since this is the functional currency of the Company.

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

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

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

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

Going Concern

On the basis of the information available to them, the directors have a reasonable expectation that the Company will continue to receive the forecast income due from its investment activities. Consequently, in managing this capital, the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, the directors consider it appropriate to adopt the going concern basis in preparing the financial statements. This assessment of going concern includes the expected impact of COVID-19 to the entity in the 12 months following the signing of these financial statements.

Share capital

The ordinary share of SFTi is classified as equity.

Other Reserve – Capital Grants for Investments

Included in this reserve is funding received previously from the Scottish Government which was used to fund investments. These investments are still held and thus the funding received in respect of them has been transferred to Other Reserve – Capital Grants for Investments.

Financial Instruments

Classification, recognition and measurement

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

SCOTTISH FUTURES TRUST INVESTMENTS LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021 (continued)

1. Basis of preparation and accounting policies (continued)

Financial Instruments (continued)

Investments

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

Impairment

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

Loans and Receivables

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

De-recognition

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

Cash and Cash Equivalents

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

Trade and other Payables

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

Revenue

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

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

SCOTTISH FUTURES TRUST INVESTMENTS LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021 (continued)

1. Basis of preparation and accounting policies (continued)

Capital Grants for investments

Prior to 2015, the Scottish Government provided grants to SFT which SFT then granted on to SFTi to fund investments. These grants were recognised as income by SFTi when the investment was made. As the capital is returned to SFTi, the Board of SFT will discuss and agree with Scottish Government regarding any funds to be returned via a distribution to Scottish Government.

Repayable grants

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

Taxation

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

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

Dividends

Dividends announced during the year are recognised within the intergroup balance if not paid by the year end.

2. New and Amended Standards Adopted by the Company

No new or amended IFRSs had a material impact on the 2020/21 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 or UK Endorsed

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

Guidance in Issue but not in Force – not EU or UK Endorsed

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021 (continued)

4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

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

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

Fair value of investments

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

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

Expected Credit Loss

SFTi holds working capital loans in hubcos and sub-ordinated debt investments in SPVs responsible for delivering projects under the hub programme. The working capital loans provided to hubCos are held at cost and reviewed annually to establish if an expected credit loss is required. This analysis is based on an evaluation of the hubCo business and the likelihood of a default on part of the working capital loan based upon a range of scenarios. As at 31 March 2021 a provision of £36,000 (2020: £36,000) was required.

The subordinated debt is held at cost and is reviewed annually to establish if an expected credit loss is required. This review focuses on projects where there has been a delay in the scheduled repayment of interest or principal. For these projects, the expected future returns from interest and principal are discounted at the loan note IRR of the respective projects as set at financial close. If the discounted expected value of future cash flows is lower than the carrying value of the investment, then an expected credit loss provision is created.

SCOTTISH FUTURES TRUST INVESTMENTS LIMITED
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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021 (continued)

5. Other income

	2021	2020
	£	£
Interest income from:		
Subordinated debt (note 9c)	1,793,009	1,690,272
Working capital loan interest	6,874	2,536
Bank interest	117	491
Other income – directors’ fees	15,433	15,064
Other income - dividends	32,052	143,951
	<u>1,847,485</u>	<u>1,852,314</u>

6. Grant Income

	2021	2020
	£	£
SFT grant received for SFTi investments in LLPs (note 9a)	-	1
	<u>-</u>	<u>1</u>

In 2020/21, £nil (2019/20: £1) was received in grant funding to fund the investment of SFTi in LLPs.

7. Operating expenditure

	2021	2020
	£	£
Profit before taxation is stated after charging:		
Management fee payable to SFT	578,514	608,964
Bank charges	40	28
Expected credit loss provision (See Note 9b)	-	36,000
	<u>578,554</u>	<u>644,992</u>

SCOTTISH FUTURES TRUST INVESTMENTS LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021 (continued)

8. Taxation

	2021	2020
	£	£
Profit on ordinary activities before tax	1,268,931	1,207,323
Less: dividends not subject to tax	(32,052)	(143,951)
	<hr/>	<hr/>
Taxable profit	1,236,879	1,063,372
	<hr/>	<hr/>
Corporation tax charge @ 19% (2019/20: @ 19%)	235,007	202,040
Overprovision in previous year	(133)	-
	<hr/>	<hr/>
Corporation tax charge in statement of comprehensive income	234,874	-
	<hr/>	<hr/>
Corporation tax creditor	235,007	202,040
	<hr/>	<hr/>

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

9. Investments

Capital Management

In previous years, Scottish Government has granted SFT capital funds which SFT has granted on to SFTi for investment in subordinated debts, share capital in special purpose vehicles and working capital in hub companies. Scottish Government has also provided repayable grant to SFT which SFT then grants onto SFTi for investment in subordinated debt, share capital in special purpose vehicles and working capital in hub companies.

9. a) Investments – Share Capital

	2021	2020
	£	£
Cost and Fair Value		
At beginning of year	524,785	687,160
Additions	-	1
Disposals	(5)	(1)
Gain/(loss) on revaluation	79,053	(162,375)
	<hr/>	<hr/>
At 31 March 2021	603,833	524,785
	<hr/>	<hr/>

The Fair Value of the equity investments in hub DBFM projects increased by £79,053 which reflected (i) the receipt of dividend income of £32,052; (ii) a net increase in the forecast dividends across the portfolio of £70,923; (iii) a net decrease of £21,821 to account for the impact of tax changes on dividends and (iv) an increase in fair value of £62,003 reflecting the impact of discounting with forecast cashflows now 1 year closer to being received.

SCOTTISH FUTURES TRUST INVESTMENTS LIMITED
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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021 (continued)

9. a) Investments – Share Capital (continued)

SFTi invested £nil (2019/20: £1) in housing partnership LLPs during the current year and £nil in share capital of SPVs in connection with sub debt investments (2019/20: £nil). One LLP was disposed of (2019/20: one) and there were four where SFTi resigned membership.

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. b) Investments - Working Capital Loans

	2021	2020
Non-current assets	£	£
Cost and Net book value		
At beginning of year	164,000	200,000
Transferred to current assets	(110,000)	-
Interest capitalised	33,807	-
Expected credit loss provision (note 7)	-	(36,000)
	<hr/>	<hr/>
At 31 March 2021	87,807	164,000
	<hr/> <hr/>	<hr/> <hr/>
	2021	2020
Current assets	£	£
Cost and Net book value		
At beginning of year	-	-
Transferred from non-current assets (investments)	110,000	-
	<hr/>	<hr/>
At 31 March 2021	110,000	-
	<hr/> <hr/>	<hr/> <hr/>

Working Capital Loans - Non-Current Assets

SFTi loaned working capital of £100,000 to hub South West Scotland Limited on 17 November 2012. This working capital facility was available until 16 November 2017 but was extended to 16 November 2018 and then further extended to 15 November 2021 by which date the full amount of the working capital facility shall be due and payable on demand unless a renewal or extension is agreed. All providers of working capital loans agreed to extend these facilities to support the ongoing operations of the company. The rate of interest applicable shall be: the interest (net of tax) received where amounts are held in the reserve account, and 6% p.a. on all other sums. Interest is accrued semi-annually (on 31 December and 30 June) and added to the loan. This item has been treated as a current asset in the year ended 31 March 2021.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021 (continued)

9. b) Investments - Working Capital Loans (continued)

SFTi loaned working capital of £100,000 to hub West Scotland Limited on 27 April 2012. This working capital facility was available until 26 April 2017 but was extended to 31 December 2018 and 31 March 2022 and further extended to 31 March 2028 by which date the full amount of the working capital facility shall be due and payable on demand unless a renewal or extension is agreed. All providers of working capital loans agreed to extend these facilities to support the ongoing operations of the company. The rate of interest applicable shall be: the interest (net of tax) received where amounts are held in the reserve account, and 2.5% p.a. on all other sums. Interest is payable semi-annually (30 June and 31 December) and added to the loan. An expected credit loss provision of £36,000 was recognised in 2019/20 in respect of this working capital loan and this remains appropriate in 2020/21 due to £26,319 of it relating to the capital conversion to enabling funds as at 30 April 2021 and £9,681 of it as a general credit loss provision. £10,000 of the remaining working capital loan is to be repaid by 31 March 2022 and this amount has been treated as a current asset in the year ended 31 March 2021.

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

9. c) Investments – Subordinated Debt

	2021	2020
	£	£
Cost and Net Book Value		
At beginning of year	15,916,547	16,355,223
Additions	-	152,600
Interest capitalised into subordinated debt	55,597	37,052
Principal repaid in year	(217,293)	(628,328)
	<hr/>	<hr/>
At 31 March 2021	15,754,851	15,916,547
	<hr/> <hr/>	<hr/> <hr/>

During 2020/21, SFTi invested £nil (2019/20: £152,600) as subordinated debt.

During the year accrued interest was capitalised for two South West territory investment and principal was repaid for five other South West territory investment as detailed in the tables below.

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021 (continued)

9. c) Investments – Subordinated Debt (continued)

Investment In:	Investment Type, Interest Rate and Redemption Date	Value	Historical cost of Equity	Fair Value of Equity 31/3/2021	Interest Receivable 31/03/2021	Interest income	Dividend Income
hub North territory							
Aberdeen Community Health Village Ltd	Fixed coupon unsecured loan Interest rate 10.2% Redemption date 2039	£576,191 less £5,010 principal repaid totals £571,181	£Nil	2021: £1,315 2020: £1,141	2021: £96,131 2020: £96,131	2021: £68,144 2020: £68,221	2021: £Nil 2020: £Nil
hub North Scotland (FWT) Ltd <i>(Forres/Tain/Woods ide Health Centre Bundle)</i>	Fixed coupon unsecured loan Interest rate 10.2% Redemption Date 2039	£133,884 less £22,640 principal repaid totals £111,244	£Nil	2021: £19,424 2020: £18,375	2021: £14,534 2020: £14,534	2021: £13,102 2020: £13,430	2021: £Nil 2020: £Nil
hub North Scotland (Alford) Ltd	Fixed coupon unsecured loan Interest rate 10.2% Redemption date 2040	£747,036 less £61,703 principal repaid totals £685,333	£Nil	2021: £8,596 2020: £8,978	2021: £79,361 2020: £79,361	2021: £79,196 2020: £80,831	2021: £Nil 2020: £Nil
hub North Scotland (Wick) Ltd	Fixed coupon unsecured loan Interest Rate 10.2% Redemption date 2042	£1,568,509 less £198,001 principal repaid totals £1,370,508	£100	2021: £3,070 2020: £2,896	2021: £422,349 2020: £422,349	2021: £184,954 2020: £187,752	2021: £Nil 2020: £Nil
hub North Scotland (Anderson) Ltd	Fixed coupon unsecured loan Interest rate 10.2% Redemption date 2043	£342,962 less £30,040 principal repaid totals £312,922	£100	2021: £3,659 2020: £3,362	2021: £83,214 2020: £83,214	2021: £40,528 2020: £40,864	2021: £Nil 2020: £Nil
hub North Scotland (Elgin High School) Ltd	Fixed coupon unsecured loan Interest rate 10.2% Redemption date 2043	£253,654 less £71,832 principal repaid totals £181,822	£100	2021: £2,403 2020: £2,198	2021: £75,143 2020: £75,143	2021: £26,387 2020: £26,585	2021: £Nil 2020: £Nil
hub North Scotland (O & C) Ltd <i>(Oban & Campbeltown High Schools)</i>	Fixed coupon unsecured loan Interest rate 10.2% Redemption date 2043	£491,691 less £146,586 principal repaid totals £345,105	£100	2021: £4,394 2020: £3,940	2021: £172,764 2020: £172,764	2021: £53,126 2020: £60,597	2021: £Nil 2020: £Nil
hub North Scotland <i>(New Academy – South of the City)</i>	Fixed coupon unsecured loan Interest rate 10.2% Redemption date 2043	£321,672 less £8,238 principal repaid totals £313,434	£100	2021: £3,463 2020: £3,212	2021: £71,165 2020: £71,165	2021: £39,526 2020: £39,843	2021: £Nil 2020: £Nil

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021 (continued)

9. c) Investments – Subordinated Debt (continued)

Investment In:	Investment Type, Interest Rate and Redemption Date	Value	Historical cost of Equity	Fair Value of Equity 31/3/2021	Interest Receivable 31/03/2021	Interest income	Dividend Income
hub North territory (continued)							
hub North Scotland (I & F) Ltd (<i>Inverurie & Forresterhill Health Centres</i>)	Fixed coupon unsecured loan Interest rate 10.2% Redemption date 2044	£167,168 less £2,619 principal repaid totals £164,549	£100	2021: £1,202 2020: £948	2021: £26,511 2020: £26,511	2021: £19,560 2020: £19,702	2021: £Nil 2020: £Nil
hub North Scotland (Inverurie Campus) Ltd (<i>Inverurie Community Campus</i>)	Fixed coupon unsecured loan Interest rate 2.45% during construction and 10.2% during operation Redemption date 2044	£470,061	£100	2021: £966 2020: £1,879	2021: £74,690 2020: £23,039	2021: £51,651 2020: £11,964	2021: £Nil 2020: £Nil
hub North territory total		2021: £4,526,159 2020: £4,596,618	£700	2021: £48,492 2020: £46,929	2021: £1,115,862 2020: £1,064,211	2021: £576,174 2020: £549,789	2021: £Nil 2020: £Nil
Hub South East territory							
James Gillespie's Campus Subhub Holdings Ltd	Fixed coupon unsecured loan Interest rate 10.87% Redemption date 2041	£1,252,424 less £65,887 principal repaid totals £1,186,537	£Nil	2021: £64,654 2020: £62,215	2021: £471,015 2020: £472,407	2021: £171,350 2020: £173,663	2021: £Nil 2020: £Nil
REH Phase 1 Subhub Holdings Ltd (<i>Royal Edinburgh Hospital</i>)	Fixed coupon unsecured loan Interest rate 2.48% during construction and 10.75% during operation Redemption date 2042	£410,685 less £4,434 principal repaid totals £406,251	£10	2021: £11,213 2020: £10,558	2021: £43,125 2020: £43,305	2021: £45,861 2020: £46,091	2021: £Nil 2020: £Nil
Newbattle DBFM Holdco Ltd (<i>Newbattle High School</i>)	Fixed coupon unsecured loan Interest rate 3.35% during construction and 10.5% during operation Redemption date 2043	£310,265 less £6,711 principal repaid totals £303,554	£10	2021: £10,543 2020: £10,207	2021: £39,805 2020: £39,984	2021: £34,284 2020: £34,599	2021: £Nil 2020: £Nil

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021 (continued)

9. c) Investments – Subordinated Debt (continued)

Investment In:	Investment Type, Interest Rate and Redemption Date	Value	Historical cost of Equity	Fair Value of Equity 31/3/2021	Interest Receivable 31/03/2021	Interest income	Dividend Income
Hub South East territory (continued)							
KHS DBFM Holdco Ltd <i>(Kelso High School)</i>	Fixed coupon unsecured loan Interest rate 3.35% during construction and 10.5% during operation Redemption date 2042	£205,150 less £4,424 principal repaid totals £200,726	£10	2021: £7,398 2020: £7,062	2021: £23,016 2020: £23,113	2021: £22,355 2020: £22,497	2021: £Nil 2020: £Nil
LBP DBFM Holdco Ltd <i>(NHS Lothian Health Centre Bundle)</i>	Fixed coupon unsecured loan Interest rate 3.37% during construction and 10.45% during operation Redemption date 2042	£243,750 less £8,392 principal repaid totals £235,358	£10	2021: £11,410 2020: £10,639	2021: £25,851 2020: £26,086	2021: £26,028 2020: £26,420	2021: £Nil 2020: £Nil
ELCH DBFM Holdco Ltd <i>(East Lothian Community Campus)</i>	Fixed coupon unsecured loan Interest rate 2.98% during construction and 10.45% during operation Redemption date 2044	£600,797 less £1,384 principal repaid totals £599,413	£10	2021: £24,459 2020: £22,331	2021: £96,276 2020: £74,531	2021: £69,838 2020: £28,439	2021: £Nil 2020: £Nil
WCHS DBFM Holdco Ltd <i>(West Calder High School)</i>	Fixed coupon unsecured loan Interest rate 3.47% during construction and 10.45% during operation Redemption date 2043	£286,654 less £7,057 principal repaid totals £279,597	£10	2021: £18,272 2020: £17,885	2021: £30,883 2020: £31,142	2021: £30,928 2020: £31,352	2021: £Nil 2020: £Nil
QHS DBFM Holdco Ltd <i>(Queensferry High School)</i>	Fixed coupon unsecured loan Interest rate 3.49% during construction and 10.3% during operation Redemption date 2045	£340,774	£10	2021: £3,938 2020: £3,885	2021: £36,569 2020: £22,081	2021: £14,488 2020: £12,471	2021: £Nil 2020: £Nil

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021 (continued)

9. c) Investments – Subordinated Debt (continued)

Investment In:	Investment Type, Interest Rate and Redemption Date	Value	Historical cost of Equity	Fair Value of Equity 31/3/2021	Interest Receivable 31/03/2021	Interest income	Dividend Income
Hub South East territory (continued)							
JICC DBFM Holdco Ltd (<i>Jedburgh Community Campus</i>)	Fixed coupon unsecured loan Interest rate 3.40% during construction and 10.3% during operation Redemption date 2045	£290,222 less £422 principal repaid totals £289,800	£10	2021: £6,547 2020: £6,320	2021: £30,139 2020: £16,746	2021: £31,355 2020: £12,445	2021: £Nil 2020: £Nil
hub South East territory total		2021: £3,842,010 2020: £3,870,519	£80	2021: £158,434 2020: £151,102	2021: £796,679 2020: £749,395	2021: £446,487 2020: £387,977	2021: £Nil 2020: £Nil
hub South West territory							
Hub SW NHSL Holdco Ltd (NHS Lanarkshire Health Centre Bundle)	Fixed coupon unsecured loan Interest rate 10.5% Redemption date 2040	£401,729 less £11,523 principal repaid totals £390,206	£Nil	2021: £20,934 2020: £19,959	2021: £20,457 2020: £22,946	2021: £39,077 2020: £43,955	2021: £Nil 2020: £Nil
Hub SW Greenfaulds Holdco Ltd	Fixed coupon unsecured loan Interest rate 2.33% during construction and 10.5% during operation Redemption date 2041	£298,253 less £7,512 principal repaid totals £290,741	£Nil	2021: £15,294 2020: £14,088	2021: £15,222 2020: £15,550	2021: £30,597 2020: £31,156	2021: £Nil 2020: £Nil
Hub SW Ayr Holdco Ltd	Fixed coupon unsecured loan Interest rate 3.78% during construction and 10.65% during operation Redemption date 2042	£506,610 less £4,245 principal repaid totals £502,365	£Nil	2021: £14,096 2020: £13,401	2021: £26,678 2020: £26,886	2021: £53,542 2020: £53,805	2021: £Nil 2020: £Nil
Hub SW Dalbeattie Holdco Ltd	Fixed coupon unsecured loan Interest rate 3.62% during construction and 10.85% during operation Redemption date 2042	£224,300 less £4,888 principal repaid totals £219,412	£Nil	2021: £3,830 2020: £3,651	2021: £11,871 2020: £12,070	2021: £23,875 2020: £24,203	2021: £Nil 2020: £Nil

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021 (continued)

9. c) Investments – Subordinated Debt (continued)

Investment In:	Investment Type, Interest Rate and Redemption Date	Value	Historical cost of Equity	Fair Value of Equity 31/3/2021	Interest Receivable 31/03/2021	Interest income	Dividend Income
hub South West territory (continued)							
Hub SW EALC Holdco Ltd (<i>East Ayrshire Learning Campus</i>)	Fixed coupon unsecured loan Interest rate 3.26% during construction and 10.5% during operation Redemption date 2043	£405,468 less £6,111 principal repaid totals £399,357	£Nil	2021: £24,701 2020: £23,502	2021: £21,096 2020: £21,237	2021: £42,124 2020: £42,675	2021: £Nil 2020: £Nil
Hub SW Largs Holdco Ltd	Fixed coupon unsecured loan Interest rate 3.41% during construction and 10.15% during operation Redemption date 2043	£422,510 less £4,713 principal repaid totals £417,797	£Nil	2021: £40,956 2020: £37,605	2021: £21,145 2020: £21,443	2021: £42,531 2020: £42,944	2021: £Nil 2020: £23,988
Hub SW Cumbernauld Holdco Ltd	Fixed coupon unsecured loan Interest rate 3.52% during construction and 10.40% during Operation Redemption date 2044	£310,007 less £651 principal repaid plus £31,739 accrued interest capitalised in the year totals £341,095	£Nil	2021: £12,044 2020: £11,307	2021: £17,688 2020: £31,270	2021: £34,305 2020: £11,722	2021: £Nil 2020: £Nil
Hub SW QMA Holdco Ltd (<i>Queen Margaret Academy</i>)	Fixed coupon unsecured loan Interest rate 3.46% during construction and 10.45% during operation Redemption date 2044	£233,662 less £201 principal repaid plus £23,858 accrued capitalised interest in the year totals £257,319	£Nil	2021: £5,948 2020: £4,411	2021: £13,408 2020: £19,993	2021: £19,486 2020: £8,569	2021: £Nil 2020: £Nil
hub South West territory total		2021: £2,818,292 2020: £2,785,005	£ Nil	2021: £137,803 2020: £127,924	2021: £147,565 2020: £171,395	2021: £285,537 2020: £259,029	2021: £Nil 2020: £23,988

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021 (continued)

9. c) Investments – Subordinated Debt (continued)

Investment In:	Investment Type, Interest Rate and Redemption Date	Value	Historical cost of Equity	Fair Value of Equity 31/3/2021	Interest Receivable 31/03/2021	Interest income	Dividend Income
hub West territory							
Hub West Scotland Project Company (No.1) Ltd <i>(Eastwood/Maryhill Health Centre Bundle)</i>	Fixed coupon secured loan Interest rate 9.75% Redemption date 2041	£186,042 less £13,313 principal repaid totals £172,729	£Nil	2021: £70,831 2020: £48,597	2021: £38,352 2020: £38,478	2021: £19,630 2020: £20,067	2021: £Nil 2020: £Nil
Hub West Scotland Project Company (No.2) Ltd <i>(Inverclyde Care Home)</i>	Fixed coupon unsecured loan Interest rate 9.75% Redemption date 2042	£70,413 less £3,511 principal repaid totals £66,902	£1	2021: £10,302 2020: £7,022	2021: £14,126 2020: £14,147	2021: £7,559 2020: £7,676	2021: £Nil 2020: £Nil
Hub West Scotland Project Company (No.3) Ltd <i>(Barrhead High School)</i>	Fixed coupon unsecured loan Interest rate 9.75% Redemption date 2042	£213,748 less £31,164 principal repaid totals £182,584	£1	2021: £19,042 2020: £10,280	2021: £47,231 2020: £47,692	2021: £21,588 2020: £22,507	2021: £Nil 2020: £Nil
Hub West Scotland Project Company (No.4) Ltd <i>(Our Lady & St Patrick's High School)</i>	Fixed coupon unsecured loan Interest rate 9.75% Redemption date 2042	£228,400 less £25,202 principal repaid totals £203,198	£1	2021: £19,302 2020: £11,161	2021: £49,578 2020: £50,128	2021: £23,628 2020: £24,264	2021: £Nil 2020: £Nil
Hub West Scotland Project Company (No.5) 64 <i>(Gorbals/Woodside Health Centre)</i>	Fixed coupon unsecured loan Interest rate 9.75% Redemption date 04/2017	£288,202 less principal repaid £8,973 totals £279,229	£Nil	2021: £22,663 2020: £18,196	2021: £65,227 2020: £65,227	2021: £32,120 2020: £32,559	2021: £Nil 2020: £Nil

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021 (continued)

9. c) Investments – Subordinated Debt (continued)

Investment In:	Investment Type, Interest Rate and Redemption Date	Value	Historical cost of Equity	Fair Value of Equity 31/3/2021	Interest Receivable 31/03/2021	Interest income	Dividend Income
hub West territory (continued)							
Hub West Scotland Project Company (No.6) Ltd <i>(Blairdardie & Carntyne Primary Schools)</i>	Fixed coupon unsecured loan Interest rate 9.75% Redemption date 10/2017	£149,300 less £12,340 principal repaid totals £136,960	£1	2021: £11,144 2020: £9,419	2021: £31,400 2020: £31,658	2021: £15,735 2020: £16,385	2021: £Nil 2020: £Nil
Hub West Scotland Project Company (No.7) Ltd <i>(Greenock & Stobhill Health Centres and Clydebank Health & Care Facility)</i>	Fixed coupon unsecured loan Interest rate 9.75% Redemption date 12/2018 and 12/2019 respectively	£411,600	£1	2021: £30,557 2020: £15,758	2021: £84,867 2020: £38,005	2021: £46,862 2020: £30,949	2021: £Nil 2020: £Nil
hub West territory total		2021: £1,453,202 2020: £1,477,626	£5	2021: £183,841 2020: £120,433	2021: £330,781 2020: £285,335	2021: £167,122 2020: £154,407	2021:£Nil 2020:£Nil

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021 (continued)

9. c) Investments – Subordinated Debt (continued)

Investment In:	Investment Type, Interest Rate and Redemption Date	Value	Historical cost of Equity	Fair Value of Equity 31/3/2021	Interest Receivable 31/03/2021	Interest income	Dividend Income
hub East Central territory							
Hub East Central (Levenmouth) Ltd	Fixed coupon unsecured loan Interest rate 10.2% Redemption date 2041	£1,608,000 less £213,547 principal repaid totals £1,394,453	£Nil	2021: £18,081 2020: £19,013	£Nil	2021: £142,198 2020: £160,800	2021: £Nil 2020: £47,158
Hub East Central Scotland (Baldragon) Ltd	Fixed coupon unsecured loan Interest rate 10% Redemption date 2042	£299,790 less £30,125 principal repaid totals £269,665	£10	2021: £9,552 2020: £12,992	£Nil	2021: £29,980 2020: £29,980	2021: £6,430 2020: £9,659
Hub East Central (Forfar) Ltd	Fixed coupon unsecured loan Interest rate 10% Redemption date 2041	£364,200 less £31,830 principal repaid totals £332,370	£Nil	2021: £13,037 2020: £12,404	£Nil	2021: £33,641 2020: £36,420	2021: £2,250 2020: £18,474
Hub East Central (SCV) Ltd <i>(Stirling Care Village)</i>	Fixed coupon unsecured loan Interest rate 10% Redemption date 2044	£354,500	£10	2021: £11,295 2020: £8,975	£Nil	2021: £35,450 2020: £35,450	2021: £8,400 2020: £8,074
Hub East Central (PSS) Ltd <i>(Pharmaceuticals Special Services)</i>	Fixed coupon unsecured loan Interest rate 10% Redemption date 2043	£276,200	£10	2021: £7,819 2020: £11,548	£Nil	2021: £27,620 2020: £27,620	2021: £7,000 2020: £11,515
Hub East Central (Bertha Park) Ltd	Fixed coupon unsecured loan Interest rate 10% Redemption date 2044	£332,500	£10	2021: £11,143 2020: £9,839	£Nil	2021: £33,250 2020: £33,250	2021: £4,572 2020: £17,384
Hub East Central (Angus Schools) Ltd	Fixed coupon unsecured loan Interest rate 10% Redemption date 2043	£155,500	£10	2021: £4,336 2020: £3,626	£Nil	2021: £15,550 2020: £15,550	2021: £3,400 2020: £7,699
hub East Central territory total		2021: £3,115,188 2020: £3,186,779	£50	2021: £75,263 2020: £78,397	2021: £Nil 2020: £Nil	2021: £317,689 2020: £339,070	2021: £32,052 2020: £119,963

SCOTTISH FUTURES TRUST INVESTMENTS LIMITED
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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021 (continued)

9. c) Investments – Subordinated Debt (continued)

Summary totals by hub territory

Investment In:		Value	Historical cost of Equity	Fair Value of Equity 31/3/2021	Interest Receivable 31/03/2021	Interest income	Dividend Income
hub North territory total		2021: £4,526,159 2020: £4,596,618	£700	2021: £48,492 2020: £46,929	2021: £1,115,862 2020: £1,064,211	2021: £576,174 2020: £549,789	2021: £Nil 2020: £Nil
hub South East territory total		2021: £3,842,010 2020: £3,870,519	£80	2021: £158,434 2020: £151,102	2021: £796,679 2020: £749,395	2021: £446,487 2020: £387,977	2021: £Nil 2020: £Nil
hub South West territory total		2021: £2,818,292 2020: £2,785,005	£ Nil	2021: £137,803 2020: £127,924	2021: £147,565 2020: £171,395	2021: £285,537 2020: £259,029	2021: £Nil 2020: £23,988
hub West territory total		2021: £1,453,202 2020: £1,477,626	£5	2021: £183,841 2020: £120,433	2021: £330,781 2020: £285,335	2021: £167,122 2020: £154,407	2021: £Nil 2020: £Nil
hub East Central territory total		2021: £3,115,188 2020: £3,186,779	£50	2021: £75,263 2020: £78,397	2021: £Nil 2020: £Nil	2021: £317,689 2020: £339,070	2021: £32,052 2020: £119,963
Grand total sub-ordinated debt		2021: £15,754,851 2020: £15,916,547	£835	2021: £603,833 2020: £524,785	2021: £2,390,887 2020: £2,270,336	2021: £1,793,009 2020: £1,690,272	2021: £32,052 2020: £143,951

Summary of Subordinated Debt Investments

	2021	2020
	£	£
Original cost of investments	15,916,547	16,550,972
Interest capitalised into subordinated debt	55,597	229,708
Principal repaid	(217,293)	(864,133)
Net Book Value of investments	15,754,851	15,916,547

The most significant risk to the Company is investment performance. The Board do not anticipate any losses as payments are anticipated to be received in all cases and hence except for minor re-profiling, investments are performing according to their base cases and making returns as anticipated.

SCOTTISH FUTURES TRUST INVESTMENTS LIMITED
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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021 (continued)

10. Trade and other Receivables

	2021	2020
	£	£
Due in more than 1 year		
Accrued interest income from sub-ordinated debt investments and working capital loans	1,928,336	1,923,663
Due in less than 1 year		
Accrued interest income from sub-ordinated debt investments and working capital loans	469,862	380,916
Other debtors	2,118	2,056
	<u>471,980</u>	<u>382,972</u>

11. Cash and Cash Equivalents

	2021	2020
	£	£
Cash at bank	1,423,974	1,315,221

12. Trade and other Payables

	2021	2020
	£	£
Dividend payable to parent – SFT	770,000	872,000
Repayable grant due to parent – SFT (note 13)	62,196	199,012
Balance of management fee payable to parent – SFT	78,527	-
Other taxes and social security	352	342
Accruals	22	27
	<u>911,097</u>	<u>1,071,381</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021 (continued)

13. Repayable grant due to Parent

	2021	2020
	£	£
Non-current Liabilities	10,736,986	10,799,181
Current Liabilities (note 12)	62,196	199,012
	<u>10,799,182</u>	<u>10,998,193</u>
At beginning of the year	10,998,193	10,845,593
Increase in period	-	152,600
Repaid in year	(199,011)	-
At 31 March 2021	<u>10,799,182</u>	<u>10,998,193</u>

SFT made a repayable grant of £Nil (2020: £152,600) to SFTi during the year which was used to invest in subordinated debt in the year.

The expected repayment profile of the repayable grant is:

	2021	2020
	£	£
< 1 year	62,196	199,012
1-2 years	66,302	62,196
2-5 years	200,625	185,542
>5 years	10,470,059	10,551,443
At 31 March 2021	<u>10,799,182</u>	<u>10,998,193</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021 (continued)

14. Capital and reserves

	2021	2020
Share capital	£	£
<i>Authorised, issued but not yet fully paid – 1 ordinary share of £1 each</i>		
As at 31 March	1	1

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 operating expenses, less dividends declared/paid to SFT, less transfers of unrealised gains to other reserves.

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

Other reserve – Capital Grants for Investments is funding received pre 2015 from the Scottish Government to fund capital investments. This has been moved from retained earnings where it was in the 2019/2020 accounts to a separate reserve in these accounts. As the capital is returned to SFTi, the Board of SFT will discuss and agree with Scottish Government regarding any funds to be returned via a distribution to Scottish Government.

SCOTTISH FUTURES TRUST INVESTMENTS LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021 (continued)

15. Related Party Transactions

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

Scottish Futures Trust Limited

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

	2021	2020
	£	£
<u>Statement of Financial Position</u>		
Balance owed to SFT by SFTi - included in other payables (note 12)	(848,527)	(872,000)
Repayable grant (note 13)	(10,799,182)	(10,998,193)
	<u> </u>	<u> </u>
	2021	2020
	£	£
<u>Statement of Comprehensive Income</u>		
<i>Scottish Futures Trust Limited Funding received</i>		
Grant funding received for investment	-	1
	<u> </u>	<u> </u>
<i>Payments made to Scottish Futures Trust Limited</i>		
SFT Management Fee (note 7)	578,514	608,964
	<u> </u>	<u> </u>

Hub South East Scotland Territory

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

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

	2021	2020
	£	£
<u>Statement of Financial Position</u>		
Financial assets – subordinated debt	3,842,010	3,870,519
Trade and other receivables – accrued interest income	796,679	749,395
Trade and other receivables – hub director fees	2,118	2,056
<u>Statement of Comprehensive Income</u>		
Other income – hub director fees	3,530	3,427
Other income – Interest income	446,487	387,977
	<u> </u>	<u> </u>

SCOTTISH FUTURES TRUST INVESTMENTS LIMITED
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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021 (continued)

15. Related party transactions (continued)

Hub North Scotland Territory

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

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

	2021	2020
	£	£
<u>Statement of Financial Position</u>		
Financial assets – subordinated debt	4,526,159	4,596,618
Trade and other receivables – accrued interest income	1,115,862	1,064,211
<u>Statement of Comprehensive Income</u>		
Other income – Interest income	576,174	549,789

Hub East Central Scotland Territory

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

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

	2021	2020
	£	£
<u>Statement of Financial Position</u>		
Financial assets – subordinated debt	3,115,188	3,186,779
<u>Statement of Comprehensive Income</u>		
Other income – Interest income	317,689	339,070
Other income – dividend income	32,052	119,963

SCOTTISH FUTURES TRUST INVESTMENTS LIMITED
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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021 (continued)

15. Related party transactions (continued)

Hub West Scotland Territory

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

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

	2021	2020
	£	£
<u>Statement of Financial Position</u>		
Financial assets – working capital loans	97,807*	64,000*
Financial assets – subordinated debt	1,453,202	1,477,626
Trade and other receivables – accrued interest income	330,781	312,268
<u>Statement of Comprehensive Income</u>		
Other income – Interest income (including working capital loan interest)	173,996	156,943
Expected credit loss provision (See Note 9b)	-	36,000
	<u> </u>	<u> </u>

***Includes £36,000 expected credit loss provision (2020: £36,000).**

Hub South West Scotland Territory

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

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

	2021	2020
	£	£
<u>Statement of Financial Position</u>		
Financial assets – working capital loans	100,000	100,000
Financial assets – subordinated debt	2,818,292	2,785,005
Trade and other receivables – accrued interest income	154,875	178,705
<u>Statement of Comprehensive Income</u>		
Other income – hub director fees	11,903	11,637
Other income – Interest income (including working capital loan interest)	285,537	259,029
Other income - dividends	-	23,988
	<u> </u>	<u> </u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021 (continued)

15. Related party transactions (continued)

LAR Housing Trust

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

The Edinburgh Homes Delivery Partnership

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

The East Lothian Housing Delivery Partnership

The East Lothian Housing Delivery Partnership is a joint venture between East Lothian Council and SFTi to create an LLP for the delivery of mid-market and market rent accommodation. SFTi does not have joint control or significant influence over the joint venture as SFTi is merely an investor in this joint venture.

Hub Community Foundation

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

SCOTTISH FUTURES TRUST INVESTMENTS LIMITED ANNUAL REPORT AND FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021 (continued)

16. Financial Instruments

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

Interest rate risk - As the Company has no borrowings subject to interest and deposit interest rates are negligible and not anticipated to rise significantly in the short term, it has no significant exposure to interest rate risk. Interest rates in respect of subordinated debt investment and working capital loans are fixed.

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

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

Fair value of financial assets and liabilities - The directors consider that there is no significant difference between the book value and fair value of the Company's financial assets and liabilities except for equity investments in hub projects whose fair value is estimated to be £603,833 as at 31 March 2021 (£524,785 as at 31 March 2020), as disclosed in Note 9a, compared to a historical cost of £918 (£923 as at 31 March 2020).

17. Ultimate Controlling Party

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

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

OFFICERS AND PROFESSIONAL ADVISORS

Directors

Ian Russell (Chairman)
Peter Reekie (Executive Director)
Ann Allen (Non-Executive Director)
Ann Faulds (Non-Executive Director)
Bill Matthews (Non-Executive Director)
Pauline Mills (Non-Executive Director)
Graham Watson (Non-Executive Director)

Chief Executive

Peter Reekie

Registered Office & Principal Place of Business

11-15 Thistle Street
Edinburgh
EH1 2DF

Registered Company number

SC381388

Auditor

Azets Audit Services
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