

Chairman's Statement 2013 The Scottish Investment Trust PLC

Preliminary figures for the year to 31 October 2013.

The Scottish Investment Trust PLC invests internationally and is independently managed. Its objective is to provide investors, over the longer term, with above average returns through a diversified portfolio of international equities and to achieve dividend growth ahead of UK inflation. Today it announces its results for the year to 31 October 2013.

- NAV returned 28%, beating both global and UK comparator indices
- Share price total return of 29% reaching new all-time high near year end
- Investment portfolio outperforms over 1, 2, 3, 5 and 10 years
- Strong year for income with proposed regular dividend up 3.1% to 11.60p and a special dividend of 1.80p
- 30th consecutive increase in annual dividend
- Over £100m of borrowings held liquid for major buying opportunities

Performance

The net asset value per share (NAV) total return for the year to 31 October 2013 was 28.2% (with borrowings at market value) which compares to the 24.3% sterling total return of the global FTSE All-World IndexTM and 22.8% from the UK FTSE All-Share IndexTM. The share price total return was 28.6% as the share price reached a new all-time high in late October. The company's global equity portfolio achieved a total return of 25.4%, outperforming global equities for a third consecutive year, and is now ahead of the global index over 1, 2, 3, 5 and 10 years.

The NAV performance of 28.2% resulted from portfolio outperformance of a strong global equity market while the gains from gearing added 1.4% to NAV, almost fully offsetting the 1.7% charge for expenses and interest on borrowings. The increase in long-term interest rates and a change in the basis of valuing the company's long-term borrowings noted in the interim statement combined to raise the NAV by 2.7%.

The majority of the returns for the year were achieved in a strong rally between November and late May as stockmarkets responded to a series of generally supportive events which included the EU's bailout of Greece, further quantitative easing (QE) by the US Federal Reserve Bank, a resolution of the US "fiscal cliff" spending impasse and the election of Shinzo Abe as prime minister of Japan. Mr Abe's three-pronged policy measures to haul Japan out of deflation ignited a rally of almost 60% in Japanese equities. Global markets lost momentum thereafter on concerns over Cyprus and spent the second half of the year in a volatile trading range as economic uncertainties resurfaced and investors sought clarity as to when the US central bank would begin to rein in its QE stimulus programme.

Global equity returns over the year were led by Europe (ex UK), Japan and, while not dominating global returns as in recent years, North America. Currency played a significant role with euro strength boosting the Europe (ex UK) regional local currency total return to 31.5% in sterling terms. In Japan, the remarkable stockmarket rally of over 50% in yen terms reflecting optimism about the effect of "Abenomics" was reduced to a sterling return of 34.6% by the related very significant drop in the value of the yen. The pattern of global industry returns generally reflected optimism that the central bank stimulus measures would revive global growth with strongest returns coming from Consumer Services, Industrials, Financials and Consumer Goods as well as the more defensive Health Care industry.

Despite a relative under-exposure to the North America region and also to a resurgent Japanese equity market, the company's equity portfolio again outperformed, owing to material additions to a strong Europe (ex UK) market and positive regional stock selection results. The portfolio outperformed in all regions comprising the All-World Index with the exception of North America. There were notable absolute and relative sterling total returns from Japan, Asia Pacific (ex Japan), Europe (ex UK) and the UK. Our Japanese investments returned 59.8% in sterling terms, some 25 percentage points more than the index. Despite lagging global markets, our Latin

American investments also beat the regional index.

The global equity portfolio's "active share" compared to the FTSE All-World Index, a measure of the portfolio's differentiation from the underlying index, at the year-end was 88% (2012: 85%).

Income

It was a strong year for income with total income increasing by 8.4% to £22.3m despite maintaining a lower level of investment in equities over the second half of the year and a smaller contribution from special dividends. Net income per share rose by 11.7% to 13.41p (2012: 12.01p).

Dividends

The board is recommending a final dividend of 6.80p per share (2012: 6.65p). If approved, taken together with the interim dividend of 4.80p per share (2012: 4.60p), this will result in an increase of 3.1% in the total regular dividend for the year to 11.60p per share (2012: 11.25p) which compares with October UK CPI inflation of 2.2% and RPI of 2.6%. If the proposal is approved, the company will have increased its dividend in each of the last 30 years. In view of the strength of the revenue account in the year under review the board is also recommending a special dividend of 1.80p per share, making a combined distribution for the year of 13.40p, an increase of 19.1% on the previous year.

Discount and Share buybacks

The discount to ex-income NAV (with borrowings at market value) was again broadly stable, ending the year at 8.6%. The company's buyback policy is intended to keep the discount to ex-income NAV at or below 9.0% (with borrowings at market value). Under the policy, 1.9m (2012: 2.4m) shares were repurchased for cancellation over the financial year accounting for 1.7% of the shares in issue at the start of the period. The shares were repurchased at an average discount of 9.7% and a cost of £10.1m (2012: £11.1m) inclusive of dealing expenses. The average discount over the year was 9.5% and the average between the introduction of the scheme in February 2006 and the year-end was 8.8%.

Board Composition

During the year, Francis Finlay retired as a non-executive director. Francis had served on the board since 1996, over which period the company benefited greatly from his knowledge of financial markets and of investment management. On behalf of the board and shareholders, I should like to thank him for his outstanding contribution.

James Will was appointed as a non-executive director of the company during the year and will stand for election at the annual general meeting. He is chairman of Shepherd and Wedderburn, solicitors, and has extensive experience of investment trusts.

EU Alternative Investment Fund Managers (AIFM) Directive

The new obligations on investment trust companies stemming from the European Union's AIFM Directive are becoming clear and we are taking steps to meet them.

Outlook

The strong gains in major stockmarkets in the past year have owed much to the central banks' stimulus measures in the US, Japan and elsewhere, and the eventual withdrawal of these measures represents a potential danger. Furthermore, profit margins are unusually wide and the valuations of attractive companies look high. The background for equity markets is therefore challenging, but we believe that our portfolio is relatively well placed and we have over £100m of borrowings available to invest should more attractive buying opportunities arise.

Douglas McDougall
Chairman

10 December 2013

For further information, please contact:-
John Kennedy, Manager

0131 225 7781

SUMMARY OF RESULTS
For the year ended 31 October 2013

	<u>2013</u>	<u>2012</u>	<u>Change</u> %	<u>Total</u> <u>Return</u> %
NAV with borrowings at market value	668.4p	531.3p	25.8	28.2
NAV with borrowings at par	682.7p	561.6p	21.6	23.8
Ex-income NAV with borrowings at market value	659.7p	523.8p	25.9	
Ex-income NAV with borrowings at par	674.0p	554.2p	21.6	
Share price	603.0p	479.0p	25.9	28.6
Discount to ex-income NAV with borrowings at market value	8.6%	8.6%		
FTSE All-World Index			21.1	24.3
UK FTSE All-Share Index			18.5	22.8
	<u>£'000</u>	<u>£'000</u>		
Total assets less current liabilities	857,545	734,801		
Long-term borrowings at par	(104,167)	(104,051)		
Pension liability	(2,560)	(2,506)		
Shareholders' funds	<u>750,818</u>	<u>628,244</u>		
Total income	22,290	20,565	8.4	
Earnings per share	13.41p	12.01p	11.7	
Regular dividend per share (2013: proposed final 6.80p)	11.60p	11.25p	3.1	
Special dividend per share (proposed)	1.80p	-		
Total dividend per share	13.40p	11.25p	19.1	
UK Consumer Prices Index – annual inflation			2.2	
UK Retail Prices Index – annual inflation			2.6	

DISTRIBUTION OF SHAREHOLDERS' FUNDS

At 31 October

	<u>2013</u> %	<u>2012</u> %
Equities		
UK	19.9	24.0
Europe (ex UK)	27.3	18.5
North America	24.8	29.0
Latin America	3.5	8.2
Japan	5.8	5.9
Asia Pacific (ex Japan)	16.3	18.7
Middle East & Africa	1.5	2.5
Unlisted	0.4	0.8
Total equities	<u>99.5</u>	<u>107.6</u>
Net current assets	17.1	16.0
Borrowings at market value	(16.3)	(23.2)
Net cash/(gearing)	0.8	(7.2)
Pension liability	(0.3)	(0.4)
Shareholders' funds	<u>100.0</u>	<u>100.0</u>

INCOME STATEMENT
(unaudited)
for the year to 31 October 2013

	Revenue £'000	2013 Capital £'000	Total £'000	Revenue £'000	2012 Capital £'000	Total £'000
Net gains on investments held at fair value through profit and loss	-	136,910	136,910	-	46,470	46,470
Net losses on currencies	-	(838)	(838)	-	(761)	(761)
Income	22,290	-	22,290	20,565	-	20,565
Expenses	(3,016)	(2,094)	(5,110)	(2,735)	(1,897)	(4,632)
Net Return before Finance Costs and Taxation	19,274	133,978	153,252	17,830	43,812	61,642
Premium on repayment of secured bonds	-	-	-	-	(1,344)	(1,344)
Interest payable	(3,096)	(3,095)	(6,191)	(3,188)	(3,189)	(6,377)
Return on Ordinary Activities before Tax	16,178	130,883	147,061	14,642	39,279	53,921
Tax on ordinary activities	(1,314)	-	(1,314)	(1,085)	-	(1,085)
Return attributable to Shareholders	14,864	130,883	145,747	13,557	39,279	52,836
Return per share	13.41p	118.07p	131.48p	12.01p	34.79p	46.80p
Weighted average number of shares in issue during the year		110,847,197			112,896,385	
	<u>2013</u> <u>£'000</u>			<u>2012</u> <u>£'000</u>		
Dividends paid and proposed						
Interim 2013 – 4.80p (2012 – 4.60p)	5,324			5,178		
Final 2013 – 6.80p (2012 – 6.65p)	7,478			7,395		
Special 2013 – 1.80p (2012 – nil)	1,980			-		
Total 2013 – 13.40p (2012: 11.25p)	<u>14,782</u>			<u>12,573</u>		

The total column of this statement is the profit and loss account of the company.

SUMMARY BALANCE SHEET

(unaudited)
as at 31 October 2013

	<u>2013</u> <u>£'000</u>	<u>2012</u> <u>£'000</u>	<u>Change</u> <u>%</u>
Equity investments	731,373	639,355	
Net current assets	126,172	95,446	
Total assets less current liabilities	857,545	734,801	
Long-term borrowings at par	(104,167)	(104,051)	
Pension liability	(2,560)	(2,506)	
Shareholders' funds	750,818	628,244	
NAV with borrowings at par	682.7p	561.6p	21.6

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

(unaudited)
for the year to 31 October 2013

	2013			2012		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Return attributable to shareholders	14,864	130,883	145,747	13,557	39,279	52,836
Actuarial losses relating to pension scheme	(186)	(129)	(315)	(331)	(230)	(561)
Total recognised gains for the year	14,678	130,754	145,432	13,226	39,049	52,275
Total recognised gains per share	13.24p	117.96p	131.20p	11.71p	34.59p	46.30p

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

(unaudited)

for the year to 31 October 2013

	<u>2013</u> <u>£'000</u>	<u>2012</u> <u>£'000</u>
Opening shareholders' funds	628,244	598,870
Total recognised gains	145,432	52,275
Dividend payments	(12,719)	(11,780)
Share buybacks	(10,139)	(11,121)
Closing shareholders' funds	<u>750,818</u>	<u>628,244</u>

SUMMARY CASH FLOW STATEMENT

(unaudited)

for the year to 31 October 2013

	<u>2013</u> <u>£'000</u>	<u>2012</u> <u>£'000</u>
Net cash inflow from operating activities	15,509	14,009
Servicing of finance	(6,075)	(7,610)
Taxation	340	225
Investing activities	38,128	(45,699)
Dividends paid	(12,719)	(11,780)
Net cash inflow/(outflow) before use of liquid resources and financing	<u>35,183</u>	<u>(50,855)</u>
Management of liquid resources	(41,410)	71,961
Financing	(9,697)	(14,913)
(Decrease)/increase in cash	<u>(15,924)</u>	<u>6,193</u>

NOTES:

The directors recommend a final dividend of 6.80p per share and a special dividend of 1.80p per share which, together with the interim dividend of 4.80p per share paid on 15 July 2013, makes a total of 13.40p for the year. The final and special dividends will cost £9,458,000 and are payable on 5 February 2014 to shareholders registered at 3 January 2014.

The income figure is made up as follows:-

	<u>2013</u> <u>£'000</u>	<u>2012</u> <u>£'000</u>
Dividends	22,380	20,102
Interest	142	328
Forward currency sales	(232)	135
	<u>22,290</u>	<u>20,565</u>

The weighted average number of shares in issue throughout the year was 110,847,197 (2012 – 112,896,385) and this figure has been used to calculate the return per share shown in the income statement and statement of total recognised gains and losses. The net asset value per share at 31 October 2013 has been calculated using the number of shares in issue on that date which was 109,979,926 (2012 – 111,857,926).

The financial information set out in the announcement does not constitute the company's statutory accounts for the years ended 31 October 2013 or 2012. The financial information for the year ended 31 October 2012 is derived from the statutory accounts for that year which have been delivered to the Registrar of Companies. The auditors reported on those accounts; their report was unqualified and did not contain a statement under s498(2) or s498(3) Companies Act 2006. The audit of the statutory accounts for the year ended 31 October 2013 is not yet complete. These will be finalised on the basis of the financial information presented by the directors in this preliminary announcement and will be delivered to the Registrar of Companies following the company's annual general meeting on 31 January 2014. The accounting policies applied to these accounts are consistent with those applied on the accounts for the year ended 31 October 2012.

The accounts of the company have been prepared on a going concern basis. It is the opinion of the directors that, as most of the company's assets are readily realisable and exceed its liabilities, it is expected that the company will continue in operational existence for the foreseeable future.