The Scottish Investment Trust PLC

119th Report & Accounts 2006

Contents

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to the action you should take, you should consult your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under the Financial Services and Markets Act 2000 immediately.

If you have sold or otherwise transferred all of your ordinary stock in The Scottish Investment Trust PLC, please forward this document and the accompanying form of proxy as soon as possible to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was or is being effected for delivery to the purchaser or transferee.

The Company

Company Data as at 31 October 2006

TOTAL ASSETS	STOCKHOLDERS' FUNDS (with borrowings at par)	MARKET CAPITALISATION
£839,641,000	£730,594,000	£645,596,000

Objectives of The Scottish Investment Trust PLC (SIT)

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.

Risk

The SIT investment portfolio is diversified over a range of industries and regions in order to spread risk. SIT has a long term policy of borrowing money to invest in equities in the expectation that this will improve returns. However, should stockmarkets fall, such borrowings would magnify losses.

Performance Comparators

The company does not have a formal benchmark. Performance is reviewed in the context of returns achieved by a broad basket of UK equities through the FTSE All-Share Index™ and of international equities through the FTSE All-World Index™. The portfolio is not modelled on any index.

Management

The company is managed by its own employees led by the manager who is responsible to the directors for all aspects of the day to day management of the company.

Capital Structure

At 31 October 2006 the company had in issue 143,147,615 ordinary stock units and long-term borrowings at par amounted to £107,252,000 with an average annual interest cost of 5.9%.

Management Expenses

The total expenses of managing the company's business during the year were £4,481,000, equivalent to 0.55% of average stockholders' funds. The company aims to keep this percentage low in comparison with competing investment products.

ISA/PEP

The ordinary units are fully eligible for both ISAs and PEPs. Details of the schemes run by the company are on page 38.

AIC

The company is a member of The Association of Investment Companies.

Ten Year Record

Year to 31 October	Earnings per ordinary unit net (p)[1]	Dividend per ordinary unit net (p)[2]	Total expenses £'000	Total expense ratio %	Total assets £'000	Stock-holders' funds £'000	NAV (debt at par) per ordinary unit (p)	Market price per ordinary unit (p)	Discount to NAV %[4]	NAV (debt at par) total return %
1996	6.16	5.95	2,932	0.34	1,023,847	912,583	322.0	274.5	–	16.0
1997	6.29	6.25	3,310	0.34	1,101,239	1,020,680	360.1	306.0	–	13.8
1998	6.41	6.50	3,751	0.35	1,176,244	1,095,685	386.6	344.0	–	9.0
1999	8.34	6.65	4,467	0.37	1,364,145	1,287,086	466.4	393.5	–	22.7
2000	7.93	6.90	4,568	0.35	1,578,998	1,356,861	538.9	457.0	14.6	17.1
2001	9.33	7.05	4,821	0.43	1,130,370	908,066	402.1	359.0	8.7	–24.4
2002	8.24	7.50	4,558	0.58	893,915	671,443	314.8	259.0	15.6	–20.2
2003	9.28	7.80	4,129	0.59	942,154	719,515	342.1	281.0	16.2	11.5
2004[3]	9.29	8.10	4,108	0.56	888,578	739,342	353.9	298.8	14.3	6.2
2005[3]	9.86	8.40	3,973	0.49	1,044,315	894,412	428.1	377.0	9.5	23.6
2006	**9.39**	**8.72**	**4,481**	**0.55**	**839,641**	**730,594**	**510.4**	**451.0**	**8.5**	**21.3**

Ten Year Growth Record

	Earnings per ordinary unit net[1]	Dividend per ordinary unit net[2]	Retail Prices Index	NAV (debt at market) per ordinary unit	NAV (debt at par) per ordinary unit	Market price per ordinary unit	NAV (debt at par) per ordinary unit total return	Market price per ordinary unit total return	UK FTSE All-Share Index total return	FTSE All-World Index total return
1996	100.0	100.0	100.0	–	100.0	100.0	100.0	100.0	100.0	100.0
1997	102.1	105.0	103.7	–	111.8	111.5	113.8	113.8	121.2	113.0
1998	104.1	109.2	107.0	–	120.1	125.3	124.1	130.3	135.8	128.4
1999	135.4	111.8	108.3	–	144.8	143.4	152.2	151.9	161.3	166.4
2000	128.7	116.0	111.6	100.0	167.3	166.5	178.1	179.3	174.8	192.7
2001	151.5	118.5	113.3	73.5	124.9	130.8	134.8	143.1	140.5	144.2
2002	133.8	126.1	115.7	57.4	97.8	94.4	107.6	105.6	116.2	116.0
2003	150.6	131.1	118.7	62.7	106.2	102.4	120.0	118.1	132.1	134.0
2004[3]	150.8	136.1	122.6	65.2	109.9	108.8	127.4	129.8	147.4	141.7
2005[3]	160.1	141.2	125.7	77.9	133.0	137.3	157.5	167.9	176.6	169.1
2006	**152.4**	**146.6**	**130.3**	**92.2**	**158.5**	**164.3**	**191.0**	**204.8**	**214.8**	**193.5**
Ten Year Return Per Annum	**4.3%**	**3.9%**	**2.7%**	**–**	**4.7%**	**5.1%**	**6.7%**	**7.4%**	**7.9%**	**6.8%**
Five Year Return Per Annum	**0.1%**	**4.3%**	**2.8%**	**4.6%**	**4.9%**	**4.7%**	**7.2%**	**7.4%**	**8.9%**	**6.1%**

1. From 1 November 1999 to 31 October 2005 the company charged two-thirds of eligible expenses and finance costs to realised capital reserves and since 1 November 2005 the company has charged half of eligible expenses and finance costs to realised capital reserves.

2. Excluding special dividends of 0.75p in 1998, 1.00p in 2001 and 2.00p in 2006.

3. Figures for 2004 and 2005 have been restated, where applicable, in accordance with accounting changes referred to in the Chairman's Review and detailed in the 2006 Notes to the Financial Statements.

4. Discount to NAV (after deducting dividends proposed but not paid) with borrowings at market value.

Financial Highlights

		2006	2005 (restated)	change
CAPITAL	Net asset value per ordinary unit with borrowings at par	510.4p	428.1p	+19.2%
	Net asset value per ordinary unit with borrowings at market value	499.7p	421.1p	+18.7%
	Market price per ordinary unit	451.0p	377.0p	+19.6%
	Discount to NAV (after deducting dividends proposed but not paid) with borrowings at market value	8.5%	9.5%	
	FTSE All-World Index			+11.9%
	UK FTSE All-Share Index			+17.9%
		£'000	£'000	
	Equity investments	750,870	931,694	
	Net current assets	88,771	112,621	
	Total assets	839,641	1,044,315	
	Borrowings at par	(107,252)	(147,972)	
	Pension liability	(1,795)	(1,931)	
	Equity stockholders' funds	730,594	894,412	
INCOME	Total income	23,755	29,374	
	Earnings per ordinary unit	9.39p	9.86p	
	Dividend per ordinary unit	8.72p	8.40p	+3.8%
	Special dividend per ordinary unit	2.00p	–	
	UK Retail Prices Index			+3.7%

YEAR'S HIGH & LOW (based on NAV after deducting dividends proposed but not paid)	Year to 31 October 2006 High	Low	Year to 31 October 2005 High	Low
Published NAV with borrowings at market value	512.9p	416.7p	427.9p	348.7p
Closing market price	465.5p	377.0p	388.0p	302.3p
Discount with borrowings at market value	10.6%	7.2%	14.3%	7.9%

PERFORMANCE

NAV and Market Price against Comparator Indices
5 years to 31 October 2006

Chairman's Statement

CAPITAL

Over the year to 31 October 2006 the net asset value per ordinary stock unit with borrowings valued at par rose by 19.2%, ahead of the company's principal comparator indices, the FTSE All-World Index which rose by 11.9% and the UK FTSE All-Share Index which rose by 17.9%. Measured with borrowings at market value, the net asset value per ordinary unit increased by 18.7%. This performance reflected the contribution from the global equity portfolio which outperformed world equity markets for a third consecutive year. Good stock selection was achieved across the portfolio. At the AGM in January 2006, stockholders voted to amend the company's objectives by dispensing with the company's single benchmark index which, for the record, rose by 14.4%.

The largest absolute contribution came from our Financials holdings which provided almost one third of the gains in portfolio value. Outstanding individual contributions included UK bank Barclays, Canadian oil company Suncor Energy, UK housebuilder Persimmon, UK energy company BG Group and Taiwanese electronics company Hon Hai Precision Industry. Effective gearing over the year was maintained at an average of 105%. During the year we took profits and we made material reductions in the proportion of the portfolio in Oil & Gas, including Suncor Energy, and increased substantially the proportion of the portfolio in Financials.

Industry sector returns over the year were mostly within a relatively narrow range as cyclical sector leadership in the early part of the year gave way to a more defensive tone. Merger and acquisition activity increased sharply with certain sectors including pharmaceuticals, telecoms, transport and utilities featuring prominently. Our own portfolio benefited with share prices in a number of holdings, including P&O, AWG and Rinker, reacting to actual or rumoured bids.

The restructuring of the investment management approach in January 2004 continued to yield benefits. Between the end of January 2004 and 31 October 2006, the global equity portfolio and NAV per ordinary unit both rose by 47.6%, outperforming our comparator indices: the FTSE All-World Index which rose 32.7% and the UK FTSE All-Share Index which rose 43.6%. They also exceeded the company's former benchmark which increased by 37.1%.

The number of holdings in the global listed portfolio increased during the year by 1 to 117.

INCOME

Dividend income generated was strong and again ahead of our expectations, reflecting the strength of corporate balance sheets and the surge in global corporate profitability.

As I intimated last year, the board decided to lower the proportion of interest and expenses charged to capital from two thirds to one half in view of the increasing emphasis on dividends as a component of return. As expected, this has had the effect of lowering revenue return for the financial year to October 2006. However, good dividend growth meant that earnings per ordinary unit only declined to 9.39p (2005 – 9.86p).

The board is recommending a final dividend of 4.57p which makes an increase of 3.8% in the dividend for the year from 8.40p to 8.72p per ordinary unit, which compares with the October year on year UK RPI inflation rate of 3.7%. We have increased our dividend in each of the last 23 years and it is a stated objective of the company to increase the dividend by more than the UK rate of inflation. In view of the strength of dividend income growth and the company's strong revenue reserve position, the board is also recommending an additional special dividend of 2.0p per ordinary unit, making a combined distribution for the year of 10.72p, an increase of 27.6%.

STOCK PRICE AND DISCOUNT TO NAV

The stock price rose by 19.6%, reflecting a slight narrowing, to 8.5%, of the discount to NAV (after deducting dividends proposed but not paid and with borrowings valued at market) and the strong NAV performance. The year end discount level was the lowest for many years. The average weekly discount over the year, with borrowings valued at market, was 8.9%.

TENDER OFFER AND STOCK BUYBACK POLICY

As many stockholders will be aware, following the outcome of the EGM in January 2006, the company undertook a tender offer in February in order to provide any stockholders seeking an exit with an opportunity to sell some, or potentially all, of their stock back to the company. The terms of the tender provided that up to 40% of the company's stock would be repurchased at a 9% discount to the NAV (with borrowings taken at par). In the event, only 27.75% of issued stock was tendered, including the entire 10.6% holding of the company's then largest stockholder. Consequently, the company repurchased 58.0m stock units at a tender price of 436.0834p per unit, a return of capital of £252.8m. The cash requirement for the tender was realised by a sale of listed equities carried out at low cost by means of a portfolio programme trade.

The company's gearing potential was maintained at pre-tender levels by the subsequent repurchase of £42.0m nominal of the company's 5.75% secured bonds due 2030 at a margin of 0.25% over gilt yields at a total cost of £51.8m.

The terms of the tender offer and proportion tendered provided a net asset value increase for continuing stockholders of 1.7%, which was close to the estimated increase detailed in the tender offer circular.

Stockholders also voted in favour of the introduction of a stock buyback scheme intended to maintain the stock price discount to NAV at 9% or less in normal market conditions (taking borrowings at market value). Under this authority, which excludes the tender-related stock repurchases, over the year the company repurchased for cancellation 7.8m stock units (5.16% out of the 14.99% authority) at an average discount of 9.5% and a cost of £34.3m inclusive of dealing expenses. The repurchases were funded from net reductions to the equity portfolio. The estimated average daily discount since the introduction of the scheme was 9.2%.

Post-tender, some 65% of the company's stock is now in the hands of private investors and private client managers and, despite the return of capital, the company remains cost-competitive with an expense ratio of 0.55% (2005 – 0.49%) which is considerably lower than the average of all investment trusts.

ACCOUNTING CHANGES

In addition to the above-mentioned reduction in the proportion of interest and expenses charged to capital, the accounts also feature a number of mandatory changes including those required by the convergence of UK Accounting Standards with International Accounting Standards. Also, adoption of UK Accounting Standards Board's FRS17 – Retirement Benefits means that the company's pension liability for employees came on to the balance sheet with effect from 1 November 2005.

BOARD

Hamish Leslie Melville will be retiring at the AGM and will not be standing for re-election. He has served the company with distinction both as a board member and as chairman of the remuneration committee since appointment in November 1996 and I thank him for his contribution.

OUTLOOK

Global stockmarkets are now well into their fourth year of a recovery from the low point of March 2003 and are again nearing record highs. That conventional valuation measures appear to remain within acceptable historical ranges reflects the extraordinary recovery in corporate profitability that has occurred, taking corporate profit margins to cyclical highs. The strong return achieved masks the difficult markets of mid-year which provided a sharp reminder that the investment conditions in recent years have been exceptionally benevolent.

While long-standing global imbalances remain and the international political environment is unpredictable, the global economy and corporate profits are expected to grow again in 2007, albeit at a slower rate than 2006. Stockmarket valuations are for the short term supported by the high level of merger and acquisition activity, bolstered in turn by private equity funds. However, four years into the stockmarket rally, the scope for high annual returns in the near term has most probably diminished.

Douglas McDougall.

Douglas McDougall

Chairman

8 December 2006

Board of Directors

***†Douglas McDougall OBE (62)**
was appointed to the board in September 1998 and became chairman in October 2003. He is chairman of The Law Debenture Corporation, The Independent Investment Trust and Foreign & Colonial Eurotrust and a director of The Monks Investment Trust, Pacific Horizon Investment Trust and Herald Investment Trust. He is a former senior partner of Baillie Gifford & Co and a former chairman of IMRO, the Association of Investment Companies and the Fund Managers' Association.

Sir George Mathewson CBE LLD FRSE (66)
joined the board in 1981. He was chief executive of the Scottish Development Agency until 1987. He then joined the board of The Royal Bank of Scotland Group and was appointed chief executive in January 1992. Following the Group's acquisition of NatWest, he was appointed executive deputy chairman in March 2000 and was chairman from April 2001 until April 2006. He is on the board of directors of the Institute of International Finance and in June 2005 was appointed President of the International Monetary Conference.

Francis Finlay (63)
joined the board in November 1996. He is chairman of the New York based international fund management firm Clay Finlay, which he co-founded in 1982, and a director of SVG Capital. Previously he held senior investment management positions with Lazard Frères and Morgan Guaranty in Paris and New York. He is also a director of a number of international investment companies and charitable organisations.

†Hamish Leslie Melville (62)
was appointed to the board in November 1996. He is a managing director of Credit Suisse Securities (Europe) Limited and chairman of The European Investment Banking Committee. He is chairman of Old Mutual South Africa Trust, Mithras Investment Trust, The Fleming Mercantile Investment Trust and a director of Persimmon. He is chairman of the remuneration committee.

***†Hamish Buchan (62)**
was appointed to the board in November 2003. He is chairman of the Association of Investment Companies and was formerly chairman of NatWest Securities in Scotland. He is chairman of JP Morgan American Investment Trust and a director of Aberforth Smaller Companies Trust, Personal Assets Trust and Standard Life European Private Equity Trust.

***Jim MacLeod (65)**
was appointed to the board in September 2005. He was a partner in Ernst & Young and its predecessor firms for 25 years until his retirement in 1998 and specialised in corporate tax, particularly for investment trusts and insurance companies. He was a visiting professor at the University of Edinburgh until 2001. He is a director of British Assets Trust and INVESCO Perpetual AIM VCT. He is chairman of the audit committee.

* Member of audit committee
† Member of remuneration committee

Management

Manager

John Kennedy MA (Hons) ACIB MBA ASIP

Assistant Managers

Hugh Duff BSc (Hons) ASIP   Senior Investment Manager

Martin Robertson BSc (Hons) MBA ASIP   Senior Investment Manager

Investment Management

James Kinghorn BSc MBA CFA®   Senior Investment Manager

Howard Kippax MA (Hons) ASIP   Senior Investment Manager

Alasdair McKinnon MA (Hons) MSc ASIP CFA®   Investment Manager

Sarah Monaco BA DipM MBA   Investment Manager

Secretary

Iain Harding FCMA FCIS

Assistant Secretary

Steven Hay ACIS

Investor Relations and Compliance Manager

Alan Jamieson BA (Hons)

Marketing Manager – SIT Savings

Sherry-Ann Sweeting BA (Hons) MBA DipM CIM

Head of Statistics and Information Technology

Neill Wood

Summary

- *Stockmarkets were strong over the year with the FTSE All-World Index rising 11.9% in sterling.*
- *NAV per unit rose by 19.2%, ahead of comparator indices.*
- *Performance benefited from stock selection, buybacks and gearing.*
- *The stock price rose by 19.6% due to NAV per unit growth and discount narrowing.*
- *The stock price discount to NAV tightened from 9.5% to 8.5%.*

GLOBAL EQUITY MARKET REVIEW

Global equity markets rose for the fourth consecutive financial year, continuing a recovery stretching from March 2003. The global FTSE All-World Index and UK FTSE All-Share Index both rose strongly, by 11.9% and 17.9% respectively, in sterling terms.

The world economy remained strong in 2006 as the momentum of 2005's 4.5-5% growth was sustained. Among the major economies, China and India recorded the fastest growth at around 10% and 8% respectively. A number of smaller economies in Latin America and the Pacific also saw good economic growth. Among the more developed regions, the US economy remained steady at around 3.5% while the recent laggards in economic performance terms, Japan and Europe, accelerated as they benefited from strong export demand. The UK economy also registered another year of steady, if below trend, growth. The robust growth across the world was achieved in spite of rising short term interest rates and high oil prices (which peaked during the year at $79 per barrel) as supply and regional security fears coincided.

Oil Price

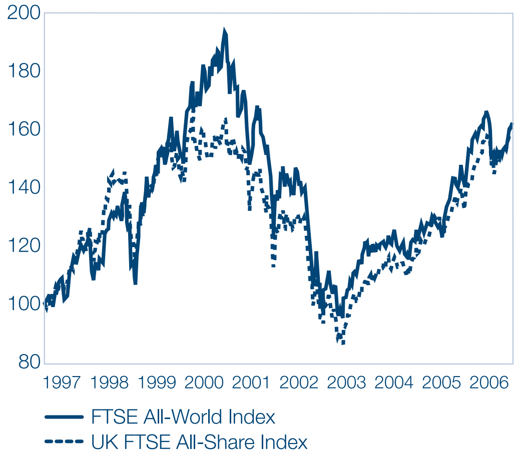
Year to 31 October 2006

Source: Thomson Datastream

The US Fed Funds rate increased from 3.75% to 5.25% through six quarter-point increases between November and July, thereby extending the sequence of consecutive rate increases to 17. The European Central Bank increased its official rate, which had been held at 2% since mid-2003, five times over the year to 3.25%. Japan too saw interest rates rise as the authorities ended the zero-rate policy with the first increase in official rates for six years, signalling some respite from the persistent deflation which has dogged Japan in recent years.

Stockmarket Performance

10 years to 31 October 2006



Source: Thomson Datastream

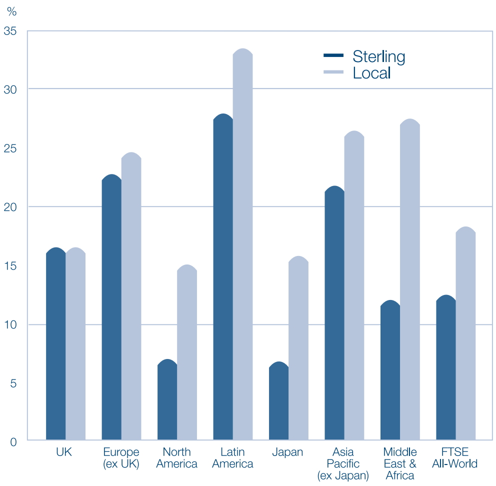
While global equities achieved a second consecutive year of double-digit capital gains, progress over the year was uneven. Global markets rose by over 15% between November and March reflecting rising corporate profits and optimism regarding inflation, even as economic growth accelerated. However, after peaking in early April with major stockmarket indices near record levels, equities subsequently fell sharply as accelerating US core inflation stoked fears of renewed interest rate increases. These concerns were exacerbated by the strength of the oil price and unnerved investors who had been pursuing buoyant emerging market equities and commodities, often using low-cost leverage.

This correction lasted until mid-June. Markets were then volatile over the summer as economic and political developments were re-appraised. US interest rates subsequently rose again, but by only 0.25%. Global equities then rallied, encouraged by increased M&A activity, signs that US interest rates were near a peak and, critically, the sharp decline in the oil price which ended the year at $56.

In local currency terms, all regions generated double-digit percentage gains. However, it was the emerging markets of the world, Latin America, Middle East & Africa and Asia Pacific (ex Japan), which performed best over the year. Of the more developed markets, Europe (ex UK) did well, reflecting the combined benefits of strong export demand and corporate restructuring. In sterling terms however, returns were more dispersed as dollar and yen weakness against sterling lowered returns in both North America and Japan to around 6%.

Regional Performances

Year to 31 October 2006



Indices are components of the FTSE All-World Index Series

Performance Attribution Analysis

Year to 31 October 2006

	%
Increase in NAV per ordinary unit	+19.21
Increase in FTSE All-World Index	+11.91
Relative performance	+6.52
Equity portfolio	+3.86
Gearing	+0.39
IFRS revenue component	+0.37
Buybacks	+0.47
Interest and expenses charged to capital	–0.53
Reduction in pension liability	+0.04
Tender uplift	+1.74
Residual	+0.18
Relative performance	+6.52

Stockholders voted to dispense with the formal benchmark during the year. For relative performance attribution, the All-World Index is the more appropriate comparator given the global nature of the portfolio. Comparison with the All-Share Index demonstrates to UK-based stockholders the benefit, or otherwise, of diversifying into overseas stockmarkets.

The company's NAV per ordinary unit (with borrowings taken at par) increased by 19.2%, beating both of the company's new comparator indices. In capital return terms, the FTSE All-World Index (Sterling) increased by 11.9% and the UK FTSE All-Share Index increased by 17.9%. For the record, NAV performance also beat the company's former benchmark which increased by 14.4%.

Almost two-thirds of the 6.5% relative outperformance was attributable to the global equity portfolio. This, in turn, was due to good sector positioning and stock selection across most industrial sectors.

The uplift in NAV per stock unit following the tender offer in February contributed 1.7% to the NAV outperformance. This uplift is derived from the repurchase of the 27.75% of stock tendered at a discount of 9% (with borrowings taken at par) after taking account of the costs of the exercise, including the costs of a matching reduction in borrowings.

Gearing made a positive contribution of 0.4% while the 0.5% benefit to continuing stockholders from buybacks under the company's stock buyback scheme offset the –0.5% contribution from interest and expenses charged to capital.

Changes in Asset Distribution by Sector

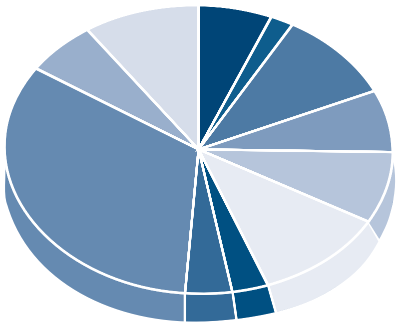
Year to 31 October 2006

	Opening Valuation* £m	Tender-related (Sales) £m	Other Net Purchases (Sales) £m	Appreciation (Depreciation) £m	Closing Valuation £m
Oil & Gas	110.3	(25.1)	(41.1)	8.1	52.2
Basic Materials	22.3	(10.3)	(1.2)	6.5	17.3
Industrials	118.4	(42.9)	(11.3)	19.8	84.0
Consumer Goods	65.8	(19.0)	(3.0)	15.5	59.3
Healthcare	91.5	(29.8)	1.3	4.3	67.3
Consumer Services	87.5	(35.9)	22.3	18.6	92.5
Telecommunications	33.6	(6.9)	(3.4)	0.8	24.1
Utilities	48.5	(14.2)	(10.7)	9.0	32.6
Financials	296.8	(77.2)	1.1	51.0	271.7[1]
Technology	57.0	(17.6)	4.0	6.5	49.9
Total equities	931.7	(278.9)	(42.0)	140.1	750.9
Net current assets	112.6	(12.6)	(11.2)	(0.1)	88.7
Total assets	1,044.3	(291.5)	(53.2)	140.0	839.6
Borrowings at par	(148.0)	40.9	0.0	(0.2)	(107.3)
Pension liability	(1.9)	0.0	0.0	0.2	(1.7)
Equity stockholders' funds	894.4	(250.6)	(53.2)[2]	140.0	730.6

[1] Includes £22.2m of investments which are unlisted.
[2] Includes stock buybacks and interest and expenses apportioned to capital.
* Figures have been restated, where applicable, in accordance with accounting changes referred to in the Chairman's Review and detailed in the Notes to the Financial Statements.

Distribution of Total Assets by Sector

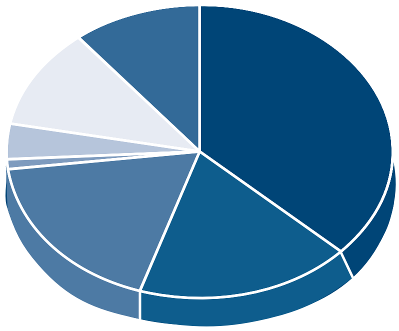
At 31 October 2006



	2006 %	2005* %
Oil & Gas	6.2	10.6
Basic Materials	2.0	2.1
Industrials	10.0	11.3
Consumer Goods	7.1	6.3
Healthcare	8.0	8.8
Consumer Services	11.0	8.4
Telecommunications	2.9	3.2
Utilities	3.9	4.6
Financials	32.4	28.4
Technology	5.9	5.5
Net current assets	10.6	10.8
Total assets	100.0	100.0

Distribution of Total Assets by Region

At 31 October 2006



	2006 %	2005* %
UK	37.9	38.8
Europe (ex UK)	17.8	16.5
North America	18.7	23.0
Latin America	0.6	0.0
Japan	3.8	3.8
Asia Pacific (ex Japan)	10.6	7.1
Net current assets	10.6	10.8
Total assets	100.0	100.0

Changes in Distribution

After having reduced effective gearing from the relatively high levels employed as markets bottomed in 2003, gearing employed in equities was maintained at an average level of 105%, slightly below the level of 2005. Gearing ended the year at 104.1%, after deducting dividends proposed but not paid (2005 – 105.2%). The potential gearing ratio, that is if total borrowings were invested in equities, was 114.9% (2005 – 116.7%). The average interest cost of borrowings, all of which are fixed rate and long-term, is 5.9% (2005 – 5.9%). Net current assets totalled £88.7m or 10.6% of total assets (2005 – 10.8%).

In order to finance the £252.8m return of capital required by the tender acceptance level of 27.75% and the reduction in borrowings required to preserve potential gearing at pre-tender levels, £278.9m of equities were sold in January.

The proportion of the portfolio in North America was lowered as we reduced exposure to the oil industry, US housing and computer manufacturing. The proportion of the portfolio invested in the Asia Pacific region was increased as we added new holdings in the area and built up a number of existing regional investments.

By industrial sector, the principal changes made during the year included: first, a 4.9% reduction in the proportion of the portfolio invested in Oil & Gas in order to lock in profits and lower our exposure on signs of weaker oil prices; second, a 4.5% increase in Financials to take advantage of attractive valuations; third, smaller, selective reductions in Industrials on signs of slowing global growth and lower exposure to US housing; and fourth, a 2.9% increase in exposure to Consumer Services through new holdings in the media and leisure industries.

After outperforming the old benchmark in each of the two previous years, the global equity portfolio this year outperformed global markets by a broad margin, rising in value by 16.5% compared with the 11.9% return from the FTSE All-World Index.

Over the year, the equity portfolio appreciated by £140.1m of which just under one-third stemmed from listed Financials. Absolute portfolio gains were generated in all ten industrial sectors comprising the FTSE All-World Index.

Portfolio Turnover

Total purchases of investments amounted to £234.0m (2005 – £399.2m) and sales were £554.9m (2005 – £406.8m). Investment sales were 59.0% (2005 – 42.1%) of average total assets. Turnover levels were high due to the tender offer-related £278.9m equity sale programme. Excluding tender-related sales, the ratio of investment sales as a percentage of average total assets (adjusted for the tender) was 34.6%. Dealing expenses during the tender sale process were minimised by using a low cost portfolio programme trade. Commission paid to brokers on purchases and sales during the year was £1.1m (2005 – £1.3m).

Forward currency contracts were used to guarantee exchange rates for a portion of our US dollar-denominated dividend income.

Holdings In Listed Funds

Our holdings include investments in listed investment funds of £26.8m (2005 – £30.0m). These are held to provide, variously, exposure to private equity, UK smaller companies and UK property.

The company has a policy not to invest more than 15% of gross assets in other UK listed investment companies.

UNLISTEDS

Unlisted Portfolio

The unlisted portfolio appreciated by £6.0m, reflecting strong performances from Boston Ventures V and VI (US) as well as the listed Hg Capital Trust (UK).

Distributions from the maturing unlisted portfolio, coupled with partial sales of Hg Capital at the time of the tender offer, amounted to £14.9m. Distributions included those from Apax Europe V-B (UK) and the highly successful Aberforth LP 1B (UK) which is close to its planned wind-up date.

We did not enter into any new partnerships during the year. At year end, our commitments to invest in partnerships totalled £3.1m (2005 – £4.1m) and we expect that these will be funded by distributions from existing holdings.

The unlisted portfolio was valued at a total of £30.7m (2005 – £39.6m) which is equivalent to 4.2% (2005 – 4.4%) of stockholders' funds. Included in the unlisted portfolio is £8.5m invested in listed funds which specialise in unlisted investments.

OIL & GAS

Oil & Gas holdings appreciated by £8.1m with a sizeable gain from Suncor Energy (Canada). BG Group (UK) benefited from a combination of strong trading and bid speculation. We made substantial reductions to our holdings in order to lock in profits reflecting a belief that the oil price had reached unsustainable highs in the short term. We have continued to run down our formerly large holding in BP (UK) which has suffered from operational difficulties. US rig operator Todco and US integrated oil group ConocoPhillips did not perform well over our second half as the oil price weakened.

We eliminated two smaller holdings and introduced three new holdings in Oil & Gas: EnCana (Canada) which, like Suncor, is well positioned with long life oil reserves, Brazilian major Petrobras and drill-bit specialist Smith International (US).

BASIC MATERIALS

In Basic Materials, holdings appreciated by £6.5m with good contributions from both of our miners, Rio Tinto (UK) and BHP Billiton (UK). However, the latter was held back slightly by its oil industry exposure. The mining sector is benefiting from sustained strong demand for industrial raw materials from China and has been one of the strongest parts of the market.

INDUSTRIALS

This is a diverse group of manufacturers and service companies. The appreciation of £19.8m achieved was the second largest industry sector gain after Financials. We lowered the proportion of the portfolio invested in Industrials in order to reduce the exposure to US housing and book profits in companies where profitability was at risk of falling from cycle-high levels.

We sold five holdings outright including ports and transportation group P&O (UK), which was the subject of a takeover bid. We also made large reductions in aerospace group Meggitt (UK) and building materials company Wolseley (UK) reflecting industry cycle concerns in both cases. Three new names were added: electrical distributor Wesco (US), catering equipment manufacturer Enodis (UK) and haulage group Swift Transportation (US) which was the subject of a takeover approach just after the year end.

The principal contributions in this area stemmed from outsourcing group Serco (UK) which appreciated by £3.5m, P&O and German industrial laser group Rofin-Sinar. We also achieved good returns from construction-to-concessions company Vinci (France). Australian listed construction group Rinker suffered during the year on US housing exposure concerns. However, a bid emerged late in the year and it too appreciated usefully.

CONSUMER GOODS

Consumer Goods holdings appreciated by £15.5m reflecting good performances from a number of holdings. A strong share price move early in the year enabled UK house-builder Persimmon to appreciate by £5.2m as investors reappraised its valuation. We also benefited from impressive performances by German auto components and tyre group Continental and our two Japanese car manufacturers, Suzuki and Toyota. We added to our automotive exposure late in the year through the restructuring Italian automotive group, Fiat. Of three holdings sold, we locked in profits of £1.8m during the year from German sports goods manufacturer adidas and, as part of our move to limit exposure to US housing, we sold George Wimpey (UK).

HEALTHCARE

Relatively good returns from healthcare equipment holdings were countered to a degree by a poor performance from contact lens specialist Bausch & Lomb (US), which encountered product difficulties, culminating in a £1.5m loss over the year. Dialysis group Fresenius Medical Care (Germany), which we purchased last year after it acquired former holding Renal Care (US), achieved gains of £2.0m. We sold out of health benefits group Wellpoint (US) and benefited from bid speculation to lock in gains at hearing aid manufacturer GN Store Nord (Denmark). Similarly in pharmaceuticals, good performances by AstraZeneca (UK), blood products group CSL (Australia) and Roche (Switzerland) were offset partially by a number of lacklustre performances from other holdings. We switched out of Novartis (Switzerland) into Amgen (US) which has a promising new product pipeline, and introduced two other holdings, Endo Pharmaceuticals (US) and Sanofi-Aventis (France).

CONSUMER SERVICES

Consumer services holdings performed well and appreciated by £18.6m over the year. In spite of rising interest rates, retail holdings performed well with good contributions from Esprit (Hong Kong), GUS (UK) and Halfords (UK). Japanese electrical retailer Yamada Denki appreciated by £2.0m while the share price of a new holding taken early in the year, Marks & Spencer (UK), outperformed convincingly, reflecting an improved operating performance. UK business information group Informa received an approach in October and made the largest contribution in this sector. Luxury goods group Tod's (Italy) and transport operator First Group (UK) also did well, appreciating by £2.5m and £2.9m respectively.

TELECOMMUNICATIONS

Portfolio exposure to the telecommunications industry has been modest in recent years. UK fixed-line operator BT provided the best returns with a £2.4m appreciation. This was offset partially by further disappointment from Vodafone (UK) and also from Deutsche Telekom (Germany) which was sold ahead of further price weakness. During the year we added to China Mobile (Hong Kong) which we believe has good growth prospects in what is a highly competitive industry.

UTILITIES

Utilities proved to be one of the best performing parts of the market over the year, due in large part to omni-present M&A speculation. This M&A activity stems from infrastructure fund demand for utilities' stable long term cash flows and also cross-border industry consolidation. The portfolio benefited from this theme with ScottishPower (UK) under almost constant bid speculation which culminated in an approach after the year-end. UK water group AWG also received an offer while E.On (Germany) too performed well. We sold US utility, Sempra Energy, in order to lock in profits.

FINANCIALS

Listed Financials holdings appreciated by £45.0m, just under one third of our entire gains for the global equity portfolio. A net five new holdings were added and the proportion of the portfolio invested in Financials was increased by 4.5% to just under one third of the portfolio.

There were good performances from the majority of bank holdings with a notable contribution of £5.6m from Barclays (UK), our largest holding, as well as the other UK banks. European banks also contributed with a £3.4m appreciation from BNP Paribas (France) and £2.0m from UBS (Switzerland). Insurance holdings did well with Legal & General (UK), AXA (France), ING (Netherlands) and Allianz (Germany) all producing good gains. One disappointment was Japanese credit company, Aiful, which suffered from evolving regulation in its home market. While we crystallised a loss on the year of £1.5m by selling it outright, the stock subsequently fell much further.

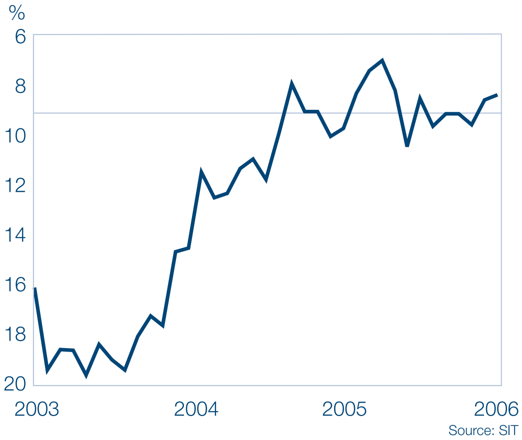
General Financial sector names did well with investment bank Lehman Brothers (US) and rating agency Moody's (US) appreciating by £2.3m and £1.7m respectively reflecting buoyant financial markets. We took profits through partial sales of these two holdings.

An increasing emphasis on Far East financials saw new holdings in Kookmin Bank (South Korea) and Sumitomo Trust & Banking (Japan). Our presence in European financials was bolstered through new purchases of leading Italian bank UniCredit, which offers exposure to Eastern Europe, and Swedish investment holding company Investor. Late in the year we purchased a Hong Kong-listed Chinese residential property developer, Guangzhou R&F Properties, which generated a sizeable early return on our investment.

TECHNOLOGY

Security software provider, Symantec (US), performed poorly as fierce competition impacted on product pricing. We sold out of the holding, too early as it transpired, resulting in a loss. However, this was recouped by the better performances from payroll software group Sage (UK) and imaging software provider Adobe Systems (US). In hardware, order weakness and increased competition in the personal computer industry prompted a decision to eliminate direct exposure to PC manufacturers through outright sales of Dell (US) and Acer (Taiwan). The sale of Dell proved to be timely, coming ahead of a sharp fall in its share price. We also took profits on graphics and digital media processor group Nvidia (US) to lock in gains for the year of £2.5m after a strong share price performance early in the year. The largest contribution came from Taiwan-based contract-manufacturer of iPods™ and other consumer electronics devices, Hon Hai Precision Industry, which appreciated by £3.9m.

Discount to NAV*
with borrowings at market value
3 years to 31 October 2006



*After deducting dividends proposed but not paid.

The stock price rose by 19.6% over the year reflecting the 18.7% increase in NAV per ordinary unit (with borrowings at market value) and the narrowing of the discount on that basis from 9.5% to 8.5%.

Under the company's stock buyback scheme which is intended to maintain the discount at 9% or less in normal market conditions, 7.8m units were repurchased for cancellation (5.16% out of the existing 14.99% authority) at an average discount of 9.5% and at a cost of £34.3m inclusive of dealing expenses.

Analysis of Stock Register
At 31 October 2006

Category of holder	Number	Ordinary Capital %
Individuals	27,406	65.1*
Investment companies	58	4.3
Insurance companies	10	16.8
Pension funds	32	7.7
Other	73	6.1
Total	27,579	100.0

*Includes 17.8% held in SIT Savings' products.

GLOSSARY

Total assets means total assets less current liabilities.

NAV is net asset value per ordinary unit after deducting borrowings at par or market value, as stated.

Borrowings at par is the book value of the company's borrowings, the nominal value less unamortised issue expenses.

Borrowings at market value is the company's estimate of the fair value of its borrowings.

Discount is the difference between the market price and the NAV expressed as a percentage of the NAV.

Gearing is the term used to describe the process of borrowing money for investment purposes in the expectation that the returns on the investments purchased will exceed the cost of those borrowings.

Potential gearing is the gearing ratio if all borrowings were invested in equities – (stockholders' funds + borrowings at par) expressed as a percentage of stockholders' funds.

Effective gearing is the true geared position of the Company – (stockholders' funds + borrowings at par + pension liability – net current assets), expressed as a percentage of stockholders' funds.

GDP references are to gross domestic product adjusted for inflation.

Distribution of Total Assets by Sector

Based on total assets at 31 October 2006 of £839.6m (2005 – £1,044.3m)

	October 2006 Total %	October 2005 Total %
Oil & Gas	**6.2**	**10.6**
Oil & Gas Producers	4.9	9.6
Oil Equipment, Services & Distribution	1.3	1.0
Basic Materials	**2.0**	**2.1**
Chemicals	0.3	–
Mining	1.7	2.1
Industrials	**10.0**	**11.3**
Construction & Materials	2.4	2.3
Aerospace & Defence	0.5	1.6
General Industrials	1.7	0.9
Electronic & Electrical Equipment	1.4	0.8
Industrial Engineering	0.9	1.2
Industrial Transportation	0.9	1.8
Support Services	2.2	2.7
Consumer Goods	**7.1**	**6.3**
Automobiles & Parts	3.3	1.5
Beverages	1.4	1.1
Food Producers	0.4	0.5
Household Goods	1.2	1.3
Personal Goods	–	1.2
Tobacco	0.8	0.7
Healthcare	**8.0**	**8.8**
Healthcare Equipment & Services	1.6	3.4
Pharmaceuticals & Biotechnology	6.4	5.4
Consumer Services	**11.0**	**8.4**
Food & Drug Retailers	1.8	1.1
General Retailers	4.5	4.9
Media	3.0	1.0
Travel & Leisure	1.7	1.4
Telecommunications	**2.9**	**3.2**
Fixed Line Telecommunications	1.4	2.1
Mobile Telecommunications	1.5	1.1
Utilities	**3.9**	**4.6**
Electricity	1.5	1.2
Gas, Water & Multiutilities	2.4	3.4
Financials	**32.4**	**28.4**
Banks	16.0	12.1
Non-life Insurance	3.8	3.5
Life Insurance	2.0	2.3
Real Estate	2.3	1.1
General Financial	4.3	4.4
Equity Investment Instruments	4.0	5.0
Technology	**5.9**	**5.5**
Software & Computer Services	2.0	1.9
Technology Hardware & Equipment	3.9	3.6
Total Equities	**89.4**	**89.2**
Net Current Assets	**10.6**	**10.8**
Total Assets	**100.0**	**100.0**

At 31 October 2006 the company held no convertible securities (2005 – nil).

List of Investments

Listed Holdings

Holding	Country	£'000
Barclays	UK	25,537*
Lloyds TSB	UK	12,530*
BNP Paribas	France	12,503*
ScottishPower	UK	12,153*
BT	UK	12,026*
Serco	UK	11,823*
Continental	Germany	11,727*
Hon Hai Precision Industry	Taiwan	11,426*
Royal Bank of Scotland	UK	11,335*
Bank of America	USA	11,255*
AstraZeneca	UK	11,242
Tesco	UK	10,656
Informa	UK	10,507
Persimmon	UK	10,217
Amgen	USA	9,632
Vivendi	France	9,008
UniCredit	Italy	8,980
Swire Pacific	Hong Kong	8,912
Legal & General	UK	8,592
Hg Capital Trust	UK	8,280
Indymac Bancorp	USA	8,272
BG Group	UK	7,988
Vodafone	UK	7,845
Rio Tinto	UK	7,660
HSBC Holdings	UK	7,653
Marks & Spencer	UK	7,618
Investor	Sweden	7,387
Tod's	Italy	7,321
Cisco Systems	USA	7,221
Fresenius Medical Care	Germany	7,182
Roche	Switzerland	6,938
Hartford Financial Services	USA	6,917
FirstGroup	UK	6,788
Toyota Motor	Japan	6,743
Johnson & Johnson	USA	6,734
BHP Billiton	UK	6,714
Allianz	Germany	6,712
AWG	UK	6,686
Imperial Tobacco	UK	6,659
Yamada Denki	Japan	6,653
Kookmin Bank	South Korea	6,586
Lehman Brothers	USA	6,412
Scottish & Newcastle	UK	6,359
Samsung Electronics	South Korea	6,357
Sap	Germany	6,340
AXA	France	6,288
Société Générale	France	6,216
ANZ Bank	Australia	6,094
HCC Insurance Holdings	USA	6,066
Laureate Education	USA	5,983
PetroChina	China	5,921
Ambac Financial	USA	5,827
Todco	USA	5,775
Rinker	Australia	5,662
Vinci	France	5,601
Anglo Irish Bank	Ireland	5,528
Deutsche Bank	Germany	5,476
Sage	UK	5,450
Keppel Corporation	Singapore	5,408
Guangzhou R&F Properties	China	5,399
United Business Media	UK	5,285
Sumitomo Trust & Banking	Japan	5,208
BP	UK	5,188
Moody's	USA	5,172
Pepsico	USA	5,135
National Grid	UK	5,134
UK Balanced Property Trust	UK	5,106
Smith International	USA	5,106
Daito Trust Construction	Japan	5,075
Fiat	Italy	4,304
China Mobile	Hong Kong	4,269
Throgmorton Trust	UK	4,204
Insight Foundation Property Trust	UK	4,201
Enodis	UK	4,163
Meggitt	UK	4,150
Zimmer Holdings	USA	4,105
Wolseley	UK	4,079
Endo Pharmaceuticals	USA	3,957
Total	France	3,937

Unlisted Holdings

Holding	Country	£'000
Boston Ventures VI	USA	5,151
Apax Europe V-B	UK	4,676
Aberforth LP 1B	UK	3,199
Boston Ventures V	USA	2,414
Heritable property & loans	UK	1,362
Sprout Capital VII	USA	1,259
Sprout Capital VIII	USA	1,232
1818 Fund III	USA	1,231
Close Investment 1994	UK	565
Others under £0.5m (6)		1,113
		22,202

Business Review

Objective

The company carries on business as an investment trust. 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.

A detailed description of the extent to which this objective has been achieved is given in the Chairman's statement on pages 4 and 5 and the Management Review on pages 8 to 14.

Principal Risks and Uncertainties

The principal risks and uncertainties facing the business are as follows:

- Investment and market price risk
- Interest rate risk
- Liquidity risk
- Foreign currency risk

These and other risks facing the company are reviewed regularly by the audit committee and the board. Further information is given in note 18 to the accounts on page 36.

Investment Approach

The Scottish Investment Trust is a global investment fund with the following characteristics:

- The investments are managed as an integrated, single, global portfolio which is constructed primarily through a systematic investment process whereby assets are allocated to individual investments rather than to different regions or themes.
- The fund is actively managed and, while performance is compared to major global and UK indices, no consideration is given to the composition of any index when constructing the portfolio.
- Consequently, it is intended that the company's investment performance should deviate from the comparator indices.
- While the fund is relatively concentrated in terms of holdings, it is still demonstrably diversified both by industrial sector and by geographical location of investments.

Gearing

The company has a policy of borrowing long-term money to invest in equities in the expectation that this will improve returns for stockholders. The levels of effective and potential gearing are monitored closely and are discussed by the board and management at every board meeting.

Performance

The management provides the board with detailed information on the company's performance at every board meeting. Performance is measured in comparison with the company's peer group and comparator indices.

Key Performance Indicators (KPIs) including the following are used:

- NAV total return
- NAV total return against comparators
- NAV and share price total return against peers
- Discount with debt at market value
- Dividend growth against RPI
- Total Expense Ratio

Dividend

The directors recommend a final dividend of 4.57p and a special dividend of 2.00p per ordinary stock unit, both payable on 9 February 2007. With the interim dividend of 4.15p already paid, this makes a total of 10.72p for the year. The total dividend absorbs £15,423,000 based on the number of ordinary stock units in issue at 31 October 2006.

Status

The company is a self-managed investment trust and it is registered as an investment company within the meaning of the Companies Act 1985.

HM Revenue & Customs has approved the company as an investment trust for the purposes of S842, Income and Corporation Taxes Act 1988 up to the accounting period ending 31 October 2005. The company has subsequently continued to satisfy the conditions for such approval.

Tender Offer

At an Extraordinary General Meeting of the company held on 27 January 2006, stockholders approved a resolution implementing a Tender Offer for up to 40% of the company's ordinary stock at a discount of 9% to the company's NAV with borrowings at par. Applications under the Tender Offer were made in respect of 27.75% of the ordinary stock in issue and, on 7 February 2006, 57,972,303 ordinary stock units were repurchased.

Stock Buybacks

The board introduced a stock buyback policy in January 2006 under which the company has bought back for cancellation a total of 7,790,600 ordinary stock units, representing 5.2% of the ordinary stock in issue immediately after the Tender Offer, at a cost of £34,314,000.

Directors

The directors of the company at 31 October 2006 and their biographical details are shown on page 6. All directors served throughout the year.

The following table shows the attendance of directors at board and committee meetings during the year to 31 October 2006.

	Board	Audit	Remuneration	Nomination
Number of meetings	8	3	3	1
D C P McDougall	8	3	3	1
Sir George Mathewson	6	n/a	n/a	1
D F K Finlay	8	n/a	n/a	1
I H Leslie Melville	5	n/a	3	0
H N Buchan	8	3	3	1
J S MacLeod	7	3	n/a	1

The performance of each director has been appraised by the chairman in individual interviews during the year. The chairman's performance has been appraised in his absence by the other directors and the results have been communicated to him. The board believes that each director is independent of the management in character and judgement and that there are no relationships with the company or its employees which might compromise their independence.

Four directors are standing for re-election at the AGM. Sir George Mathewson and Francis Finlay have served as directors for more than nine years and therefore retire on an annual basis. Hamish Buchan is standing because it is three years since he was elected as a director. After formal performance evaluation, the chairman confirms that all directors continue to perform effectively and with great commitment and he recommends their re-election. Douglas McDougall is also standing as it is three years since he was re-elected as a director. Hamish Leslie Melville will be retiring at the AGM and will not be standing for re-election.

The appointments of Sir George Mathewson and Francis Finlay as directors run for one year at a time. Douglas McDougall was appointed for a fixed term of three years in September 1998 which was renewed in September 2001 and September 2004 for a further three years. Hamish Buchan was appointed in November 2003 and Jim MacLeod was appointed in September 2005 both for initial terms of three years. Hamish Buchan's appointment was renewed in November 2006. Directors' letters of appointment will be available for inspection at the AGM.

The company maintained liability insurance for its directors and officers throughout the year.

Directors' Interests

The interests of the directors and their families in the company's capital are as follows:

	Ordinary stock units of 25p	
	31 October	1 November
Beneficial interests	2006	2005
D C P McDougall	60,000	60,000
Sir George Mathewson	57,983	57,983
D F K Finlay	60,000	60,000
I H Leslie Melville	60,000	60,000
H N Buchan	20,000	20,000
J S MacLeod	15,000	15,000
Non-beneficial interests		
Sir George Mathewson	26,500	26,500

Sir George Mathewson and his family purchased 7,400 ordinary stock units at a price of 457.5p each on 14 November 2006.

There have been no other changes in the directors' interests between 31 October 2006 and 8 December 2006.

Corporate Governance

Compliance

The board has considered the principles set out in the Combined Code on Corporate Governance ("the Combined Code") and believes that the way the company is governed is consistent with those principles. Throughout the year the company has complied with the provisions of the Combined Code except that there is no senior independent director. The directors consider that, where all directors are independent and non-executive, there is no compelling case for having a senior independent director.

Directors

The board normally meets eight times throughout the year while the audit and remuneration committees meet three times each. The nomination committee meets annually.

There is a schedule of matters reserved for the board which include investment strategy, accounting and financial controls, dividends and announcements, capital structure, gearing and major contracts.

All six members of the board are non-executive and are independent of the company's management.

Day to day management, including the selection of investments, is delegated to the company's executive management which reports directly to the board.

All directors have been appointed for fixed terms not exceeding three years. All directors are required to retire by rotation at their first AGM and at intervals of not more than three years thereafter. No compensation is payable to a director who leaves the board before the expiry of his term of office. No director has a service contract with the company. No contract or arrangement entered into by the company in which any director is interested has subsisted during the year.

The company has a policy on tenure which is shown on its website. It states that:

"All non-executive directors will be appointed for fixed terms of three years. Each director will be subject to re-election by the company in general meeting at least once every three years up to and including the ninth anniversary of his appointment.

"The performance of each director will be appraised by the nomination committee annually and prior to the renewal of a three year term. A more rigorous appraisal will take place prior to the second or subsequent renewal of a three year term.

"The directors recognise that independence is not a function of service or age and that experience is an important attribute within the board. The directors may decide to recommend a director with more than nine years service for re-election. In such a case, shareholder approval will be sought annually."

Prior to each board meeting directors are provided with a comprehensive set of papers giving detailed information on the company's transactions, financial position and performance. There is a procedure for directors to seek independent professional advice at the expense of the company and training is available to directors as required.

There is a nomination committee comprising the whole board for the purpose of selecting and appointing new directors and appraising board performance. It has written terms of reference which are shown on the company's website.

Remuneration

The board has appointed a remuneration committee to recommend pay and conditions for the board and employees. It has written terms of reference which are shown on the company's website.

Directors' fees are set with a view to attracting individuals of appropriate calibre and experience, taking into account the level of fees paid by similar investment trusts. No other benefits are provided to directors. Fees recommended by the remuneration committee are subject to approval by the board and stockholders.

With regard to its employees, the company aims to provide levels of remuneration in line with similar organisations and to reward responsibility and achievement. Basic salaries are compared annually with those of equivalent employees in a group of comparable fund management organisations operating in Scotland. Remuneration consists of basic salary, a performance-related bonus and benefits including a contributory pension scheme.

Relations with stockholders

The company recognises the value of good communications with its stockholders. The management meets regularly with private client stockbrokers and the company's major institutional stockholders. The board receives regular briefings from the company's brokers. Newsletters are sent to stockholders during the year and are posted on the company's website. Stockholders are encouraged to attend the AGM and ask questions of the board and management. Any stockholder wishing to raise questions at other times should write to the chairman. Proxy voting figures for each resolution are announced to the meeting after voting on a show of hands. Separate items of business are proposed as separate resolutions including the receipt of the report and accounts and the approval of the directors' remuneration report. The annual report is sent to stockholders at least 20 working days before the AGM.

Accountability and audit

The respective responsibilities of the directors and the auditors in respect of the financial statements are given on pages 20 and 23.

The audit committee has written terms of reference which are shown on the company's website. Its duties include risk assessment, reviewing internal controls, the company's accounting policies, financial statements prior to their release and the company's procedures on whistleblowing. The committee is also responsible for all aspects of the company's relationship with its external auditors including reviewing the scope and effectiveness of the annual audit, the auditors' remuneration, the terms of engagement and the level of non-audit work, if any, carried out by the auditors. The committee will also ensure that the level of non-audit work does not compromise the auditors' independence.

The directors continue to believe that the financial statements should be prepared on a going concern basis as the assets of the company consist mainly of readily realisable securities.

The company does not have an internal audit function as the audit committee believes that the company's straightforward structure and small number of employees do not warrant such a function. This is reviewed by the committee every year.

The board is responsible for ensuring that the company has in place an effective system of internal controls designed to maintain the integrity of accounting records and to safeguard the company's assets.

The board has applied Principle C.2 of the Combined Code by establishing a continuous process for identifying, evaluating and managing the significant risks the company faces. This process, which has been in place throughout the year and up to and including the date of approval of this report, is in accordance with Internal Control: Guidance for Directors on the Combined Code published in September 1999 (The Turnbull Guidance).

In compliance with Provision C.2 of the Combined Code, the board reviews the effectiveness of the company's system of internal control at six-monthly intervals. The board's monitoring covers all controls, including financial, operational and compliance controls and risk management. It is based principally on reviewing reports from management, considering whether significant risks are identified, evaluated, managed and controlled, and whether any significant weaknesses are promptly remedied or require more extensive monitoring. The audit committee assists the board in discharging its review responsibilities.

Detailed procedures are in place to ensure that:

- all transactions are accounted for accurately and reported fully to the board;
- the management observes the authorisation limits set by the board;
- there is a clear segregation of duties so that no investment transaction can be completed by one person;
- control activities are regularly checked;
- compliance procedures are in place for legal and regulatory obligations.

The board recognises that such systems can only provide reasonable, not guaranteed, assurance against material misstatement or loss.

Directors' responsibilities

United Kingdom company law requires the directors to prepare financial statements for the year to 31 October 2006 which give a true and fair view of the state of affairs of the company and of the revenue and cash flows for that year. In preparing those 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;
- state whether applicable accounting standards have been followed subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. 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 audit committee has reviewed the matters within its terms of reference and reports as follows:

- it has approved the financial statements for the year to 31 October 2006;
- it has reviewed the effectiveness of the company's internal controls and risk management;
- it has reviewed the need for a separate internal audit function;
- it has recommended to the board that a resolution be proposed at the AGM for the reappointment of the external auditors and it has considered the proposed terms of their engagement;
- it has satisfied itself as to the independence of the external auditors;
- it has satisfied itself that the terms of the business review are consistent with the accounts.

Directors' Report

Substantial Stockholdings

At 8 December 2006 the company had been notified of the following holdings in excess of 3% of its ordinary stock.

	Ordinary stock units	% of issue
AXA Group	14,574,054	10.2
D C Thomson	5,400,000	3.8
Legal & General	5,330,083	3.7

Annual General Meeting

A resolution relating to the following item of special business will be proposed at the forthcoming annual general meeting:

Repurchase of the company's own ordinary stock
At the annual general meeting of the company held on 27 January 2006 stockholders passed a resolution giving the company authority to make purchases of up to 22,625,638 ordinary stock units, being 14.99% of the then issued ordinary stock of the company. The authority is due to expire on 26 April 2007.

Resolution number 11 set out in the notice of annual general meeting on page 41 seeks to renew the authority to repurchase ordinary stock until 25 April 2008. The principal reasons for such repurchases are to enhance the net asset value of the ordinary stock by repurchasing ordinary stock at prices which, after allowing for costs, represent a discount to the prevailing net asset value and to allow implementation of the company's stock buyback policy set out in the chairman's statement.

Under the Listing Rules of the UK Listing Authority, the maximum price that may be paid on the exercise of the authority must not exceed the higher of (i) 105% of the average of the middle market quotations for the ordinary stock over the five business days immediately preceding the date of purchase, (ii) the price of the last independent trade and (iii) the highest current independent bid. The minimum price which may be paid is 25p per ordinary stock unit.

The directors consider that it is in the best interests of the company and of stockholders as a whole to renew the authority to repurchase ordinary stock and recommend that stockholders vote in favour of the resolution. The directors also consider that the resolutions constituting ordinary business are all in such best interests, and recommend that stockholders vote in favour of them.

Voting Policy

The management reviews the business to be conducted at general meetings of the companies in which it invests and, wherever practicable, will cast its vote, usually by proxy.

Socially Responsible Investing

When investments are made, the primary objective is to achieve the best investment return while allowing for an acceptable degree of risk. In pursuing this objective, various factors that may impact on performance are considered and these will include socially responsible investment issues. If it is considered that a company's social, environmental or ethical record will adversely affect financial performance and result in poor returns, then an investment will not be made in the company.

Auditors

A resolution to re-appoint Deloitte & Touche LLP as the company's auditors, and to authorise the directors to fix their remuneration, will be proposed at the forthcoming annual general meeting.

Disclosure of Information to Auditors

It is the company's policy to allow the auditors unlimited access to its records. The directors confirm that, so far as each of them is aware, there is no relevant audit information of which the company's auditors are unaware and that they have taken all the steps which they should have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Payment of Creditors

It is the company's policy to agree in advance the terms of business with suppliers and then to abide by those terms.

As the company has no trade creditors, no disclosure can be made of creditor days at the year end.

Donations

No charitable or political donations were made during the year.

By order of the board

I M Harding

I M Harding
Secretary
8 December 2006

This report has been prepared in accordance with the requirements of Schedule 7A to the Companies Act 1985 incorporating the Directors' Remuneration Report Regulations 2002. An ordinary resolution for the approval of the report will be put to stockholders at the AGM on 26 January 2007.

Remuneration Committee

The company has a remuneration committee whose terms of reference include setting the fees of the directors. The full terms of reference are posted on the company's website. The committee is chaired by Hamish Leslie Melville and the other members are Douglas McDougall and Hamish Buchan.

The remuneration committee met on 26 May 2006 and considered the level of directors' fees. The committee proposes that stockholders be asked to approve an increase in directors' fees to the level recommended by external consultants in 2003, namely £40,000 per annum for the chairman and £24,000 per annum for other directors.

Policy on Directors' Fees

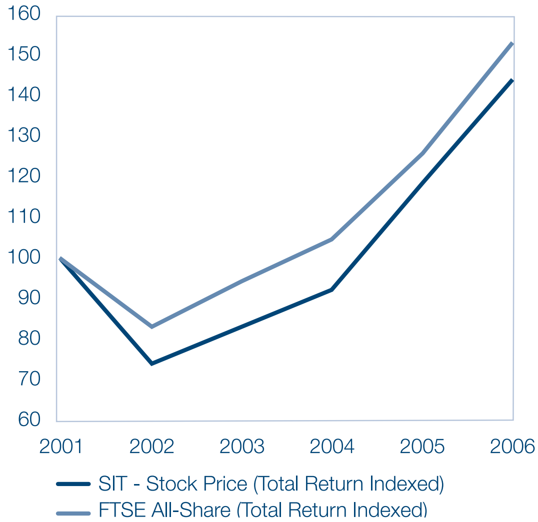
At the year end the board consisted of six directors, all of whom are non-executive. Directors' fees are set with a view to attracting individuals of appropriate calibre and experience, taking into account the time commitment required and the level of fees paid by similar investment trusts. It is intended that this policy will apply for the year to 31 October 2007 and to subsequent years. The directors do not receive bonuses, share options, long-term incentives, pension or other benefits.

Service Contracts

The directors do not have service contracts. They have letters of appointment for fixed terms of not more than three years which can be renewed but there is no notice period and no compensation is payable on early termination. All directors are subject to retirement by rotation and re-election subject to stockholders' approval at intervals of not more than three years.

Company Performance

The graph below shows the company's five year total return compared to the notional return on the FTSE All-Share Index over the same period. This index has been chosen as it is a common performance comparator for companies like SIT.



Directors' Emoluments for the Year to 31 October 2006 (audited)

Fees	2006	2005
	£	£
DCP McDougall	35,000	35,000
Sir George Mathewson	20,000	20,000
DFK Finlay	20,000	20,000
IH Leslie Melville	20,000	20,000
HN Buchan	20,000	20,000
JS MacLeod	20,000	3,333
	135,000	118,333

Fees in respect of Mr Hamish Leslie Melville were paid to Credit Suisse Securities (Europe) Limited. The other directors received their fees personally.

Approval

The directors' remuneration report was approved by the board on 8 December 2006 and signed on its behalf by the chairman of the remuneration committee.

Hamish Leslie Melville

8 December 2006

Independent Auditors' Report

To The Members of The Scottish Investment Trust PLC

We have audited the financial statements of The Scottish Investment Trust PLC for the year ended 31 October 2006 which comprise the Income Statement, Balance Sheet, Reconciliation of Movements in Stockholders' Funds, Statement of Total Recognised Gains and Losses, Cash Flow Statement, Accounting Policies and the related notes 1 to 19. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' 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 members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditors

The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view, in accordance with the relevant financial reporting framework, and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the company's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report as described in the contents section and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

Basis of Audit Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 October 2006 and of its total return for the year then ended;
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Edinburgh
United Kingdom
8 December 2006

Income Statement

for the year to 31 October 2006

	Notes	2006 Revenue £'000	2006 Capital £'000	2006 Total £'000	2005 (restated)* Revenue £'000	2005 (restated)* Capital £'000	2005 (restated)* Total £'000
Net gains on investments and currencies	15	–	139,610	139,610	–	158,318	158,318
Income	1	23,755	–	23,755	29,374	–	29,374
Expenses	2	(2,645)	(1,836)	(4,481)	(1,802)	(2,171)	(3,973)
Net Return before Finance Costs and Taxation		21,110	137,774	158,884	27,572	156,147	183,719
Premium on repayment of secured bonds		–	(9,908)	(9,908)	–	–	–
Interest payable	5	(3,598)	(3,598)	(7,196)	(2,962)	(5,924)	(8,886)
Return on Ordinary Activities before Tax		17,512	124,268	141,780	24,610	150,223	174,833
Tax on ordinary activities	6	(2,251)	1,339	(912)	(4,022)	1,936	(2,086)
Return attributable to Equity Stockholders		15,261	125,607	140,868	20,588	152,159	172,747
Return per Ordinary Stock Unit		9.39p	77.24p	86.63p	9.86p	72.83p	82.69p
Weighted average number of Ordinary Stock Units in issue during the year			162,609,310			208,910,518	

	2006 £'000	2005 £'000
Dividends paid and proposed (note 7):		
Interim dividend 2006 – 4.15p (2005 – 4.05p)	6,018	8,461
Final dividend 2006 – 4.57p (2005 – 4.35p)	6,542	9,087
Special dividend 2006 – 2.00p (2005 – nil)	2,863	–
	15,423	17,548

*These figures have been restated, where applicable, in accordance with accounting changes referred to in the chairman's statement and detailed in the accounting policies on page 28.

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

The accompanying notes are an integral part of this statement.

Balance Sheet

as at 31 October 2006

	Notes	2006 £'000	2005 (restated)* £'000
Fixed Assets			
Equity investments	8	750,870	931,694
Current Assets			
Debtors	11	1,091	1,503
Current asset investments	8	5,000	10,000
Cash and deposits	8	83,829	105,957
		89,920	117,460
Creditors: amounts falling due within one year	12	(1,149)	(4,839)
Net Current Assets		88,771	112,621
Total Assets less Current Liabilities		839,641	1,044,315
Creditors: amounts falling due after more than one year			
Long-term borrowings at par	13	(107,252)	(147,972)
Net Assets: excluding pension liability		732,389	896,343
Pension liability	4	(1,795)	(1,931)
Net Assets: including pension liability		730,594	894,412
Capital and Reserves			
Called-up share capital	14	35,787	52,228
Share premium account	15	39,922	39,922
Other reserves	15		
Capital redemption reserve		35,074	18,633
Capital reserve – realised		374,270	528,710
Capital reserve – unrealised		202,262	211,955
Revenue reserve		43,279	42,964
Equity Stockholders' Funds		730,594	894,412
Net Asset Value per Ordinary Stock Unit with borrowings at par		510.4p	428.1p
Number of Ordinary Stock Units in issue at year end	14	143,147,615	208,910,518

The financial statements on pages 24 to 37 were approved by the board of directors on 8 December 2006 and were signed on its behalf by:

Douglas McDougall

Director

*These figures have been restated, where applicable, in accordance with accounting changes referred to in the chairman's statement and detailed in the accounting policies on page 28.

The accompanying notes are an integral part of this statement.

Statement of Total Recognised Gains and Losses

for the year to 31 October 2006

	2006			2005 (restated)*		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Return attributable to equity stockholders	15,261	125,607	140,868	20,588	152,159	172,747
Actuarial gain/(loss) (note 4)	159	110	269	(199)	(243)	(442)
Total recognised gains for the year	15,420	125,717	141,137	20,389	151,916	172,305
Total recognised gains per ordinary stock unit	9.48p	77.31p	86.79p	9.76p	72.72p	82.48p

Reconciliation of Movements in Stockholders' Funds

for the year to 31 October 2006

	2006 £'000	2005 £'000
Opening equity stockholders' funds as previously reported	889,002	733,468
Prior year adjustments (note 19)	5,410	5,874
Restated opening equity stockholders' funds	894,412	739,342
Total recognised gains	141,137	172,305
Dividend payments	(15,105)	(17,235)
Ordinary stock repurchases	(288,891)	–
Tender offer expenses	(959)	–
	730,594	894,412

Cash Flow Statement

for the year to 31 October 2006

	Notes	2006 £'000	2005 (restated) £'000
Net Cash Inflow from Operating Activities		18,581	23,361
Servicing of Finance			
Premium on repayment of borrowings	13	(8,778)	(1,116)
Tender offer expenses		(959)	–
Interest paid		(7,157)	(8,766)
Net cash outflow from servicing of finance		(16,894)	(9,882)
Taxation			
Overseas tax recovered		135	1,029
Net cash inflow from taxation		135	1,029
Investing Activities			
Purchases of investments		(238,312)	(394,955)
Disposals of investments		554,687	408,927
Net cash inflow from investing activities		316,375	13,972
Equity dividends paid		(15,105)	(17,235)
Net cash inflow before use of liquid resources and financing		303,092	11,245
Management of Liquid Resources			
Increase/(Decrease) in current asset investments and short term deposits	16	22,000	(8,000)
Financing			
Repayment of secured bonds	13,16	(41,985)	–
Stock buybacks	14	(288,235)	–
Net cash outflow from financing		(330,220)	–
(Decrease)/Increase in Cash	16	(5,128)	3,245
Reconciliation of Net Revenue before Finance Costs and Taxation to Net Cash Inflow from Operating Activities			
Net revenue before finance costs and taxation		21,110	27,572
Expenses charged to capital		(1,836)	(2,171)
Scrip dividends		(106)	(146)
Decrease in accrued income		416	266
(Decrease)/Increase in other creditors		(85)	42
Decrease/(Increase) in other debtors		44	(71)
Adjustment for pension funding		133	138
Tax on investment income		(1,095)	(2,269)
Net Cash Inflow from Operating Activities		18,581	23,361

The accompanying notes are an integral part of this statement.

Accounting Policies

The company is required to comply with a number of new accounting standards which have been introduced this year. These standards are part of the UK convergence with International Financial Reporting Standards.

- In accordance with FRS 26 'Financial Instruments: Measurement' investments have been designated at fair value through profit or loss. The profit and loss account is the 'Total' column of the Income Statement. This results in a change in the basis of valuation (see note (b) below) and a reduction in the valuation of investments and unrealised capital resources at 31 October 2005 of £1,083,000.
- In accordance with FRS 21 'Events after the Balance Sheet Date' dividends paid after the year end are no longer treated as a liability at the balance sheet date but are now recognised in the period in which they are paid. This results in a reduction in creditors and an increase in revenue reserve at 31 October 2005 of £9,087,000. Dividends are no longer disclosed in the income statement.
- In accordance with FRS 17 'Retirement Benefits' the company is required to disclose in its financial statements the cost of providing retirement benefits and the related gains, losses, assets and liabilities. This results in an increase in creditors of £2,594,000, a reduction in capital reserve of £1,268,000 and a reduction in revenue reserve of £1,326,000 at 31 October 2005.

A summary of the principal accounting policies is set out in paragraphs (a) to (i) below. All have been applied consistently throughout the current and the preceding year:

(a) Basis of Accounting

The financial statements are prepared under the historical cost convention, modified to include the revaluation of investments, and in accordance with applicable United Kingdom accounting standards. The company's accounting policies comply with the AIC Statement of Recommended Practice (SORP) 'Financial Statements of Investment Trust Companies'.

(b) Valuation of Investments

Listed investments are valued at fair value through profit or loss. Fair value is the closing bid or last traded price according to the recognised convention of the markets on which they are quoted. Where trading in the securities of an investee company is suspended, the investment is valued at the board's estimate of its net realisable value. Where appropriate the directors have adopted the guidelines issued by the British Venture Capital Association for the valuation of unlisted investments. Heritable property is included at a professional valuation. Depreciation is not charged on heritable property as it is not material.

Realised surpluses or deficits on the disposal of investments and permanent impairments in the value of investments are taken to capital reserve–realised, and unrealised surpluses and deficits on the re-valuation of investments are taken to capital reserve–unrealised as explained in note (h) below.

Year end exchange rates are used to translate the value of investments which are denominated in foreign currencies.

(c) Income

Dividends receivable on quoted equity shares are brought into account on the ex-dividend date. Dividends receivable on equity shares where no ex-dividend date is quoted are brought into account when the company's right to receive payment is established.

Fixed returns on non-equity shares are recognised on a time apportionment basis so as to reflect the effective yield on the shares. Other returns on non-equity shares are recognised when the right to the return is established. The fixed return on a debt security is recognised on a time apportionment basis so as to reflect the effective yield on the debt security.

Where the company receives dividends in the form of additional shares rather than in cash, the amount of the cash dividend is recognised as income. Any excess in the value of the shares received over the amount of the cash is recognised in capital reserves.

(d) Expenses

All expenses are accounted for on an accruals basis.

Eligible investment expenses have been charged one-half to revenue and one-half to realised capital reserves in line with the directors' expectations of the nature of long term future returns from the company's investments (2005 – one-third to revenue and two-thirds to realised capital reserves).

Expenses which are incidental to the acquisition of an investment are included within the cost of the investment.

Expenses which are incidental to the disposal of an investment are deducted from the disposal proceeds of the investment.

(e) Finance Costs

Interest payable has been charged one-half to revenue, one-half to realised capital reserves in line with the directors' expectations of long term future returns from the company's investments (2005 – one-third to revenue and two-thirds to realised capital reserves). Tax relief applicable to those charges is allocated between revenue and capital using the marginal basis.

The premium paid in 2006 on the partial repayment of the secured bonds due 2030 has been charged to capital in the income statement.

The discount and expenses of issue on the secured bonds due 17/4/2030 have been included in the financing costs of the issue which are being written off over the life of the bonds.

(f) Taxation
Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

(g) Foreign Currency
Transactions denominated in foreign currencies are recorded in the local currency at actual exchange rates as at the date of the transaction or, where appropriate, at the rate of exchange in a related forward contract. Monetary assets and liabilities denominated in foreign currencies at the year end are reported at the rates of exchange prevailing at the year end. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in capital reserve or in the revenue account depending on whether the gain or loss is of a capital or revenue nature respectively.

(h) Capital Reserves

Capital Reserve – Realised

The following are accounted for in this reserve:

–gains and losses on the realisation of investments

–realised exchange differences of a capital nature

–realised gains and losses on transactions undertaken to hedge an exposure of a capital nature

–the funding of ordinary stock repurchases

–expenses and interest charged to capital.

Capital Reserve – Unrealised

The following are accounted for in this reserve:

–increases and decreases in the valuation of investments held at the year end

–unrealised exchange differences of a capital nature

–unrealised gains and losses on transactions undertaken to hedge an exposure of a capital nature.

(i) Pensions
FRS 17 ‘Retirement Benefits’ was adopted during the year. The effect on the comparatives for the year ended 31 October 2005 due to the adoption of this accounting policy is detailed in Note 19.

For the defined benefit scheme, the amounts charged to operating surplus are the current service costs and gains and losses on settlements and curtailments. They are included as part of staff costs. Past service costs are recognised immediately in profit and loss account if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs. The interest cost and the expected return on assets are shown as a net amount of other finance costs or credits adjacent to interest. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

The assets of the scheme are held in trust and are measured at fair value. Liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a suitable high quality corporate bond of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The resulting defined benefit asset or liability, net of the related deferred tax, is presented separately after other net assets on the face of the balance sheet.

For the defined contribution scheme, the amount charged to the income statement in respect of pension costs and other post-retirement benefits is the contribution payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

Notes to the Financial Statements

for the year to 31 October 2006

1. INCOME	2006 £'000	2005 £'000
UK franked income including special dividends of £197,000 (2005– £nil)	9,902	12,981
Income from other UK listed	701	636
UK unlisted income	308	5
Overseas dividends including special dividends of £124,000 (2005 – £1,248,000)	8,016	10,800
Overseas unlisted income	202	17
Scrip dividends	106	146
Deposit interest	4,378	4,986
Forward sales of US dollars	142	(197)
	23,755	29,374
Income includes:		
Listed UK	10,603	13,617
Listed overseas	8,122	10,946
Unlisted	510	22
	19,235	24,585

2. EXPENSES	2006 £'000	2005 £'000
Staff costs (Note 3)	2,741	2,213
Auditors' remuneration for audit	26	23
Other expenses	1,714	1,737
	4,481	3,973

Investment-related expenses have been charged one-half to revenue and one-half to capital (2005 – one-third to revenue and two-thirds to capital).

Auditors' remuneration for audit-related services totalled £7,000 (2005 £5,000). Auditors' remuneration for non-audit services in respect of work carried out on the tender offer totalled £58,750 (2005 – £Nil) and was charged in full to capital.

3. STAFF COSTS	2006 £'000	2005 £'000
Remuneration	1,965	1,505
Social security costs	229	173
Pensions and post-retirement benefits	547	535
	2,741	2,213

The average monthly number of persons employed during the year was:

	2006 Number	2005 Number
Investment	10	9
Administration	11	12
	21	21
Directors' remuneration:		
Fees for services as directors	£135,000	£123,333

4. PENSION SCHEME

The company's defined benefit pension scheme based on final salary is now closed to new entrants. The assets of the scheme are held separately from those of the company. The fund is under the control of trustees and is administered by Punter Southall & Co, consulting actuaries.

4. PENSION SCHEME (continued)

The major assumptions used for the actuarial valuation of the final salary scheme were:

	2006 %	2005 %	2004 %	2003 %	2002 %
Rate of increase in salaries	4.9	4.9	4.9	2.5/4.5	4.2
Rate of increase in pensions in payment	3.5	3.5	3.8	2.5	2.2
Discount rate	5.0	5.0	5.5	5.4	5.4
Inflation assumption	2.9	2.9	2.9	2.5	2.2

The fair value of the assets in the scheme, the present value of the liabilities in the scheme and the expected rate of return at the balance sheet date were:

	Expected rate of return					Fair value				
	2006 %	2005 %	2004 %	2003 %	2002 %	2006 £'000	2005 £'000	2004 £'000	2003 £'000	2002 £'000
Equities	7.2	7.3	7.7	8.2	8.5	2,994	2,494	3,252	3,470	3,142
Bonds	4.2	4.3	4.7	4.8	4.8	100	71	93	907	681
With-profit policies	4.7	4.7	4.7	4.8	4.4	1,054	1,262	2,121	2,529	1,260
Cash	4.8	4.5	4.8	–	–	1,627	999	897	–	–
Total fair value of assets						5,775	4,826	6,363	6,906	5,083
Present value of scheme liabilities						7,570	6,757	7,793	8,080	7,202
Net pension liability						1,795	1,931	1,430	1,174	2,119

The net pension liability arises mainly because future liabilities are discounted at a rate based on the yield on AA corporate bonds which is lower than the expected rate of return from equities in which the fund is largely invested.

Analysis of amount chargeable to operating profit during the year:

	2006 £'000	2005 £'000	2004 £'000	2003 £'000	2002 £'000
Current service cost	446	363	424	435	400
Settlement/curtailments	–	–	(1,530)	–	–
Total operating charge	446	363	(1,106)	435	400
Employee contribution to be set off	(37)	(35)	(49)	(58)	(48)
Analysis of amount credited to other finance income:					
Expected return on assets	298	360	430	426	420
Interest on liabilities	(347)	(370)	(423)	(389)	(529)
Net return	(49)	(10)	7	37	(109)
Movement in deficit during year:					
Deficit at beginning of year	(1,931)	(1,430)	(1,174)	(2,119)	(1,973)
Movement in year:					
Current service cost	(446)	(363)	(424)	(435)	(400)
Contributions for year	362	314	303	496	439
Contributions prepaid	–	–	–	620	458
Settlements/curtailments	–	–	1,530	–	–
Net return from other finance income	(49)	(10)	7	37	(109)
Actuarial gain/(loss) in statement of total recognised gains and losses	269	(442)	(1,672)	227	(534)
Deficit at end of year	(1,795)	(1,931)	(1,430)	(1,174)	(2,119)

4. PENSION SCHEME (continued)

	2006 £'000	2005 £'000	2004 £'000	2003 £'000	2002 £'000
Analysis of the actuarial deficit in the statement of recognised gains and losses:					
Actual return less expected return on assets	365	256	(376)	285	(924)
Experience (losses)/gains on liabilities	(96)	(153)	(988)	(142)	476
Change in assumptions	–	(545)	(308)	84	(86)
Actuarial gain/(loss) recognised in statement of total recognised gains and losses	269	(442)	(1,672)	227	(534)

History of experience gains and losses	%	£'000	%	£'000	%	£'000	%	£'000	%	£'000
Difference between actual and expected return on assets	6	365	5	256	6	(376)	4	285	21	(924)
Experience (losses)/gains on liabilities	1	(96)	2	(153)	13	(988)	2	(142)	7	476
Total amount recognised in statement of total recognised gains and losses	4	269	7	(442)	21	(1,672)	3	227	7	(534)

The company also operates a defined contributions scheme for which the pension cost charge for the year amounted to £38,000 (2005 – £28,000).

5. INTEREST PAYABLE

	2006 £'000	2005 £'000
On secured bonds, debentures, bank loans, overdrafts and other loans	7,061	8,719
Amortisation of secured bond issue expenses	135	167
	7,196	8,886

Interest has been charged one-half to revenue and one-half to capital (2005 – one-third to revenue and two-thirds to capital).

6. TAX ON ORDINARY ACTIVITIES

	2006 £'000	2005 £'000
Tax on ordinary activities		
Overseas tax	919	2,108
Deferred tax	(7)	(22)
	912	2,086
The tax assessed for the year is lower than that resulting from applying the standard rate of corporation tax in the UK of 30% (2005 – 30%) The differences are explained below:		
Income	23,755	29,374
Expenses	(4,481)	(3,973)
Interest payable	(7,196)	(8,886)
Profit on ordinary activities before tax	12,078	16,515
Tax at 30% thereon	(3,623)	(4,955)
Effects of:		
UK dividend income	2,971	3,894
Scrip dividends	32	44
Foreign tax charge	(912)	(1,262)
Overseas refundable withholding tax deemed irrecoverable	–	(824)
Management expenses	613	995
	(919)	(2,108)

6. TAX ON ORDINARY ACTIVITIES (continued)

There are unrelieved management expenses at 31 October 2006 of £29,283,000 (2005 – £31,348,000) but the related deferred tax asset at 30% has not been recognised. This is because the company is not expected to generate taxable income in a future period in excess of the deductible expenses of that future period and, accordingly, it is unlikely that the company will be able to reduce future tax liabilities through the use of existing unrelieved expenses.

7. DIVIDENDS AND OTHER APPROPRIATIONS

	2006 £'000	2005 (restated) £'000
Dividends on ordinary stock recognised in the year:		
Previous year final paid of 4.35p per unit (2005 – 4.20p)	9,087	8,774
Interim paid of 4.15p per unit (2005 – 4.05p)	6,018	8,461
	15,105	17,235
Dividends on ordinary stock payable in respect of the financial year:		
Interim paid of 4.15p per unit (2005 – 4.05p)	6,018	8,461
Proposed final of 4.57p per unit (2005 – 4.35p)	6,542	9,087
Special dividend of 2.00p per unit (2005 – nil)	2,863	–
	15,423	17,548

8. INVESTMENTS

	2006 £'000	2005 (restated) £'000
Investments listed on a recognised investment exchange	728,668	901,797
Unlisted investments	22,099	29,794
Subsidiary undertakings (Note 9)	103	103
	750,870	931,694

	Listed in UK £'000	Listed overseas £'000	Unlisted £'000	Total 2006 £'000
Opening book cost	302,809	395,423	20,239	718,471
Opening unrealised appreciation (restated)	93,122	110,443	9,658	213,223
Opening valuation (restated)	395,931	505,866	29,897	931,694
Movements in the year:				
Purchases at cost	53,111	180,055	842	234,008
Sales – proceeds	(216,098)	(325,420)	(13,413)	(554,931)
– realised gains on sales	63,050	79,683	7,169	149,902
Increase/(decrease) in unrealised appreciation	12,223	(19,733)	(2,293)	(9,803)
Closing valuation	308,217	420,451	22,202	750,870
Closing book cost	202,872	329,741	14,837	547,450
Closing unrealised appreciation	105,345	90,710	7,365	203,420
	308,217	420,451	22,202	750,870

The purchases at cost and sales proceeds figures include transaction costs of £1,380,530 (2005 – £1,919,240), comprising commissions, government stamp duty and other exchange fees.

	2006 £'000	2005 (restated) £'000
Realised gains on sales	149,902	54,294
(Decrease)/increase in unrealised appreciation	(9,803)	104,004
Gains on investments	140,099	158,298

Unlisted investments include heritable property valued at £1,230,000 (2005 – £1,100,000). The property was valued on an open market basis by Ryden, chartered surveyors, on 30 October 2006.

8. INVESTMENTS (continued)

Financial assets – cash, deposits and current asset investments

	2006 Fixed £'000	2006 Floating £'000	2006 Total £'000	2005 Fixed £'000	2005 Floating £'000	2005 Total £'000
Sterling	82,000	5,130	87,130	99,000	14,500	113,500
Euro	–	86	86	–	290	290
US dollar	–	1,572	1,572	–	1,262	1,262
Other	–	41	41	–	905	905
	82,000	6,829	88,829	99,000	16,957	115,957

The maximum period for fixed rate deposits outstanding at the year end was 21 days (2005 – 28 days). The weighted average fixed interest rate at the year end was 4.85% (2005 – 4.47%). Floating interest rates vary in relation to short term rates in the currencies in which deposits are held.

Included within current asset investments and financial assets above is an amount of £5,000,000 (2005 – £10,000,000) representing a money market fund listed in Dublin held at the end of the year.

9. SUBSIDIARY UNDERTAKINGS

The company has investments in the following subsidiary undertakings:

Name of undertaking	Principal activity	Country of incorporation and operation	Description of shares held	Proportion of nominal value of issued shares and voting rights held
Hurtree Limited	Investment	UK	Ordinary	100%
SIT Savings Limited	Investment products	UK	Ordinary	100%

The accounts of these subsidiaries have not been consolidated with those of the parent company as, in the opinion of the directors, the amounts involved are not material. The directors are satisfied that the valuation of the subsidiaries reflects and does not exceed the value of the underlying assets.

10. SIGNIFICANT INTERESTS

Details of investments, other than subsidiaries, in which the company has an interest of 20% or more of the nominal value of the allotted shares of any class, or of the net assets, are as follows:

Name of undertaking	Country of incorporation and operation	Description of shares held	Percentage held	Aggregate capital and reserves £'000	Loss after tax for year £'000
Sprout Growth Limited	Inc Cayman Islands operating in USA	ord shares of US$1	49.7	278	19
		part red pref shares of US$0.01	49.7		

11. DEBTORS

	2006 £'000	2005 (restated) £'000
Overseas tax recoverable	182	134
Prepayments and accrued income	909	1,369
	1,091	1,503

12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2006 £'000	2005 (restated) £'000
Amounts due to brokers	656	4,165
Other creditors	493	674
	1,149	4,839

13. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2006 Book value £'000	2006 Fair value £'000	2005 Book value £'000	2005 Fair value £'000
4% perpetual debenture stock	350	304	350	280
4¼% perpetual debenture stock	700	649	700	592
5% perpetual debenture stock	1,009	1,064	1,009	1,020
5¾% secured bonds due 17/4/2030	105,193	120,505	145,913	160,821
	107,252	122,522	147,972	162,713

The secured bonds are secured by a floating charge over the assets of the company and have a redemption value in 2030 of £108,015,000.

The debenture stocks and secured bonds are stated in the balance sheet at book value. Restating them at estimated market value of £122.5m (2005 – £162.7m) has the effect of reducing the year end NAV per ordinary stock unit from 510.4p to 499.7p (2005 – 428.1p to 421.1p). Estimated market value is the fair value of the company's secured bonds.

During the year a total of £41,985,000 nominal secured bonds due 2030 were repurchased at a cost of £51,776,000. The difference of £9.8m was charged to capital against which a gain of £1.0m was offset following the termination of an interest rate swap to hedge against movements in interest rates.

14. CALLED-UP SHARE CAPITAL

	Authorised 2006 £'000	Authorised 2005 £'000	Issued 2006 £'000	Issued 2005 £'000
Ordinary stock units of 25p	85,500	85,500	35,787	52,228
Number of ordinary stock units in issue		143,147,615		208,910,518

65,762,903 ordinary stock units were repurchased in the stockmarket during the year to 31 October 2006. 100,000 ordinary stock units were repurchased between 31 October 2006 and 8 December 2006.

15. RESERVES

	Share premium account £'000	Capital redemption reserve £'000	Capital reserve – realised £'000	Capital reserve – unrealised £'000	Revenue reserve £'000
At 1 November 2005	39,922	18,633	528,710	214,306	35,203
Prior year adjustments:					
Revaluation of investments	–	–	–	(1,083)	–
Final dividend	–	–	–	–	9,087
Retirement benefits	–	–	–	(1,268)	(1,326)
At 1 November 2005 (restated)	39,922	18,633	528,710	211,955	42,964
Exchange difference	–	–	(489)	–	–
Net gain on realisation of investments	–	–	149,902	–	–
Decrease in unrealised appreciation	–	–	–	(9,803)	–
Ordinary stock repurchased	–	16,441	(288,891)	–	–
Repayment of secured bonds due 17/4/2030	–	–	(9,908)	–	–
Expenses in relation to tender offer	–	–	(959)	–	–
Actuarial gain relating to pension scheme	–	–	–	110	159
Interest, expenses and tax charged to capital in current year	–	–	(4,095)	–	–
Revenue return on ordinary activities after tax	–	–	–	–	15,261
Dividends paid during the year	–	–	–	–	(15,105)
At 31 October 2006	39,922	35,074	374,270	202,262	43,279

16. ANALYSIS OF CHANGES IN NET DEBT DURING THE YEAR

	1 November 2005 £'000	Cash flows £'000	Non-cash movements £'000	31 October 2006 £'000
Current asset investments	10,000	(5,000)	–	5,000
Cash at bank	6,957	(5,128)	–	1,829
Short term deposits	99,000	(17,000)	–	82,000
Borrowings due after one year	(147,972)	41,985	1,265	(104,722)
	(32,015)	14,857	1,265	(15,893)

17. CONTINGENCIES, GUARANTEES AND FINANCIAL COMMITMENTS

	2006 £'000	2005 £'000
Contingencies, guarantees and financial commitments of the company at the year end, which have not been accrued, are as follows:		
Commitments to provide additional funds to investees	3,104	4,121

18. FINANCIAL INSTRUMENTS

In pursuing its investment policy the company holds certain financial instruments, comprising equity and non-equity shares, fixed income securities, interests in limited liability partnerships, cash and liquid resources. These are financed through stockholders' funds and long and short term borrowings.

The risks faced by the company and the strategies for managing them are identified below.

- Investment and market price risk. The holding of securities and investing activities involve certain inherent risks. Events may occur within the underlying investments which affect their value and they are also sensitive to movements in market levels. The company holds a portfolio which is well diversified across industrial and geographical areas to help minimise these risks. It may also use derivatives. Trading in derivatives is not within the normal activities of an investment trust nor is it the company's policy to trade in such instruments. However, from time to time the company may wish to use such instruments in order to protect against a specific risk or to facilitate a change in investment policy such as the movement of funds from one area to another. No such transaction may take place without the prior authorisation of the board.
- Interest rate risk. The company finances its operations through a combination of investment realisations, retained revenue reserves, bank credit facilities, debenture stocks and secured bonds. All of the existing debenture stocks and secured bonds are at fixed rates. The company has undrawn short term multicurrency line of credit facilities which can be drawn at variable rates of interest. Details of interest rates on financial assets are included in note 8. Details of interest rates on financial liabilities are included in note 13.
- Liquidity risk. The majority of the company's assets comprise listed securities which represent a ready source of funds. In addition the company has access to short term borrowing facilities. The liquidity profile of the company's borrowings is included in note 13.
- Foreign currency risk. Approximately half of the company's assets are invested overseas which gives rise to a currency risk. This risk is monitored by the managers on a daily basis and by the board monthly. From time to time specific hedging transactions are undertaken. The company's overseas income stream is subject to currency movements. During the year movements in sterling–US dollar exchange rate were hedged by the forward sales of US dollars. The currency profile of the company's monetary assets and liabilities is set out in notes 8 and 13. In accordance with FRS 13, short term debtors and creditors have been excluded from the disclosures.
- All financial assets are carried at their market value, which in the opinion of the directors, approximates to their fair value. The estimated market values of the company's borrowings are set out in note 13.

19. RESTATEMENT

Adoption of FRS 17 'Retirement Benefits', FRS 21 'Events after the Balance Sheet Date', FRS 25 'Financial Instruments: Disclosure and Presentation' and FRS 26 'Financial Instruments: Measurement'.

As a result of the adoption of FRS 17, FRS 21, FRS 25 and FRS 26, the income statement and balance sheet have been restated. The effects of these changes in accounting policies are disclosed in the table below.

	Per 2005 Accounts £'000	Adoption of FRS 17 £'000	Adoption of FRS 21 £'000	Adoption of FRS 25/26 £'000	Restated 2005 Accounts £'000
Income statement					
Net gains on investments and currencies	158,653	79	–	(414)	158,318
Return attributable to Equity Stockholders	173,082	79	–	(414)	172,747
Balance sheet					
Investments	932,777	–	–	(1,083)	931,694
Debtors	2,166	(663)	–	–	1,503
Creditors: amounts falling due within one year	(13,926)	–	9,087	–	(4,839)
Pension liability	–	(1,931)	–	–	(1,931)
Net assets	889,002	(2,594)	9,087	(1,083)	894,412
Capital reserve – unrealised	214,306	(1,268)	–	(1,083)	211,955
Revenue reserve	35,203	(1,326)	9,087	–	42,964

	Per 2004 Accounts £'000	Adoption of FRS 17 £'000	Adoption of FRS 21 £'000	Adoption of FRS 25/26 £'000	Restated 2004 Accounts £'000
Balance sheet					
Investments	781,617	–	–	(669)	780,948
Debtors	5,513	(801)	–	–	4,712
Creditors: amounts falling due within one year	(10,569)	–	8,774	–	(1,795)
Pension liability	–	(1,430)	–	–	(1,430)
Net assets	733,468	(2,231)	8,774	(669)	739,342
Capital reserve – unrealised	109,888	(1,104)	–	(669)	108,115
Revenue reserve	32,163	(1,127)	8,774	–	39,810

Marketing

SIT's marketing objectives are to promote awareness of The Scottish Investment Trust PLC and SIT Savings' products and to stimulate demand from private investors. Marketing activity comprises a mix of PR, an increasing internet presence, a comprehensive range of literature, direct mail, participation at AIC roadshows and product development. A priority is to offer low-cost, simple, transparent investment products with the flexibility and accessibility to fulfil investor requirements. SIT's global investment strategy allows access to long-term investment opportunities to benefit stockholders.

How to Invest

You can buy SIT stock using the simple, low-cost investment products outlined below. SIT stock can also be bought directly on the stockmarket through a stockbroker or a bank, lawyer, accountant or other professional adviser.

STOCKPLAN, SIT's investment trust savings scheme, is one of the lowest charging available. Extremely flexible, it allows minimum regular investments from only £25 per month and/or lump sum investments from £250. There is no maximum investment limit and you can stop and start at any time.

STOCKPLAN: A Flying Start is SIT's Investing for Children plan. Based on the STOCKPLAN scheme it benefits from the same low charges and flexibility and can be opened in one of two ways, either as a designated plan or, more formally, as a bare trust. STOCKPLAN: A Flying Start enables family and friends to invest on behalf of a child to help build savings for the future.

The SIT ISA is one of the most competitively priced stocks and shares ISAs on offer. There is no initial plan charge, other than stamp duty, nor are there closure or withdrawal charges. The annual management fee of 0.6% of the value of the investment is capped at £30 + VAT regardless of how much your ISA investment grows or how many years' ISA allowances you invest with SIT.

The SIT PEP also has one of the lowest charging structures around, with an annual fee of only £30 + VAT again regardless of the number of SIT PEPs held or the value of the investment.

ISAs and PEPs

The maximum annual investment limit of a stocks and shares Mini ISA has been increased and it is now possible to invest up to £4,000 per tax year. The maximum annual investment in a Maxi ISA is £7,000 per tax year. The SIT ISA is a stocks and shares ISA and can be held as either a Mini or a Maxi ISA.

Investment in ISAs and PEPs continues to be free from any capital gains tax. Higher rate tax payers do not have to pay any additional tax on the dividend, nor does it need to be included in a tax return.

Contract Notes

Investors in SIT's schemes who do not wish to receive contract notes for every transaction on their account should write to SIT's Scheme Administrator – Halifax Share Dealing. All investors will continue to receive six monthly statements on their accounts.

Change of STOCKPLAN/STOCKPLAN: A Flying Start administrator

The transfer of the administration of the STOCKPLAN/ STOCKPLAN: A Flying Start schemes to Halifax Share Dealing Limited (HSDL) took place on 2 June 2006.

We would like to thank all our STOCKPLAN scheme investors for their support and understanding during the transfer process.

We are pleased to be able to introduce significant additional facilities such as online access and telephone dealing to STOCKPLAN investors.

For any queries with regard to the transfer please contact HSDL on 0845 850 0181.

SIT Schemes' Contact/Helpline Number

There is now one telephone number for the administration of all of the SIT schemes. This is the HSDL number which should be used for holders of our STOCKPLAN, STOCKPLAN: A Flying Start, ISA or PEP schemes for:

- account queries,
- requests for valuations,
- information about your scheme,
- giving change of address details,
- help with accessing STOCKPLAN, ISA and PEP information on line.

The number is: **0845 850 0181.**

Dividends

The following dividends have been paid or proposed during 2006:

Dividends	Amount	XD date	Record date	Payment date
Final 2005	4.35p	4 January 2006	6 January 2006	10 February 2006
Interim 2006	4.15p	7 June 2006	9 June 2006	14 July 2006
Final and Special 2006 (proposed)	6.57p	3 January 2007	5 January 2007	9 February 2007

The SIT plans listed above provide automatic reinvestment of dividends. However, they also allow for dividends to be taken as income, if required. STOCKPLAN, ISA and PEP holders should contact SIT's Investor Relations team to request the relevant Income Distribution Request form if they would like to take dividends as income.

Conversely, stockholders whose names are on our stock register, where dividends are automatically paid as income, can have their dividends reinvested by joining our dividend reinvestment plan. Details are available from Computershare Investor Services, our Registrar, on 0870 703 0195 or from our website, **www.sit.co.uk**.

How Can I Monitor My Investment?

SIT's stock price, together with performance information and product details, can be found on SIT's website: **www.sit.co.uk**

The price of ordinary stock units is published daily in most quality newspapers and is also available on Ceefax and Teletext, listed as Scot.IT. In addition, a number of financial websites, such as the FT website, **www.ft.com** and Trustnet, (Financial Express) **www.trustnet.com** carry stock price information.

SIT publishes a weekly NAV and a monthly statement on its website. An interim report is issued in June of each year, with the annual report being distributed to all investors in late December.

STOCKPLAN, STOCKPLAN: A Flying Start, ISA and PEP investors receive twice yearly statements of their holdings and SIT's investor newsletter is issued twice yearly.

Accessing Your Account Online

STOCKPLAN, STOCKPLAN: A Flying Start designated scheme, ISA and PEP investors

The above scheme investors may view their accounts online by registering with Halifax-online. This can be accessed through the links on our website **www.sit.co.uk** or by visiting **www.halifax.co.uk/online**. Please note you will need your Share Dealing Personal Reference Number (PRN) to access this service. If you do not have this, please contact SIT's scheme administrator, Halifax Share Dealing, on 0845 850 0181.

Name on register stockholders

Investors who hold ordinary stock in their own name on SIT's stock register can check their holdings on our Registrar's website **www.computershare.com** or through the link on our website. Please note that to access this facility investors will need to quote the reference number shown on their stock certificate.

Alternatively, by registering for the Investors' Centre facility on Computershare's website, investors can view details of all their holdings for which Computershare is Registrar, as well as access additional facilities and documentation. Please see **www.computershare.com/investor** for further information.

Electronic Communications

If you are a name on register stockholder (i.e. not in the STOCKPLAN, ISA or PEP schemes) you may choose to receive our interim and annual reports and other stockholder communications electronically instead of in paper form. All you need to do to register is to visit the link in the stockholder information section on our website at **www.sit.co.uk** and provide your email details. You will then be advised by email when an electronic communication is available to be accessed.

Stockholders' Meetings

Investors whose names appear on the main stock register (i.e. not in the STOCKPLAN, ISA or PEP schemes) are entitled to attend and vote at the AGM and other general meetings. Notices of meetings and proxy cards are sent to their registered addresses.

STOCKPLAN, STOCKPLAN: A Flying Start, ISA and PEP investors are entitled to attend the AGM and other general meetings and vote on a poll by completing and returning the form of direction enclosed with this report.

The AGM will be held at the Roxburghe Hotel, Charlotte Square, Edinburgh on 26 January 2007 at 10.00 am.

Electronic Voting

Name on register stockholders in their own right (ie not in one of our schemes nor in a broker's nominee) are able to submit proxy votes electronically for our AGM. Please follow the instructions on your proxy card.

Personal Taxation

Income Tax

Currently, all UK dividends are paid to stockholders net of a tax credit of 10%. Changes to the tax regime mean that from April 1999 non tax payers are no longer able to reclaim the tax credit.

Non-ISA and PEP stockholders liable to higher rates of tax will be assessed for any additional tax through their annual tax return.

Capital Gains Tax (CGT)

Investment trusts currently pay no CGT on gains made within the portfolio. When investors sell all or part of their holdings, they may be liable to CGT. Currently, the first £8,800 pa of such gains from all sources is exempt.

Up to 5 April 1998 the cost of investments for CGT purposes was adjusted to allow for inflation. However from 6 April 1998 this indexation was replaced by a taper relief and from this date chargeable gains will be reduced in line with the length of time the investment has been held.

For investors who purchased stock prior to 31 March 1982 the cost for CGT purposes may be based on the price on that date of 41.472p.

Investors who are in any doubt as to their liability for CGT should seek professional advice.

ISA and PEP investments will continue to remain exempt from CGT.

Please remember that we are unable to offer individual investment or taxation advice. If you require such advice, you should consult your professional adviser. SIT Savings Limited is authorised and regulated by the Financial Services Authority (FSA).

Risk Warning

Past performance is no guarantee of future returns and the capital value of stock units and the income from them can go down as well as up as a result of market and currency fluctuations and cannot be guaranteed. An investor may not get back the amount originally invested. The Scottish Investment Trust PLC has a long-term policy of borrowing money to invest in equities in the expectation that this will improve returns for stockholders. However, if markets fall, these borrowings will magnify any losses. Investment in SIT is intended as a long-term investment. Taxation levels, bases and reliefs are subject to change and may depend on individual circumstances.

Further Details

For further information and brochures on any SIT products please visit our website: **www.sit.co.uk** or contact:

SIT Investor Relations
SIT Savings Limited
Freepost EH882
Edinburgh EH2 0BR
Telephone: 0800 42 44 22
Fax: 0131 226 3663
Email: heather@sit.co.uk

Financial Calendar 2007

Dividend and Interest Payments

Ordinary stock final and special 2005/2006	9 February
Ordinary stock interim 2006/2007	July
Secured bonds	17 April, 17 October

Announcement of Results

NAV	Weekly
NAV & Monthly Statement	Monthly
Interim figures	May
Preliminary final figures	November
Annual report & accounts	December
Annual general meeting (AGM)	26 January

Useful Addresses

Registered Office
6 Albyn Place
Edinburgh
EH2 4NL
Registered no. SCO 01651
Telephone 0131 225 7781
Facsimile 0131 226 3663
Brochure Request Line
0800 42 44 22
website **www.sit.co.uk**
email heather@sit.co.uk

Auditors
Deloitte & Touche LLP
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2DB

Bankers
The Royal Bank of Scotland plc
The Bank of New York
Brown Brothers Harriman & Co

Actuaries
Punter Southall & Co
Charlotte House
2 South Charlotte Street
Edinburgh
EH2 4AW

Association of Investment Companies
SIT is a member of the Association of Investment Companies (AIC) which publishes a number of useful free booklets and explanatory leaflets for investors interested in investment trusts. Their address is: AIC, 9th Floor, 24 Chiswell Street, London EC1Y 4YY
Telephone 020 7282 5555
website **www.theaic.co.uk**

For valuations and other details of your investment or to notify a change of address please contact the following:

Registrar
Computershare Investor Services PLC
PO Box 82
The Pavilions
Bridgwater Road
Bristol
BS99 7NH
Helpline 0870 703 0195
website **www.computershare.com**

STOCKPLAN AND STOCKPLAN: A Flying Start, ISA and PEP Administrator
Halifax Share Dealing Limited
Trinity Road
Halifax
West Yorkshire
HX1 2RG
Helpline 0845 850 0181
website: **www.halifax.co.uk/online**

Notice of Meeting

Notice is hereby given that the one hundred and nineteenth annual general meeting of The Scottish Investment Trust PLC will be held at the Roxburghe Hotel, Charlotte Square, Edinburgh, on 26 January 2007 at 10.00 am, for the purpose of transacting the following:

As Ordinary Business:

1. To receive and consider the directors' report and statement of accounts for the year to 31 October 2006.
2. To approve the directors' remuneration report for the year to 31 October 2006.
3. To declare a final dividend of 4.57p per ordinary stock unit.
4. To declare a special dividend of 2.00p per ordinary stock unit.
5. To set the directors' fees at £40,000 per annum for the chairman and £24,000 for other directors.
6. To re-elect Mr Douglas McDougall as a director.
7. To re-elect Sir George Mathewson as a director.
8. To re-elect Mr Francis Finlay as a director.
9. To re-elect Mr Hamish Buchan as a director.
10. To re-appoint Deloitte & Touche LLP as auditors and to authorise the directors to fix their remuneration.

As Special Business:

11. To authorise the Company, in accordance with section 166 of the Companies Act 1985 (the 'Act') and in substitution for any pre-existing such authority, to make market purchases (within the meaning of section 163(3) of the Act) of ordinary stock units of 25p each ('ordinary stock units'), provided that:

(a) the maximum number of ordinary stock units hereby authorised to be purchased shall be 14.99% of the issued ordinary stock on the date this resolution is passed.

(b) the minimum price which may be paid for an ordinary stock unit shall be 25p;

(c) the maximum price (exclusive of expenses) which may be paid for an ordinary stock unit shall be the higher of (i) 105% of the average of the middle market quotations (as derived from the Daily Official List of the London Stock Exchange) for the five business days immediately preceding the date of purchase and (ii) the higher of the price of the last independent trade and the highest current independent bid on the trading venue where the purchase is carried out;

(d) unless previously varied, revoked or renewed, the authority hereby conferred shall expire on 25 April 2008, save that the Company may, prior to such expiry, enter into a contract to purchase ordinary stock units under such authority which will or might be executed wholly or partly after the expiration of such authority and may make a purchase of ordinary stock pursuant to any such contract.

All resolutions are ordinary resolutions except number 11 which is a special resolution.

By order of the board

I M Harding

I M Harding
Secretary
18 December 2006

Notes

Arrangements have been put in place to enable all investors to attend and vote at the annual general meeting.

Registered stockholders whose names appear on the company's register of members at 10.00 am on 24 January 2007 are entitled to attend and vote at the meeting in respect of ordinary stock registered in their names at that time. Changes to entries on the register of members after that time shall be disregarded in determining the rights of any person to attend and vote at the meeting.

A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and, on a poll, to vote on his or her behalf. Such proxy need not be a member of the company. Proxy forms must be lodged with the company's registrars not less than 48 hours before the meeting.

STOCKPLAN, A Flying Start, ISA and PEP investors are welcome to attend and may vote on a poll by completing the Form of Direction enclosed with this report. This must be returned to the company's registrar no later than 19 January 2007. Other investors whose holdings are in nominee names and who wish to attend and vote are advised to contact their nominee before 19 January 2007.

The final and special dividends, if approved, will be paid on 9 February 2007 to stockholders registered at the close of business on 5 January 2007.

This report is sent to the address at present registered for communications. Any change of address should be notified to the company's registrar or the appropriate savings scheme administrator.

The register of directors' interests, maintained by the company as required by the Companies Act 1985, will be available for inspection at the meeting together with copies of directors' appointment letters.