

# The Scottish Investment Trust PLC

## Interim Report

For the six months to 30 April 2010



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## Principal Risks and Uncertainties

The principal risks and uncertainties facing the business are investment and market price risk, interest rate risk, liquidity risk and foreign currency risk.

## Responsibility Statement

The board of directors confirms that to the best of its knowledge:

- the condensed set of financial statements, which has been prepared in accordance with applicable accounting standards, gives a true and fair view of the assets, liabilities, financial position and return of the company;
- the interim report includes a fair review of important events that have occurred during the first six months of the financial year and their impact on the financial statements, a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- no transactions with related parties took place during the first six months of the financial year.

For and on behalf of the board



**Douglas McDougall**  
Chairman  
28 May 2010

# The Company

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Company Data as at 30 April 2010

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**£750,133,000**

**Total Assets**

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**£640,777,000**

**Shareholders' Funds**  
(with borrowings at par)

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**£573,903,000**

**Market Capitalisation**

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## Objectives of The Scottish Investment Trust PLC

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.

### Investment Risk

The Scottish Investment Trust PLC (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 any losses. SIT can buy back and cancel its own shares. All other things being equal, this would have the effect of increasing gearing.

### 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 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 30 April 2010 the company had in issue 120,948,926 ordinary shares and long-term borrowings at par amounted to £107,672,000 with an average annual interest cost of 5.9%.

### Management Expenses

The total expenses of managing the company's business during the last financial year were £4,139,000, equivalent to 0.74% of average shareholders' funds. The company aims to keep this percentage low in comparison with competing investment products.

### ISA and SIPP

The ordinary shares are eligible for ISAs and SIPPs. Details of all of the savings schemes offered by SIT Savings Ltd are shown on page 11.

### The Association of Investment Companies (AIC)

The company is a member of the AIC, the trade organisation for the closed-ended investment company industry.

# Financial Highlights

## Capital

|   | 30 April<br>2010 | 31 October<br>2009 | %<br>Change |
|---|------------------|--------------------|-------------|
| NAV with borrowings at par                                | 529.8p           | 465.6p             | 13.8        |
| NAV with borrowings at market value                       | 523.9p           | 456.2p             | 14.8        |
| Ex-income NAV with borrowings at par                      | 524.8p           | 459.3p             | 14.3        |
| Ex-income NAV with borrowings at market value             | 518.9p           | 449.9p             | 15.3        |
| Share price   | 474.5p           | 410.0p             | 15.7        |
| Discount to ex-income NAV with borrowings at market value | 8.6%             | 8.9%               |             |
| FTSE All-World Index                                      |                  |                    | 17.1        |
| UK FTSE All-Share Index                                   |                  |                    | 10.8        |
|   | £'000            | £'000              |             |
| Total assets  | 750,133          | 696,971            | 7.6         |
| Borrowings at par   | (107,672)        | (107,612)          |             |
| Pension liability   | (1,684)          | (1,684)            |             |
| Equity shareholders' funds                                | 640,777          | 587,675            | 9.0         |

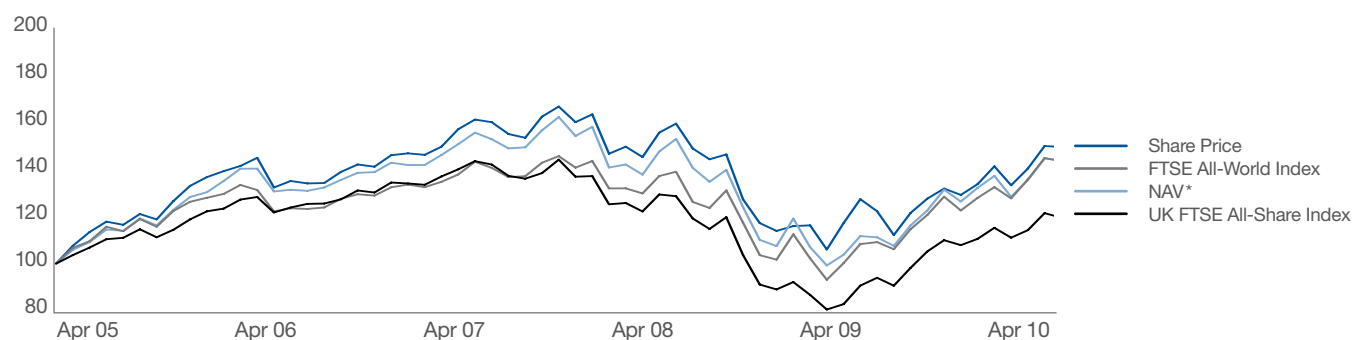
## Income

|                        | 30 April<br>2010<br>£'000 | Six months to<br>30 April<br>2009<br>£'000 |     |
|------------------------|---------------------------|--|-----|
| Total income           | 9,686                     | 9,025                                      |     |
| Earnings per share     | 4.89p                     | 4.06p                                      |     |
| Dividend per share     | 4.45p                     | 4.45p                                      |     |
| UK Retail Prices Index |                           |  | 5.3 |

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

## Performance

### NAV\* and Share Price against Comparator Indices 5 years to 30 April 2010



\* With borrowings at par.

# Chairman's Review

In the six months to 30 April 2010, the ex-income net asset value per share (NAV) rose by 15.3% with borrowings at market value. On a total return basis the ex-income NAV rose by 16.6%. The share price rose by 15.7% (total return +17.1%) and narrowed the discount to 8.6% from 8.9% at the year end. The significant weakness of sterling explains the deviation between the returns from the company's two primary comparator indices which were similar in local currency terms. In sterling terms, the UK FTSE All-Share Index rose by 10.8% while the FTSE All-World Index rose by 17.1%. The company's NAV performance was therefore ahead of the average of the two indices.

From the introduction of the current investment approach at the end of January 2004 to 30 April 2010, the ex-income NAV with borrowings at par has outperformed both comparator indices, rising 51.8% compared with 47.1% from the FTSE All-World Index and 30.9% from the FTSE All-Share Index.

The rise in equity markets over the period reflected signs of broad economic recovery around the world following the stimulus measures introduced in the wake of the Lehman crisis. This optimism was however punctured by episodes of risk aversion relating to the debt excesses in Dubai and the eurozone periphery, as well as fears of policy tightening in China. Corporate profits and cash flows rebounded strongly after a weak 2009 and sentiment was further improved by a notable resumption in merger and acquisition activity, reflecting the strength of corporate balance sheets. Around the period-end, markets were troubled by the risk of sovereign debt problems spreading across southern Europe and into other indebted developed world countries, which prompted a €750bn package of support measures from the IMF and EU members. Central banks in the main G7 countries have kept monetary policy extremely loose and the euro crisis may well push back the timing of interest rate increases in the US and elsewhere. The impact of the UK election is not yet knowable but an early budget has been called with a view to tackling the UK's own budget deficit and debt levels.

Sector leadership had a cyclical tilt with the strongest sterling returns coming from Industrials, Consumer Services, Technology and Basic Materials. However, there was a short-lived rotation into defensive sectors in early 2010 as markets reacted to earlier than anticipated action to cool the Chinese economy and property sector. Currency was the most important factor determining regional returns for UK based global investors with sterling depreciation boosting returns in every overseas region apart from Europe (ex UK). Local currency returns were within a relatively narrow band with North America and Japan producing the strongest returns. However, dramatic currency appreciation, particularly in emerging markets, transformed comparatively weak local currency returns into above-average performances. In local currency terms, Latin America and Asia Pacific (ex Japan) lagged, rising by 8.3% and 6.4% respectively. In sterling terms however, both regions outperformed significantly, rising by 19.2% and 18.2% respectively. North America was the strongest region in local terms (+14.4%) and beat the All-World Index by a larger margin in sterling terms rising 23.8%.

The global equity portfolio generated gains of £78.2m over the six months. Net additions to the portfolio amounted to £12.9m although gearing was applied in a range of 100% to 112% during the period. The net investments over the period and share buybacks of £23.4m were financed from long-term borrowings, taking effective equity gearing up further, from 105% to 110%.

Investment in North America was increased materially (+£56.7m) and applied widely by sector, including a number of high quality companies whose share prices had lagged global equity markets. Despite this significant move making North America the largest component of the portfolio, we are still significantly 'underweight' in relative terms compared to the FTSE All-World Index. This has been a large factor in our underperformance against that index in recent years. However, we have no interest in allocating on the basis of an index, especially one with 46% devoted to just this one area. With dividend income recovering steadily, some short-dated corporate bond holdings were sold.

Reductions were made in both the UK (-£16.4m) and Europe (ex UK) (-£13.6m). We retain no direct exposure to the countries on the eurozone periphery having sold Telefónica (Spain) and a very profitable BBVA (Spain) holding during the period. Moreover, much of the residual European equity exposure is in Swiss francs or Swedish kroner. Japan was increased by £16.8m. Latin America was reduced by £26.1m, as profits were taken in a number of very successful regional holdings and exposure to Petrobras (Brazil) was reduced. In industry sector terms, a significant reduction was made to Industrials (-£46.0m) as profits were taken in many of the holdings bought at the market lows in late 2008. Consumer Goods and Consumer Services exposures were increased with good early contributions coming from a new holding in McDonald's (US). Retailers Wal-Mart de Mexico, Hennes & Mauritz (Sweden) and media group Informa (UK) all did well as did Asian banks DBS (Singapore) and CIMB (Malaysia). Consumer related holdings in Li & Fung (Hong Kong), Nikon (Japan) and a new holding, Kia Motors (Korea), all made strong gains.

In geographic terms, the largest absolute gains were made in North America (+£24.7m) and Asia Pacific (ex Japan) (+£17.0m), with currency appreciation boosting returns materially there and elsewhere. By industry sector, the largest gains in the portfolio came from Industrials (+£20.6m). Technology also did well with good gains from a number of holdings including Hong Kong listed internet company Tencent and US consumer technology group Apple which produced the largest increase in value (+£5.5m).

The number of listed equity portfolio holdings has risen, from the year end level of 90 to 106 at the interim stage.

With around 30% of the listed portfolio having a historic dividend yield of at least 3.75%, dividend income showed encouraging progress from the depressed levels of 2009 and the board has declared a maintained interim dividend of 4.45p per share (2009: 4.45p) which will be payable on 16 July 2010. Our current expectation is that the final dividend will be at least maintained.

At the AGM in February, shareholders voted to renew the company's authority to repurchase its own shares for cancellation. These powers are used as part of the share buyback policy which is intended to keep the discount to ex-income NAV at or below 9% (with borrowings at market value). Over the first half of the year, the company repurchased for cancellation 5.3m shares at an average discount of 10.3% and a cost of £23.4m inclusive of dealing expenses. The average discount over the first half of the year was 9.7% and the average estimated discount since the introduction of the scheme was 8.3%.

The board continues to monitor with concern the evolution of the EU Alternative Investment Fund Managers (AIFM) directive which is being negotiated in Brussels and which may have harmful consequences for investment trusts such as this company.

While corporate fundamentals such as profits and cash flows continue to improve, the outlook for equity markets is clouded by the excessive debt levels in the western world's financial system, the focus of which has now moved on to governments. The risk of a return to inflation is therefore rising and will require scrutiny by investors.

For and on behalf of the board



Douglas McDougall  
Chairman  
28 May 2010

# Changes in Asset Distribution by Sector

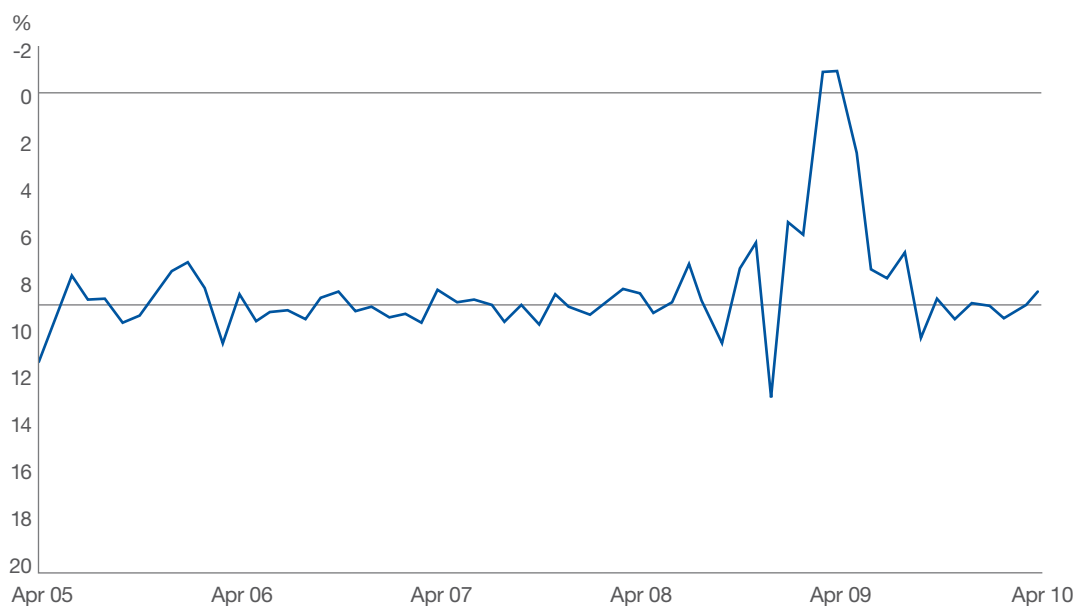
Six months to 30 April 2010

|                                   | Opening valuation<br>£m | Net purchases/<br>(sales)<br>£m | Appreciation/<br>(depreciation)<br>£m | Closing valuation<br>£m |
|-----------------------------------|-------------------------|---------------------------------|---------------------------------------|-------------------------|
| Oil & Gas                         | 77.2                    | (15.0)                          | 4.5                                   | 66.7                    |
| Basic Materials                   | 27.7                    | 3.2                             | 4.1                                   | 35.0                    |
| Industrials                       | 136.0                   | (49.6)                          | 20.6                                  | 107.0                   |
| Consumer Goods                    | 47.9                    | 34.4                            | 12.4                                  | 94.7                    |
| Health Care                       | 42.0                    | 1.9                             | 6.3                                   | 50.2                    |
| Consumer Services                 | 37.2                    | 23.9                            | 8.5                                   | 69.6                    |
| Telecommunications                | 40.2                    | (1.9)                           | 1.3                                   | 39.6                    |
| Utilities                         | 8.0                     | 14.1                            | 1.7                                   | 23.8                    |
| Financials                        | 144.5                   | 1.2                             | 6.1                                   | 151.8 <sup>1</sup>      |
| Technology                        | 50.7                    | 0.7                             | 12.7                                  | 64.1                    |
| <b>Total equities</b>             | <b>611.4</b>            | <b>12.9</b>                     | <b>78.2</b>                           | <b>702.5</b>            |
| Fixed interest                    | 25.3                    | (15.7)                          | 0.1                                   | 9.7                     |
| Net current assets                | 60.3                    | (23.5)                          | 1.2                                   | 38.0                    |
| <b>Total assets</b>               | <b>697.0</b>            | <b>(26.3)</b>                   | <b>79.5</b>                           | <b>750.2</b>            |
| Borrowings                        | (107.6)                 | (0.1)                           | (0.0)                                 | (107.7)                 |
| Pension liability                 | (1.7)                   | –                               | –                                     | (1.7)                   |
| <b>Equity shareholders' funds</b> | <b>587.7</b>            | <b>(26.4)</b>                   | <b>79.5</b>                           | <b>640.8</b>            |

<sup>1</sup> Includes £10.8m of investments which are unlisted.

## Discount to Ex-Income NAV\*

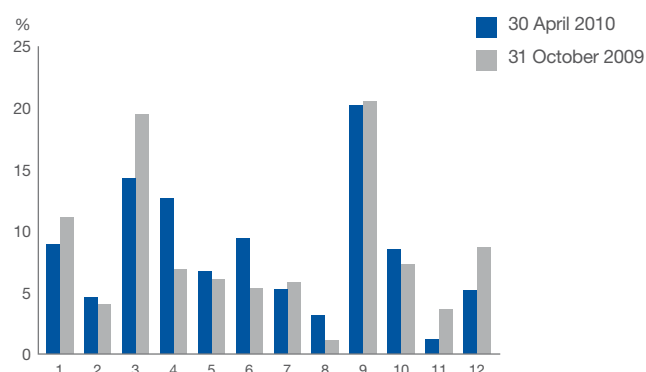
Five years to 30 April 2010



\* With borrowings at market value.

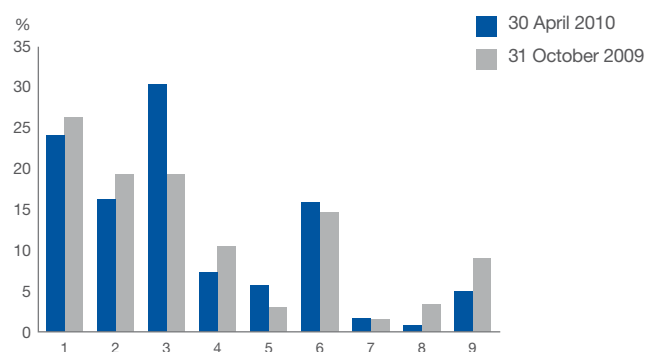
# Distribution of Total Assets less Current Liabilities

## By Sector



|                       | 30 April<br>2010<br>% | 31 October<br>2009<br>% |
|-----------------------|-----------------------|-------------------------|
| 1 Oil & Gas           | 8.9                   | 11.1                    |
| 2 Basic Materials     | 4.6                   | 4.0                     |
| 3 Industrials         | 14.3                  | 19.5                    |
| 4 Consumer Goods      | 12.6                  | 6.9                     |
| 5 Health Care         | 6.7                   | 6.0                     |
| 6 Consumer Services   | 9.3                   | 5.3                     |
| 7 Telecommunications  | 5.3                   | 5.8                     |
| 8 Utilities           | 3.2                   | 1.1                     |
| 9 Financials          | 20.2                  | 20.7                    |
| 10 Technology         | 8.5                   | 7.3                     |
| 11 Fixed interest     | 1.3                   | 3.6                     |
| 12 Net current assets | 5.1                   | 8.7                     |
| <b>Total assets</b>   | <b>100.0</b>          | <b>100.0</b>            |

## By Region



|                           | 30 April<br>2010<br>% | 31 October<br>2009<br>% |
|---------------------------|-----------------------|-------------------------|
| 1 UK                      | 21.8                  | 23.7                    |
| 2 Europe (ex UK)          | 15.0                  | 17.7                    |
| 3 North America           | 27.3                  | 17.7                    |
| 4 Latin America           | 7.1                   | 9.9                     |
| 5 Japan                   | 5.6                   | 3.2                     |
| 6 Asia Pacific (ex Japan) | 14.7                  | 13.5                    |
| 7 Middle East & Africa    | 2.1                   | 2.0                     |
| 8 Fixed interest          | 1.3                   | 3.6                     |
| 9 Net current assets      | 5.1                   | 8.7                     |
| <b>Total assets</b>       | <b>100.0</b>          | <b>100.0</b>            |

## Performance Attribution Analysis Six months to 30 April 2010

| Relative to FTSE:                                | All-World<br>% |              | All-Share (UK)<br>% |
|--|----------------|--------------|---------------------|
| Increase in ex-income NAV with borrowings at par |                | 14.3         | 14.3                |
| Increase in FTSE All-World Index                 |                | 17.1         | 10.8                |
| Relative performance                             |                | -2.4         | 3.1                 |
|  | by Sector      | by Geography |                     |
| Currency effect                                  | -1.2           | -1.2         |                     |
| Allocation                                       | -0.1           | -0.5         |                     |
| Stock selection                                  | -2.6           | -2.2         |                     |
| Total equities                                   | -3.9           | -3.9         | 1.8                 |
| Gearing  |                | 0.9          | 0.7                 |
| Change in net current assets                     |                | 0.5          | 0.5                 |
| Buybacks   |                | 0.4          | 0.4                 |
| Interest and expenses charged to capital         |                | -0.4         | -0.4                |
| Fixed interest                                   |                | 0.1          | 0.1                 |
| Relative performance                             |                | -2.4         | 3.1                 |



# List of Investments

At 30 April 2010

## Listed Equities

| Holding                        | Country      | Market value £'000 | Cumulative weight % | Holding                           | Country      | Market value £'000 | Cumulative weight % |
|--------------------------------|--------------|--------------------|---------------------|-----------------------------------|--------------|--------------------|---------------------|
| Serco                          | UK           | 18,319*            |                     | New York Community Bancorp        | US           | 5,162              |                     |
| Apple                          | US           | 16,697*            |                     | Outotec                           | Finland      | 5,149              |                     |
| Li & Fung                      | Hong Kong    | 15,177*            |                     | Carrefour                         | France       | 5,088              |                     |
| McDonald's                     | US           | 12,380*            |                     | Wells Fargo                       | US           | 5,078              |                     |
| Wal-Mart Stores                | US           | 11,729*            |                     | Newcrest Mining                   | Australia    | 4,987              |                     |
| Aspen Pharmacare               | South Africa | 11,075*            |                     | Morrison (Wm.) Supermarkets       | UK           | 4,905              |                     |
| BHP Billiton                   | UK           | 11,010*            |                     | Banco do Brasil                   | Brazil       | 4,845              |                     |
| Fresenius Medical Care         | Germany      | 10,677*            |                     | MTN                               | South Africa | 4,748              |                     |
| Hudson City Bancorp            | US           | 10,390*            |                     | Jardine Matheson                  | Singapore    | 4,735              |                     |
| América Móvil                  | Mexico       | 10,008*            | 17.9                | Impax Environmental Markets       | UK           | 4,705              | 83.6                |
| Royal Dutch Shell              | UK           | 9,883              |                     | Citigroup                         | US           | 4,656              |                     |
| DBS                            | Singapore    | 9,861              |                     | Fast Retailing                    | Japan        | 4,601              |                     |
| BP                             | UK           | 9,389              |                     | Tüpras                            | Turkey       | 4,588              |                     |
| Vale                           | Brazil       | 9,135              |                     | Credit Suisse                     | Switzerland  | 4,428              |                     |
| Spectris                       | UK           | 9,104              |                     | CPFL Energia                      | Brazil       | 4,425              |                     |
| Kia Motors                     | Korea        | 9,028              |                     | GDF Suez                          | France       | 4,260              |                     |
| CIMB                           | Malaysia     | 8,823              |                     | Hon Hai Precision Industry        | Taiwan       | 4,258              |                     |
| Petrobras                      | Brazil       | 8,731              |                     | Taiwan Mobile                     | Taiwan       | 4,204              |                     |
| GlaxoSmithKline                | UK           | 8,558              |                     | Imperial Tobacco                  | UK           | 4,129              |                     |
| Nestlé                         | Switzerland  | 8,512              | 30.7                | Shanghai Industrial               | China        | 4,115              | 89.7                |
| Compal Electronics             | Taiwan       | 8,304              |                     | Philip Morris International       | US           | 3,984              |                     |
| H & M                          | Sweden       | 8,300              |                     | Noble                             | US           | 3,925              |                     |
| General Electric               | US           | 8,223              |                     | Nokia                             | Finland      | 3,895              |                     |
| Adobe Systems                  | US           | 7,957              |                     | Tencent                           | Hong Kong    | 3,889              |                     |
| Hewlett-Packard                | US           | 7,805              |                     | Souza Cruz                        | Brazil       | 3,681              |                     |
| Oracle                         | US           | 7,795              |                     | Cisco Systems                     | US           | 3,483              |                     |
| Sampo                          | Finland      | 7,638              |                     | Vossloh                           | Germany      | 3,408              |                     |
| Roche                          | Switzerland  | 7,593              |                     | JP Morgan Indian Investment Trust | India        | 3,068              |                     |
| Lloyds Banking Group           | UK           | 7,516              |                     | Atlas Copco                       | Sweden       | 3,029              |                     |
| China Mobile                   | Hong Kong    | 7,485              | 41.7                | Bellway                           | UK           | 3,016              | 94.7                |
| National Oilwell Varco         | US           | 7,344              |                     | BASF                              | Germany      | 2,797              |                     |
| LG                             | Korea        | 7,158              |                     | Kimberley-Clark de Mexico         | Mexico       | 2,745              |                     |
| Vinci                          | France       | 7,153              |                     | AllianceBernstein                 | US           | 2,704              |                     |
| Proctor & Gamble               | US           | 7,101              |                     | Walmex                            | Mexico       | 2,652              |                     |
| Freeport-McMoRan Copper & Gold | US           | 7,054              |                     | SMRT                              | Singapore    | 2,641              |                     |
| Nintendo                       | Japan        | 6,994              |                     | RWE                               | Germany      | 2,198              |                     |
| Hengan International           | Hong Kong    | 6,970              |                     | Aberforth Geared Income Trust     | UK           | 1,500              |                     |
| Diamond Offshore Drilling      | US           | 6,857              |                     |                                   |              |                    |                     |
| BT                             | UK           | 6,829              |                     | Total listed equities             |              | 691,664            | 97.1                |
| CCR                            | Brazil       | 6,811              | 51.6                |                                   |              |                    |                     |
| Severn Trent                   | UK           | 6,763              |                     |                                   |              |                    |                     |
| Komatsu                        | Japan        | 6,696              |                     |                                   |              |                    |                     |
| HSBC                           | UK           | 6,680              |                     |                                   |              |                    |                     |
| Barclays                       | UK           | 6,507              |                     |                                   |              |                    |                     |
| AXA                            | France       | 6,425              |                     |                                   |              |                    |                     |
| Johnson & Johnson              | US           | 6,385              |                     |                                   |              |                    |                     |
| Sony                           | Japan        | 6,364              |                     |                                   |              |                    |                     |
| Norfolk Southern               | US           | 6,336              |                     |                                   |              |                    |                     |
| Vodafone                       | UK           | 6,315              |                     |                                   |              |                    |                     |
| Comerica                       | US           | 6,209              | 60.7                |                                   |              |                    |                     |
| United Utilities               | UK           | 6,198              |                     |                                   |              |                    |                     |
| BNP Paribas                    | France       | 6,190              |                     |                                   |              |                    |                     |
| Nikon                          | Japan        | 6,015              |                     |                                   |              |                    |                     |
| Svenska Handelsbanken          | Sweden       | 5,957              |                     |                                   |              |                    |                     |
| ANZ Banking Group              | Australia    | 5,895              |                     |                                   |              |                    |                     |
| Abbot Laboratories             | US           | 5,894              |                     |                                   |              |                    |                     |
| Informa                        | UK           | 5,811              |                     |                                   |              |                    |                     |
| ITV                            | UK           | 5,779              |                     |                                   |              |                    |                     |
| US Bancorp                     | US           | 5,745              |                     |                                   |              |                    |                     |
| Amazon.com                     | US           | 5,715              | 69.0                |                                   |              |                    |                     |
| Meggitt                        | UK           | 5,688              |                     |                                   |              |                    |                     |
| Danaher                        | US           | 5,633              |                     |                                   |              |                    |                     |
| Mitsubishi UFJ Financial       | Japan        | 5,587              |                     |                                   |              |                    |                     |
| Garmin                         | US           | 5,577              |                     |                                   |              |                    |                     |
| FMC Technologies               | US           | 5,456              |                     |                                   |              |                    |                     |
| Kuehne + Nagel                 | Switzerland  | 5,448              |                     |                                   |              |                    |                     |
| Hg Capital Trust               | UK           | 5,419              |                     |                                   |              |                    |                     |
| Honda Motor                    | Japan        | 5,393              |                     |                                   |              |                    |                     |
| BG Group                       | UK           | 5,293              |                     |                                   |              |                    |                     |
| Cenovus Energy                 | Canada       | 5,237              | 76.7                |                                   |              |                    |                     |

## Unlisted

| Holding                    | Country | Market value £'000 | Cumulative weight % |
|----------------------------|---------|--------------------|---------------------|
| Boston Ventures VI         | US      | 4,029              |                     |
| Apax Europe V - B          | UK      | 3,293              |                     |
| Heritable Property & Loans | UK      | 1,153              |                     |
| Sprout Capital VII         | US      | 742                |                     |
| Sprout Capital VIII        | US      | 682                |                     |
| Boston Ventures V          | US      | 620                |                     |
| Others (under £0.5m) (8)   |         | 255                |                     |
| Total unlisted             |         | 10,774             | 1.5                 |
| Total equities             |         | 702,438            | 98.6                |

## Fixed Interest

| Holding              | Coupon | Date | Country     | Market value £'000 | Cumulative weight % |
|----------------------|--------|------|-------------|--------------------|---------------------|
| Lowe's               | 5.6%   | 2012 | US          | 937                |                     |
| Kraft Foods          | 6.25%  | 2012 | US          | 930                |                     |
| Western Union        | 5.4%   | 2011 | US          | 914                |                     |
| CVS                  | 5.75%  | 2011 | US          | 906                |                     |
| KPN                  | 4.5%   | 2011 | Netherlands | 901                |                     |
| Carrefour            | 4.375% | 2011 | France      | 899                |                     |
| Saint Gobain         | 4.25%  | 2011 | France      | 892                |                     |
| AT&T                 | 6.25%  | 2011 | US          | 884                |                     |
| Home Depot           | 5.2%   | 2011 | US          | 866                |                     |
| Metro Finance        | 4.625% | 2011 | Germany     | 538                |                     |
| Bouygues             | 4.625% | 2011 | France      | 536                |                     |
| E.ON                 | 6.375% | 2012 | Germany     | 490                |                     |
| Total fixed interest |        |      |             | 9,693              | 1.4                 |
| Total investments    |        |      |             | 712,131            | 100.0               |

\* Denotes 10 largest holdings with an aggregate market value of £127,462,000.

## Income Statement (unaudited)

|   | Six months to 30 April 2010 |                  |                | Six months to 30 April 2009 |                  |                | Year to 31 October 2009 |                  |                |
|---|-----------------------------|------------------|----------------|-----------------------------|------------------|----------------|-------------------------|------------------|----------------|
|   | Revenue<br>£'000            | Capital<br>£'000 | Total<br>£'000 | Revenue<br>£'000            | Capital<br>£'000 | Total<br>£'000 | Revenue<br>£'000        | Capital<br>£'000 | Total<br>£'000 |
| Net gains on investments held at fair value through the profit and loss | -                           | 78,201           | 78,201         | -                           | 11,233           | 11,233         | -                       | 80,220           | 80,220         |
| Net gains/(losses) on currencies  | -                           | 1,239            | 1,239          | -                           | (426)            | (426)          | -                       | (264)            | (264)          |
| Income  | 9,686                       | -                | 9,686          | 9,025                       | -                | 9,025          | 21,620                  | -                | 21,620         |
| Expenses  | (1,384)                     | (961)            | (2,345)        | (1,328)                     | (923)            | (2,251)        | (2,445)                 | (1,694)          | (4,139)        |
| Net Return before Finance Costs and Taxation                            | 8,302                       | 78,479           | 86,781         | 7,697                       | 9,884            | 17,581         | 19,175                  | 78,262           | 97,437         |
| Interest payable  | (1,593)                     | (1,593)          | (3,186)        | (1,594)                     | (1,594)          | (3,188)        | (3,213)                 | (3,213)          | (6,426)        |
| Return on Ordinary Activities before Tax                                | 6,709                       | 76,886           | 83,595         | 6,103                       | 8,290            | 14,393         | 15,962                  | 75,049           | 91,011         |
| Tax on ordinary activities  | (667)                       | -                | (667)          | (851)                       | 363              | (488)          | (2,277)                 | 948              | (1,329)        |
| <b>Return attributable to Equity Shareholders</b>                       | <b>6,042</b>                | <b>76,886</b>    | <b>82,928</b>  | <b>5,252</b>                | <b>8,653</b>     | <b>13,905</b>  | <b>13,685</b>           | <b>75,997</b>    | <b>89,682</b>  |
| Return per share  | 4.89p                       | 62.24p           | 67.13p         | 4.06p                       | 6.70p            | 10.76p         | 10.62p                  | 59.00p           | 69.62p         |
| Weighted average number of shares in issue                              | 123,537,194                 |                  |                | 129,214,505                 |                  |                | 128,817,089             |                  |                |
|   | £'000                       |                  |                | £'000                       |                  |                | £'000                   |                  |                |
| Dividends paid and proposed   | 5,382                       |                  |                | 5,735                       |                  |                | 12,236                  |                  |                |
| Income comprises:   |                             |                  |                |                             |                  |                |                         |                  |                |
| Dividends   | 9,557                       |                  |                | 8,199                       |                  |                | 19,970                  |                  |                |
| Interest  | 471                         |                  |                | 644                         |                  |                | 1,213                   |                  |                |
| (Losses)/gains on FX forwards   | (342)                       |                  |                | 182                         |                  |                | 437                     |                  |                |
|   | 9,686                       |                  |                | 9,025                       |                  |                | 21,620                  |                  |                |

## Summary Balance Sheet (unaudited)

|   | 30 April<br>2010<br>£'000 | 31 October<br>2009<br>£'000 | 30 April<br>2009<br>£'000 |
|---|---------------------------|-----------------------------|---------------------------|
| Equity investments                                      | 702,438                   | 611,455                     | 581,003                   |
| Fixed interest investments                              | 9,693                     | 25,274                      | 26,288                    |
| Net current assets                                      | 38,002                    | 60,242                      | 30,892                    |
| Total assets less current liabilities                   | 750,133                   | 696,971                     | 638,183                   |
| Long-term borrowings at par                             | (107,672)                 | (107,612)                   | (107,552)                 |
| Pension liability                                       | (1,684)                   | (1,684)                     | (350)                     |
| <b>Equity shareholders' funds</b>                       | <b>640,777</b>            | <b>587,675</b>              | <b>530,281</b>            |
| <b>Net asset value per share with borrowings at par</b> | <b>529.8p</b>             | <b>465.6p</b>               | <b>411.5p</b>             |

## Statement of Total Recognised Gains and Losses (unaudited)

|                                  | Six months to<br>30 April<br>2010<br>£'000 | Six months to<br>30 April<br>2009<br>£'000 | Year to<br>31 October<br>2009<br>£'000 |
|----------------------------------|--|--|--|
| Total recognised gains           | 82,928                                     | 13,905                                     | 88,053*                                |
| Total recognised gains per share | 67.13p                                     | 10.76p                                     | 68.36p                                 |

\* Includes an actuarial loss of £1,629,000.

## Reconciliation of Movements in Shareholders' Funds (unaudited)

|                                    | Six months to<br>30 April<br>2010<br>£'000 | Six months to<br>30 April<br>2009<br>£'000 | Year to<br>31 October<br>2009<br>£'000 |
|------------------------------------|--|--|--|
| Opening equity shareholders' funds | 587,675                                    | 525,679                                    | 525,679                                |
| Total recognised gains             | 82,928                                     | 13,905                                     | 88,053                                 |
| Dividend payments                  | (6,391)                                    | (6,546)                                    | (12,281)                               |
| Shares repurchased                 | (23,435)                                   | (2,757)                                    | (13,776)                               |
| Closing equity shareholders' funds | 640,777                                    | 530,281                                    | 587,675                                |

## Cash Flow Statement (unaudited)

|   | Six months to<br>30 April<br>2010<br>£'000 | Six months to<br>30 April<br>2009<br>£'000 | Year to<br>31 October<br>2009<br>£'000 |
|---|--|--|--|
| Net cash inflow from operating activities | 5,932                                      | 3,779                                      | 13,105                                 |
| Servicing of finance                      | (3,153)                                    | (3,145)                                    | (6,306)                                |
| Taxation recovered                        | 29   | 96   | 149                                    |
| Purchases of investments                  | (314,161)                                  | (274,508)                                  | (449,427)                              |
| Sales of investments                      | 319,601                                    | 237,537                                    | 431,757                                |
| Equity dividends paid                     | (6,391)                                    | (6,546)                                    | (12,281)                               |
| Decrease in short-term deposits           | 16,000                                     | 33,564                                     | 31,662                                 |
| Share buybacks                            | (23,018)                                   | (3,295)                                    | (14,099)                               |
| Decrease in cash                          | (5,161)                                    | (12,518)                                   | (5,440)                                |

# Notes

The interim accounts have been prepared under accounting policies consistent with those used in the preparation of the annual report and accounts for the year to 31 October 2009.

The figures for 31 October 2009 have been extracted from the annual report and accounts for the year ended on that date which have been filed with the Registrar of Companies and which contain an unqualified report from the auditors.

Based on the number of shares in issue at 30 April 2010, the interim dividend would absorb £5,382,000 (2009: £5,735,000) and is payable on 16 July 2010 to shareholders registered at 11 June 2010. The shares will be traded 'ex' the interim dividend from 9 June 2010 and investors purchasing on or after that date will not be entitled to the interim dividend for 2009/10.

Equity investments include the unlisted portfolio of £16.2m. Of this £5.4m is in a listed fund which invests in unlisted securities.

The weighted average number of shares in issue during the half-year was 123,537,194 (2009: 129,214,505) and this figure has been used in calculating the return per share shown in the income statement. The net asset value per share at 30 April 2010 has been calculated using the number of shares in issue on that date which was 120,948,926 (31 October 2009: 126,229,718).

'Total assets' means total assets less current liabilities.

'Borrowings at par' is the nominal value of the borrowings less any unamortised issue expenses.

Borrowings at market value is the company's estimate of the 'fair value' of its borrowings. The current estimated fair value of the company's secured bonds is based on the yield of the reference gilt plus a margin of 100 basis points (1 percentage point). The reference gilt is the 6% Treasury Stock 2028.

Gearing is based on ex-income figures with borrowings at par.

Industry Classification Benchmark (ICB) is used for sector analysis. ICB is jointly owned by FTSE and Dow Jones and has been licensed for use. All rights, therein are reserved. FTSE and Dow Jones do not accept liability to any person for any loss or damage arising out of any error or omission in the ICB.

## Analysis of Changes in Net Debt

|                               | 31 October<br>2009<br>£'000 | Cash flows<br>£'000 | 30 April<br>2010<br>£'000 |
|-------------------------------|-----------------------------|---------------------|---------------------------|
| Cash at bank                  | 15,122                      | (5,161)             | 9,961                     |
| Short-term deposits           | 30,000                      | (16,000)            | 14,000                    |
| Borrowings due after one year | (107,612)                   | (60)                | (107,672)                 |
|                               | (62,490)                    | (21,221)            | (83,711)                  |

The company's wholly-owned subsidiary, SIT Savings Ltd, provides a number of low-cost, flexible investment products which enable investors to access SIT shares.

## How to Invest

You can buy SIT shares using the low-cost investment products outlined below. SIT shares can also be bought directly on the stockmarket through a stockbroker. Your bank, lawyer, accountant or other professional adviser may also be able to help with this.

## STOCKPLAN

SIT's investment trust savings scheme is one of the most cost-effective available. There is no initial plan charge, other than stamp duty and dealing spread, and no annual charge. It costs just £11.95 to sell some or all of your holding. Extremely flexible, STOCKPLAN allows you to invest regularly (minimum investment £25 per month) and/or with a lump sum (minimum investment £250). There is no maximum investment limit and you can stop and re-start investing at any time.

## STOCKPLAN: A Flying Start

SIT's Investing for Children plan is 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

One of the lowest-charging stocks and shares ISAs on offer. There is no initial plan charge, other than stamp duty and dealing spread, nor are there closure or selling charges. The annual management fee of 0.6% of the value of the investment is currently capped at £30 + VAT regardless of how much your SIT ISA investment grows or how many years' ISA allowances you have invested with SIT.

## The SIT ISA Transfer

SIT can accept the transfer of existing stocks and shares ISAs from other qualifying managers into The SIT ISA at any time without losing your ISA's tax status. SIT can also accept the transfer of cash ISAs into The SIT ISA. This would turn the cash ISA you are transferring into a stocks and shares ISA. SIT makes no charge for transfers in. However, your previous manager may charge for administering the transfer out.

## The SIT SIPP

This allows investment into SIT through a low-cost, flexible, self-invested personal pension. The wide choice of investments available, including SIT, enables you to tailor the investment combination in the SIPP to suit your particular needs and objectives – whether you are just starting to contribute to your pension or are approaching retirement. You can open a SIT SIPP even if you are already an active member of an employer's pension scheme or are contributing to other pension plans. You can also set up a SIT SIPP for a child or a non-earning spouse or partner.

## Update on Tax-Efficient Investing ISAs

- The ISA subscription limit is now £10,200 and applies to everyone who is eligible to invest in an ISA. Up to £5,100 can be saved in a cash ISA with one provider. The remainder of the £10,200 can be invested in a stocks and shares ISA with either the same or another provider.

Alternatively, the full £10,200 can be invested in a stocks and shares ISA with one provider.

- Transfers from cash ISAs into stocks and shares ISAs are permitted and do not count against the current year's subscription.
- Investment in ISAs 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.

## The SIT SIPP

- The SIT SIPP accepts what is known as protected rights money. Previously, the only option for most individuals who had built up a protected rights fund through contracting out of SERPs or the State Second Pension (S2P) into a personal pension was to hold it in a traditional style personal pension or stakeholder plan.

## SIT Schemes' Administrator Telephone Number

There is one telephone number for the administration of the SIT STOCKPLAN and ISA schemes. This is the number for our scheme administrator, Halifax Share Dealing Ltd (HSDL), and it should be used by holders of our STOCKPLAN, STOCKPLAN: A Flying Start and ISA schemes for:

- account queries
- requests for valuations
- information about your scheme
- instructing a sale
- making an investment using a debit card
- changing the amount of your monthly investment
- giving change of address details
- help with accessing STOCKPLAN and ISA information on line

The number is: 0845 850 0181.

## Dividends

The STOCKPLAN and ISA schemes provide automatic reinvestment of dividends. However, they also allow for dividends to be taken as income, if required. STOCKPLAN and ISA holders should contact the scheme administrator, HSDL, on **0845 850 0181** if they would like to change their dividend arrangements.

Conversely, name on register shareholders (investors whose names are on our share register and who hold their shares in certificated form) where dividends are automatically paid as income, can have their dividends reinvested by joining our Dividend Reinvestment Plan (DRIP). Details are available from Computershare Investor Services, our Registrar, on **0870 703 0195**, or from the investor relations section on our website, [www.sit.co.uk](http://www.sit.co.uk)

## Accessing Your Account Online ISA, STOCKPLAN and STOCKPLAN: A Flying Start designated scheme investors

The above scheme investors may view their accounts online by registering with halifax-online. This can be accessed through the links in the various product sections on our website, [www.sit.co.uk](http://www.sit.co.uk) or by visiting [www.halifax.co.uk/sharedealing](http://www.halifax.co.uk/sharedealing)

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, HSDL, on **0845 850 0181**.

## SIPP investors

SIPP investors can set up monthly payments, buy and sell shares and access their account online, by visiting [www.halifax.co.uk/sharedealing](http://www.halifax.co.uk/sharedealing)

## Name on register shareholders

Investors who hold ordinary shares in their own name on SIT's share register can check their holdings on our Registrar's website, [www.investorcentre.co.uk](http://www.investorcentre.co.uk) or through the link in the investor relations section on SIT's website, [www.sit.co.uk](http://www.sit.co.uk)

Please note that to access this facility, investors will need to quote the reference number shown on their share certificate.

In addition, 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.investorcentre.co.uk](http://www.investorcentre.co.uk) for further information.

## Electronic Communications

If you are a name on register shareholder (i.e. not in the STOCKPLAN, ISA or SIPP schemes, nor in a broker's nominee) you may choose to receive our interim and annual reports and other shareholder communications electronically instead of in paper form. All you need to do to register is to visit the link in the investor relations section on our website, [www.sit.co.uk](http://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.

## Risk Warning

The capital value of shares and the income from them can go down as well as up as a result of market and currency fluctuations and cannot be guaranteed. This means you may not get back the amount you originally invested. Past performance may not be repeated and is no indicator of future performance. 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 shareholders. However, if markets fall, these borrowings will magnify any losses. SIT can buy back and cancel its own shares. All other things being equal, this would have the effect of increasing gearing. Investment in SIT is intended as a long-term investment.

Taxation levels, bases and reliefs are subject to change and depend on individual circumstances.

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), 25 The North Colonnade, Canary Wharf, London E14 5HS.

# Investor Information (continued)

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## Board of Directors

Douglas McDougall OBE (Chairman)  
Francis Finlay  
Hamish Buchan  
James MacLeod  
Russell Napier

## Investor Relations

For further information and brochures on any SIT products please visit our website, [www.sit.co.uk](http://www.sit.co.uk) or contact:

SIT Investor Relations  
SIT Savings Limited  
Freepost EH882  
Edinburgh  
EH2 0BR

Brochure Request Line: 0800 42 44 22  
Facsimile: 0131 226 3663  
Email: [info@sit.co.uk](mailto:info@sit.co.uk)

## Registered Office

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Edinburgh  
EH2 4NL  
Registered no. SCO 01651

Telephone: 0131 225 7781  
Facsimile: 0131 226 3663  
Website: [www.sit.co.uk](http://www.sit.co.uk)

## The 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:

The AIC  
9th Floor  
24 Chiswell Street  
London  
EC1Y 4YY

Telephone: 020 7282 5555  
Website: [www.theaic.co.uk](http://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.investorcentre.co.uk](http://www.investorcentre.co.uk)

## STOCKPLAN, STOCKPLAN: a Flying Start and The SIT ISA Administrator

SIT Schemes  
Halifax Share Dealing Limited  
Lovell Park Road  
Leeds  
LS1 1NS

Helpline: 0845 850 0181  
Website: [www.halifax.co.uk/sharedealing](http://www.halifax.co.uk/sharedealing)

## The SIT SIPP Administrator

If you have any specific questions about the administration of your SIT SIPP or any other pension related enquiries, contact the SIPP Administrator, AJ Bell Management Limited:

The SIT SIPP  
Halifax Share Dealing SIPP Administration Team  
AJ Bell Management Limited  
Trafford House  
Chester Road  
Manchester  
M32 0RS

Helpline: 08457 22 55 25



The Scottish Investment Trust PLC  
6 Albyn Place  
Edinburgh  
EH2 4NL

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