THE SCOTTISH Investment Trust

THE SCOTTISH INVESTMENT TRUST PLC
129TH ANNUAL REPORT & ACCOUNTS

31 OCTOBER 2016

Objective 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.

Cover painting:
Blue Lake by Madeleine Gardiner,
oil on canvas, 82cm x 82cm, 2015
www.madeleinegardiner.com

Contents

Year at a Glance

31 October 2016

30.0% **Share price total return** MSCI UK All Cap +12.3% MSCI ACWI +29.1%	**29.4%** **NAV total return** MSCI UK All Cap +12.3% MSCI ACWI +29.1%	**8.1%** **Share price discount to NAV* (ex-income)** 31 October 2015: 8.6%
8.0% **Increase in regular dividend per share** RPI 2%	**40.6%** **Increase in total dividend per share** RPI 2%	**33 years** **of consecutive increase in regular dividend**
4x **Dividend reserves** (regular dividend) 31 October 2015: 4x	**1st Quartile** **AIC Global peer group** (Total Return) 31 October 2015: 4th Quartile	**70** **Number of listed holdings** 31 October 2015: 74
19% **Portfolio turnover rate** Year to 31 October 2015: 41%	**5%** **Gearing** 31 October 2015: 5%	**0.49%** **Ongoing charges figure** 31 October 2015: 0.52%

* NAV with borrowings at market value.

Chairman's Statement

Performance

In my first year end statement, I am delighted to report that the Company's performance has been strong during the 12 months to 31 October 2016. Over that period, the share price total return was 30.0% and the net asset value per share (NAV) total return was 29.4% (with borrowings at market value). While the Company's objective is to produce above-average returns over the longer term, it is nevertheless pleasing that the Company's new investment approach has demonstrated early benefits.

At the financial year end the Company was ranked in the first quartile of the AIC global peer group over the prior 12 months.

The high conviction, global contrarian investment approach adopted by Alasdair McKinnon and his team has been deployed for the full financial year. This approach differentiates the Company from our global growth investment trust peers. The portfolio currently contains 68 listed equity holdings and is invested without reference to the composition of any index.

The Company does not have a formal benchmark but, by way of comparison, the sterling total return of the international MSCI All Country World Index (ACWI) was 29.1%, while the UK based MSCI UK All Cap Index total return was 12.3%.

An inflation-beating dividend

Over the financial year, earnings per share rose by 35.9% to 21.6p (2015: 15.9p), with a higher level of income generation from the portfolio and a boost from sterling weakness.

The Board recommends a final dividend of 8.25p per share which, if approved, will mean that the total regular dividend for the year will increase by 8.0% to 13.5p and will represent the 33rd consecutive year of regular dividend increase.

In view of the strong income generation this year, the Board also recommends a special dividend of 9.0p which follows a special dividend of 3.5p in the previous financial year. The total dividend for the year will, if approved, thus increase by 40.6% to 22.5p.

The Board wishes to maintain both the long track record of dividend increases and the aim of the Company to provide dividend growth ahead of UK inflation over the longer term. The Company has healthy revenue reserves which cover in excess of four years of the regular dividend. The Board considers it important for the Manager to examine the merits of investments from a total return perspective and does not wish the composition of the portfolio to be dictated by the income requirements of the Company. Accordingly, the Board believes that these reserves should be utilised, if required, in the future.

As was the case for the past two years, the Board also considers that income generated in excess of the requirement of the regular dividend should be distributed as a special dividend.

Board composition

I was appointed as Chairman at the AGM in January 2016, following the retiral of Douglas McDougall. The Company benefited greatly from his knowledge, experience and leadership over many years. On behalf of the Board, I should like to thank Douglas for his outstanding contribution.

Jane Lewis and Mick Brewis were appointed as non-executive Directors in December 2015 and elected at the AGM in January 2016. Jane is an investment trust specialist and Mick is an investment management specialist and both bring the experience of long careers in their fields.

Process of change

The Company has undergone a number of changes over the past two years which I believe have positioned it well for future success.

Alasdair McKinnon was appointed as the Company's Manager in February 2015 and, since then, the investment team has been reorganised and the majority of our company secretarial and back office operations have been outsourced.

An important element of the changes has been the introduction of the high conviction, global contrarian investment approach which, as I mention earlier, differentiates the Company from our global growth investment trust peers. This approach reflects the investment team's natural style as independent thinkers and active, long-term investors who seldom follow the herd. It seeks opportunities created by the tendency of markets to concentrate too much on past performance. The Manager's view is that fashionable companies eventually become overvalued and unfashionable companies eventually become undervalued.

Central to the new investment approach is the Manager's high conviction in the Company's underlying investments

Chairman's Statement (continued)

and, in reflection of this, the Board considers it appropriate for the portfolio to contain fewer holdings than the previous typical range of 70 to 120 listed international equity investments. Accordingly, the portfolio will now typically contain 50 to 100 listed international equity investments. The number of listed holdings as at 31 October 2015 and 31 October 2016 was 74 and 70 respectively.

Following the changes outlined above, we now have a streamlined investment team that is focused for effective decision-making and has a clear investment approach which is explained more fully in the Manager's Review.

We have also changed our approach with regard to marketing and communications. We will seek to raise the Company's profile, as we believe that it is an attractive investment vehicle which should appeal to a broad range of potential investors when its attributes are effectively communicated. The first steps in this are visible in our relaunched website at **www.thescottish.co.uk** and a refreshed Annual Report. This has been achieved at a very reasonable cost and within our longstanding annual marketing budget.

Low costs

The ongoing charges figure for the year under review was 0.49% which compares favourably with other actively-managed investment vehicles. As a self-managed investment trust, this figure represents the ongoing costs of running the Company rather than an ad valorem charge. The process of change over the two years, most notably the restructuring of the investment team and outsourcing of other functions, has helped to reduce the ongoing charges figure from 0.68% in 2014, to 0.52% in 2015 and to 0.49% in the year under review.

Gearing and partial repayment of long-term borrowings

Gearing was largely unchanged and finished the year at 5%.

As I mentioned in the Interim Report, the majority of the Company's long-term borrowings, which mature in 2030, were arranged almost 17 years ago when a 5.75% coupon was considered attractive. The interest rate environment has changed considerably over this timeframe.

The original purpose of the borrowings was to invest on the basis that the return from a portfolio of equities would exceed the cost of borrowings on a long-term timeframe especially if deployed at an opportune time. The Board believes that this remains a valid assumption given that the borrowings have more than 13 years until expiry and, furthermore, the Board is conscious that a premium would currently be required for early repayment of the borrowings.

However, over recent years the proportionate size of these borrowings has increased due to shares being bought back and cancelled as part of the Company's discount control policy. Accordingly, we took the opportunity to repurchase £21m nominal, being around 20%, of the Company's secured bonds in December 2015. While this decision had a one-off negative impact on the NAV of 0.4% (with borrowings at market value) or 1.0% (with borrowings at par), the £1.2m reduction in the annual interest charge going forward means that the cost will be clawed back well within the lifetime of the bond.

Discount and share buybacks

The Company follows a policy that aims, in normal market conditions, to maintain the discount to the ex-income NAV (with borrowings at market value) at or below 9%.

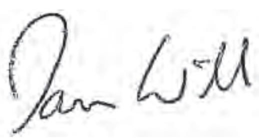
The discount at which the share price traded to the NAV over the period varied more than in previous years but finished the period at 8.1%. During the year 9.2m shares were purchased for cancellation at an average discount of 10.6% and a cost of £59.9m.

Outlook

Although the UK Brexit vote to leave the European Union wrongfooted markets, the swift recovery, particularly in sterling terms, benefited the Company. Since the year-end, there has been a further challenge to the political status quo with the election of Donald Trump as US President. Forthcoming elections have the potential to highlight further rancour towards the European Union.

I do not propose to add to the large volume of material that exists on analysis of these events other than to observe that there is a view, not only confined to the US and the UK, that large sections of the population feel disadvantaged by the consequences of globalisation. In contrast, many large corporations have benefited from these trends but it is still too early to determine what changes, if any, will emerge under new political regimes. Regardless, politicians and bureaucrats are likely to remain sensitive to market movements and will not intend to damage investor confidence.

Finally, the Board believes that the progress made over the year stands the Company in good stead as a low-cost investment vehicle focused on delivering both above average returns and dividend growth over the longer term.



James Will
Chairman
3 January 2017

Board of Directors

James Will

Appointed to the Board in May 2013 and became Chairman in January 2016.

He is a former Chairman of law firm Shepherd and Wedderburn LLP where he was a senior corporate partner, heading its financial sector practice. He has experience of working with companies in a wide range of industry sectors including financial services, technology, energy and life sciences.

Other investment company directorship: Herald Investment Trust.

Shares held: 8,000* **Fees:** £50,000

* In addition to the 8,000 shares held, Mr Will is a trustee of a trust which holds 22,000 shares in the Company. Mr Will is beneficially or potentially beneficially interested in this holding.

Hamish Buchan

Appointed to the Board in November 2003 and will retire at the AGM to be held in 2018.

He is a former Chairman of the Association of Investment Companies and was formerly Chairman of Natwest Securities in Scotland. He has been involved in the investment company sector for over 40 years.

Other investment company directorships: Personal Assets Trust (Chairman) and Templeton Emerging Markets Investment Trust.

Shares held: 22,325 **Fees:** £30,000

Russell Napier

Appointed to the Board in July 2009.

He runs a course in financial history at the University of Edinburgh Business School and is the author of the book "Anatomy of the Bear: Lessons from Wall Street's Four Great Bottoms". He has been providing investment advice to financial institutions for more than 20 years both as a stockbroker and latterly as an independent analyst.

Other investment company directorship: Mid Wynd International Investment Trust.

Shares held: 14,000 **Fees:** £30,000

Ian Hunter

Appointed to the Board in December 2014. He is Chairman of the Audit Committee.

He is a chartered accountant and a member of the Chartered Institute of Taxation. In June 2011, he retired from EY, having spent over 35 years in the firm's Edinburgh office and having been a partner for 25 years. Throughout his career, he was heavily involved in advising closed-ended funds (particularly investment trusts), and their managers, on taxation and on corporate transactions. He served as a member of the AIC's taxation committee.

Other investment company directorships: None.

Shares held: 22,608 **Fees:** £30,000

Jane Lewis

Appointed to the Board in December 2015. She is Chairman of the Remuneration Committee.

She is an investment trust specialist who, until August 2013, was a director of corporate finance and broking at Winterflood Investment Trusts. Prior to this, she worked at Henderson Global Investors and Gartmore Investment Management Limited in investment trust business development and at WestLB Panmure as an investment trust broker.

Other investment company directorships: BlackRock World Mining Trust, F&C Capital and Income Investment Trust, Invesco Perpetual UK Smaller Companies Investment Trust and Phaunos Timber Fund Limited.

Shares held: 1,000 **Fees:** £30,000

Mick Brewis

Appointed to the Board in December 2015.

He was an investment manager at Baillie Gifford, retiring in April 2014 after 29 years at the firm, 21 of them as a partner. He was a stockpicker throughout his time there, responsible for managing UK equity portfolios before heading the North American equities team from 1995 onwards. His broad investment experience includes managing investment teams and research groups, global asset allocation, working with clients (including investment trusts), marketing, graduate recruitment and investor development.

Other investment company directorships: None.

Shares held: 10,000 **Fees:** £30,000

Manager's Review

Our contrarian approach

Before examining the year under review, I thought it would be useful to outline our contrarian investment philosophy which we believe will benefit a long-term investor in the Company.

Our contrarian approach is grounded in the simple observation that people like to belong to a group or to feel part of something bigger. Humans, as a species, have evolved to feel uncomfortable outwith the mainstream because, in more arduous times, a coordinated group stood a better chance of survival.

However, we believe this crowding instinct works against the best interests of an investor and that a different stance is required to profit. Accordingly, we do not attempt to follow investment fashions and instead seek investments in which we can foresee long term upside.

We think it is crucial to ignore the emotions associated with past performance and, rather, to view each investment on its future merit. This requires lateral thinking and the willingness to adopt a contrarian point of view as both markets and company management teams have a propensity for hubris in the good times and unjustified pessimism when times are hard.

We divide the stocks in which we invest into three categories.

First, we have those that we describe as **ugly ducklings** – unloved shares that most investors shun. These companies have endured an extended period of poor operating performance and, for the majority, the near-term outlook continues to appear uninspiring. However, we see their out-of-favour status as an opportunity and can foresee the circumstances in which these investments will surprise on the upside. These stocks often have a higher than average dividend yield which can provide an attractive income while we wait for our investment thesis to unfold.

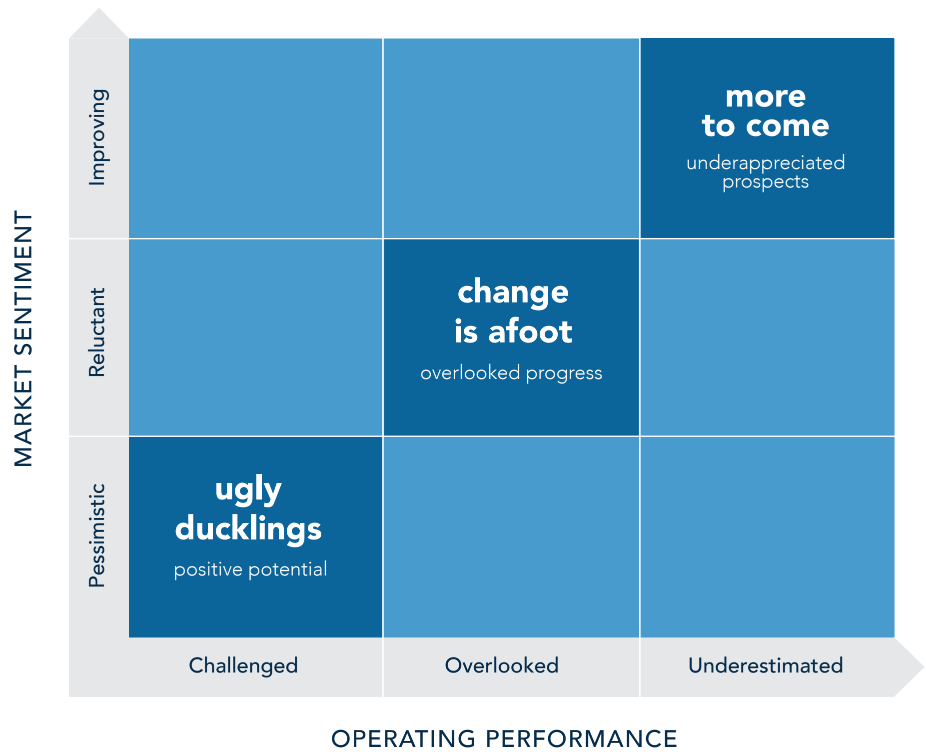
The second category consists of companies where **change is afoot**. These companies have seen a significant improvement in their prospects but this progress has not yet been recognised by the market. Often, they are disliked for historical reasons, with investors unwilling to credit the signs of change that are so far evident.

Thirdly, we have stocks where we see **more to come**. Unlike the first two categories, these companies are generally recognised as good businesses but we see an opportunity as the market does not appreciate the scope for further improvement.

In our experience, the best investments can, over time, move along an axis from 'ugly ducklings' through 'change is afoot' and into the 'more to come' category but we are happy to purchase and hold investments in any of the categories.

A key strength of our contrarian approach is that it provides profitable opportunities in all market environments as there are always underappreciated areas of the market.

Categorisation of Investments



Manager's Review (continued)

The financial year

This was a strong year for investment returns but there were two volatile periods that favoured our contrarian approach.

There was a sharp change in investor sentiment in January 2016 in the aftermath of a small interest rate increase by the US Federal Reserve. Almost overnight, investors shunned highly valued, fashionable stocks in favour of more attractively valued, but unfashionable, investments.

The outcome of the Brexit vote surprised investors who had set excessive store in the soothsaying abilities of opinion pollsters and bookmakers. The kneejerk plunge in markets was chaotic but the portfolio made a swift recovery and quickly advanced to new highs for the year. The downward movement in sterling had an obvious beneficial impact to the value of our overseas investments when considered in sterling terms. The vote also triggered an awakening of interest in our UK domiciled international companies, which stood to benefit from the conversion of their substantial non-sterling revenues.

Given our focus on individual stock ideas, rather than reporting portfolio activity in terms of geography or industry, I thought it more meaningful to discuss the notable gains and losses, in total return terms, over the year.

NAV Absolute Performance Attribution
Year to 31 October 2016

	Contribution %
Equity portfolio (ungeared)	+28.7
Gearing	+2.3
Total equities	**+31.0**
Other income, tax and currency	+0.6
Buybacks	+1.0
Expenses	-0.5
Interest charges	-0.7
Premium on repayment of secured bonds	-0.4
Change in market value of borrowings	-1.5
Change in pension liability	-0.1
NAV with borrowings at market value total return	**+29.4**

Contributors to Absolute Performance
Year to 31 October 2016

	Performance %	Positive Contribution £m
Treasury Wine Estates	105.2	21.0
Sands China	62.8	13.0
Microsoft	47.5	10.7
Rentokil Initial	50.5	10.1
Nintendo	92.1	7.0
Standard Chartered	50.3	6.2
KDDI	61.4	6.2
Johnson & Johnson	49.0	5.6
Suncor Energy	31.7	5.5
Royal Dutch Shell	34.2	5.5

	Performance %	Negative Contribution £m
British Land	-29.7	-4.3
Marks & Spencer	-24.6	-2.3
BT	-16.4	-2.2
Associated British Foods*	-13.4	-1.4
Standard Life	-16.7	-1.2
Intesa Sanpaolo	-11.5	-0.9
Bank of Ireland	-37.4	-0.7
Inditex*	-8.4	-0.7
Panasonic*	-12.5	-0.7
Bank of Kyoto	-7.4	-0.6

* Sold during the year.

Manager's Review (continued)

Treasury Wine Estates (+£21.0m), the largest holding in our portfolio, delivered outstanding performance and more than doubled in sterling terms over the year. This Australian wine company has been rejuvenated under the leadership of Michael Clarke and is being repositioned towards a brand-led strategy. The acquisition of Diageo's wine assets greatly expanded the company's scale and scope at a very reasonable price. On purchase, we viewed the company as an 'ugly duckling' but progress to date and a more general acceptance of the company's strategy means that we now believe that 'change is afoot'.

Sands China (+£13.0m), the Macau casino operator, is another investment we view as an 'ugly duckling'. The share price had suffered from the perception that the Chinese economy was heading for a period of very slow growth. However, a recovery in visitor spending supported our view of the broader appeal of Macau as a tourist destination while investor sentiment towards China improved. This, alongside an appealing dividend yield, helped produce a strong total return.

Microsoft (+£10.7m) appreciated meaningfully during the year as it continued to demonstrate an ability to shift a large user base to a more valuable subscription model. We originally viewed the company within the 'change is afoot' category but now consider the company has 'more to come'.

Rentokil Initial (+£10.1m), the UK support services company, is another example of where we see 'change is afoot'. Following a period of substantial restructuring, the company has refocused on the pest control market and has an opportunity to improve profit margins further. The company performed particularly well in the aftermath of Brexit as a high proportion of overseas revenues proved attractive to investors.

Leading Japanese games company **Nintendo** (+£7.0m) has the opportunity to bring its content to a wider audience and this was highlighted by the enthusiastic reception for the Pokémon Go smartphone game. We consider that 'change is afoot' and the upcoming launches of new smartphone games have the potential to shine further light on Nintendo's underappreciated intellectual property.

We view **Standard Chartered** (+£6.2m) as an 'ugly duckling' as it was shunned for high loan exposure to weak emerging markets and commodities. The prospects for these loans are improving which, alongside the company's ambitious restructuring plan, has the potential to improve the company's lowly valuation.

Improving sentiment towards emerging markets, oil and commodities in general was a common theme for several more of our best investments, particularly in the second half of the financial year. As reported last year, we had increased our exposure to certain stocks where we judged that pessimistic scenarios, related to a slowdown in emerging markets, were overly discounted in share prices. We saw large gains from our investments in **Suncor Energy** (+£5.5m), **Royal Dutch Shell** (+£5.5m), **Rio Tinto** (+£4.0m), **Cemex** (+£3.7m) and **BHP Billiton** (+£2.6m).

In a strong year for markets, it is unsurprising that we made comparatively few notable absolute losses. **British Land** (-£4.3m) suffered from the perceived threat to the UK commercial property market from Brexit but gloomy market assumptions present an interesting 'ugly duckling' recovery opportunity. **BT** (-£2.2m) also performed poorly in the aftermath of the Brexit vote and this was compounded by a potential shift in the regulatory framework. Being contrarian can require patience and this was the case with our new holding in **Marks & Spencer** (-£2.3m). We continue to think this 'ugly duckling' will benefit from the meaningful change which has commenced in earnest under the new leadership of Steve Rowe.

An important part of our contrarian investment approach is to sell investments where we no longer envisage a prospect for significant further upside. Most notably, we sold **Pandora** (+£4.9m), which had performed extremely well and which we considered fully valued, as we saw a less favourable balance of risks for this fashion driven stock. We also sold a number of other long-term holdings, where we judged the current valuation fully reflected their prospects, including Ross Stores, Associated British Foods, Persimmon, Alphabet, Svenska Handelsbanken and Sampo.

The Brexit vote and, subsequent to the year end, the election of Donald Trump as the forthcoming US President indicate that there may be a shift in the political and investment environment. Large segments of the populations in the developed world clearly feel that a decline in their living standards has been ignored by the establishment.

A change in the political zeitgeist, if it actually occurs, will undoubtedly benefit some companies more than others. However, our contrarian investment approach is designed to anticipate and benefit from change and we will continue to seek opportunities which we believe will profit a long-term investor.

Alasdair McKinnon
Manager
3 January 2017

The Investment Team

Alasdair McKinnon
Manager

Alasdair joined the Company in 2004 and became Manager in 2015. He has 17 years of investment experience. He graduated MA with honours in Economic and Social History from the University of Edinburgh and MSc in Investment Analysis (with distinction) from the University of Stirling. Alasdair is a CFA charterholder and an Associate of the UK Society of Investment Professionals.

Sarah Monaco
Investment Manager

Sarah joined the Company in 2000 and became an Investment Manager in 2002. She has 14 years of investment experience. She graduated with a Master of Business Administration from the University of Edinburgh. Sarah also has broader investor relations experience and has previously gained a BA in Commerce and Post Graduate CIM Diploma in Marketing.

Martin Robertson
Deputy Manager

Martin joined the Company in 2004 and became Deputy Manager in 2015. He has 29 years of investment experience. He is a graduate of both Dundee and Edinburgh universities gaining a BSc with honours in Civil Engineering and a Master of Business Administration, respectively. Martin is a member of the CFA Institute and the UK Society of Investment Professionals.

Mark Dobbie
Investment Manager

Mark joined the Company in 2000 and became an Investment Manager in 2011. He has 6 years of investment experience. He also has extensive knowledge of the operation of investment trusts, including valuation and performance analytics, from previous roles with the Company. Mark is a CFA charterholder.

Strategic Report

Status

The Company is a self-managed global growth investment trust and is an investment company within the meaning of the Companies Act 2006. HM Revenue & Customs has approved the Company as an investment trust under Sections 1158 and 1159 of the Corporation Taxes Act 2010. The Company continues to satisfy the conditions for such approval. The Company is registered in Scotland and its registered office is 6 Albyn Place, Edinburgh EH2 4NL.

Investment objective and policy

The Company's 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.

In order to achieve this objective, the Company invests in an integrated global portfolio constructed through an investment process whereby assets are primarily allocated on the basis of the investment merits of individual stocks rather than those of regions, sectors or themes.

The Company's portfolio is actively managed and typically will contain 50 to 100 listed international equity investments. The portfolio is widely diversified both by industrial sector and geographic location of investments in order to spread investment risk.

Whilst performance is compared against major global and UK indices, the composition of indices has no influence on investment decisions or the construction of the portfolio. As a result, it is expected that the Company's investment portfolio and performance may deviate from the comparator indices.

Since the Company's assets are invested globally and without regard to the composition of any index, there are no restrictions on maximum or minimum exposures to specific geographic regions, industry sectors or unlisted investments. However, such exposures are reported in detail to, and monitored by, the Board at each board meeting in order to ensure that adequate diversification is maintained.

Liquidity and long-term borrowings are managed with the aim of improving returns to shareholders. In pursuing its investment objective, from time to time the Company will hold certain financial instruments comprising equity and non-equity shares, fixed income securities, interests in limited partnerships, structured products and cash and liquid resources. The Company may use derivatives, other than in relation to the sale of index futures, for hedging or tactical investment purposes. The Company may only sell index futures for efficient portfolio management purposes. For the avoidance of doubt, any derivative instrument may only be used with the prior authorisation of the Board.

The Company has the ability to enter into contracts to hedge against currency risks on both capital and income.

The Company's investment activities are subject to the following limitations and restrictions:

- under the Company's articles of association, up to 40% of the Company's total assets on the last audited balance sheet may be used to make investments of up to a maximum of 8% of the value of total assets in any one company, at the time the investment is made. Thereafter, individual investments may not exceed 3% of the value of total assets, at the time the investment is made;
- the levels of gearing and gross gearing are monitored closely by the Board and the Manager. The Board currently limits gearing to 20%. While gearing will be employed in a typical range of 0% to 20%, the Company retains the ability to lower equity exposure to a net cash position if deemed appropriate;
- the Company has a policy not to invest more than 15% of total assets in other listed closed-ended investment funds; and
- the Company may not make investments in respect of which there is unlimited liability except that the Company may sell index futures for efficient portfolio management purposes.

Investment policy – implementation

During the year under review, the assets of the Company were invested in accordance with the Company's investment policy.

A full list of holdings is disclosed on pages 18 and 19 and detailed analysis of the spread of investments by geographic region and industry sector is shown on page 20. A further analysis of changes in asset distribution by industry sector over the year, including the sources of appreciation/depreciation, is shown on page 21. Attribution of NAV performance is shown on page 8.

At the year end, the number of listed holdings was 70. The top ten holdings comprised 31.0% of total assets (2015: 24.1%).

Details of the extent to which the Company's objective has been achieved and how the investment policy was implemented are provided in the Chairman's Statement on pages 3 and 4 and the Manager's Review on pages 7 to 9.

Additional limitations on borrowings

Under the Company's articles of association, the Directors control the borrowings of the Company and its subsidiaries to ensure that the aggregate amount of borrowings does not, unless approved by an ordinary

Strategic Report (continued)

resolution of shareholders, exceed the aggregate of the reserves excluding unrealised capital profits of the Company and its subsidiaries, as published in the latest accounts. In addition, the Directors are authorised to incur temporary borrowings in the ordinary course of business of up to 10% of the Company's issued share capital. Such temporary borrowings are to be for no longer than six months.

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;
- credit risk;
- discount volatility;
- custody and depositary risk; and
- operational risk.

These and other risks facing the Company are reviewed regularly by the Audit Committee and the Board. A detailed risk map, which identifies significant risks relevant to the Company, is assessed twice per year. These risks include corporate strategy, investment decisions, financial and regulatory activities, business continuity and service providers. Further information on risks is detailed in the Corporate Governance Report on page 28 and in note 17 to the accounts on pages 53 to 58 and on internal controls in the Report of the Audit Committee on page 30.

Performance

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 peers and comparator indices.

Key Performance Indicators are:

- 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 UK inflation; and
- ongoing charges figure.

Dividends

The Board may declare dividends, including interim dividends, but no dividend is payable except out of the Company's revenue return and revenue reserves, or in excess of the amount recommended by the Directors. Neither unrealised appreciation of capital assets nor realised profits arising from the sale of capital assets are available for the dividend.

The Directors recommend a final dividend of 8.25p and a special dividend of 9.00p per share, payable on 17 February 2017. With the interim dividend of 5.25p already paid in July 2016, this makes a total of 22.5p for the year. Based on 96,342,683 shares in issue at 31 October 2016, the final and special dividend will cost £16.619m. The total dividend for the year will cost £21.677m.

Share capital

General

The Company had 96,342,683 shares of 25p each in issue on 31 October 2016 (2015: 105,587,426). Since the year end, the Company has bought back 388,000 shares for cancellation. The rights attaching to shares in the Company are set out in the Company's articles of association which may be amended by the passing of a special resolution of shareholders, that is, by the approval of a majority of not less than 75% of votes cast.

The Financial Conduct Authority rules in relation to non-mainstream investment products do not apply to the Company.

Rights to the capital of the Company on winding up

Shareholders would be entitled to the assets of the Company in the event of a winding up (after the Company's other liabilities had been satisfied).

Voting

On a show of hands, every shareholder present in person or by proxy has one vote and on a poll every member present in person or by proxy has one vote for each share.

Transfer

There are no restrictions concerning the holding or transfer of shares in the Company and there are no special rights attaching to any of the shares. The Company is not aware of any agreements between shareholders which might result in any restriction on the transfer of shares or their voting rights.

Deadlines for exercising voting rights

If a shareholder wishes to appoint a proxy to attend, speak and vote at a meeting on their behalf, a valid appointment is made when the form of proxy (together, where relevant, with a notarially certified copy of the power of attorney or other authority under which the form of proxy is signed) is received by the Company's registrar not less than 48 hours before the start of the meeting or the adjourned meeting at which the proxy is appointed to vote (or, in the case of a poll taken more than 48 hours after it is demanded, no later than 24 hours before the time appointed for taking the poll). In calculating these time periods, no account is taken of any day or part thereof that is not a working day.

Strategic Report (continued)

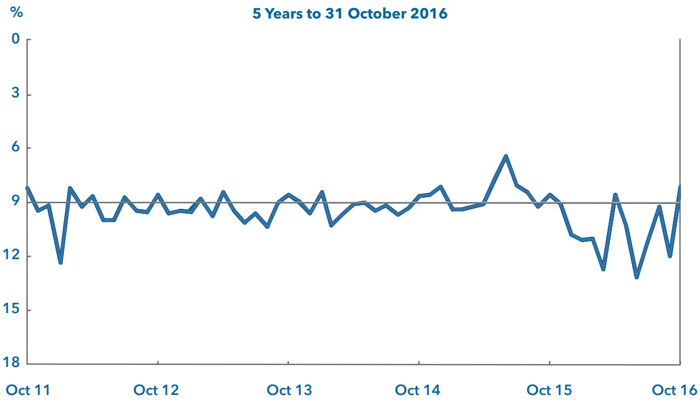
Discount control policy

The Company's policy aims, in normal market conditions, to maintain the discount to ex-income NAV at or below 9%. In calculating the NAV for the purposes of this policy, the Company's borrowings are taken at their market value so as to ensure that future repurchases of shares will take into account changes in the value of the borrowings brought about by movements in long-term interest rates. During the year ended 31 October 2016, the Company bought back for cancellation a total of 9,244,743 shares of 25p each representing 8.8% of shares in issue at 31 October 2015, at a cost of £59,944,000.

At the AGM on 29 January 2016, authority was granted to repurchase up to 14.99% of shares in issue on that date. The number of shares authorised for repurchase was 15,654,570. Share buybacks from the date of the AGM to the Company's year end amounted to 8,090,743 shares or 7.75 percentage points of the 14.99% authority. Since the year end to 3 January 2017, the Company has bought back 388,000 shares.

Discount to ex-income NAV*

5 Years to 31 October 2016



* with borrowings at market value

Holdings in listed closed-ended investment funds

Company holdings include an investment in listed closed-ended investment funds of £9.8m: 1.0% of total assets (2015: £14.5m: 1.7%). This comprised solely of an investment in British Land, a UK property fund. The Company has a policy not to invest more than 15% of total assets in other listed closed-ended investment funds.

Unlisted portfolio

The Company's unlisted holdings were valued at £1.9m (0.2% of shareholders' funds). These comprise our office property, subsidiaries and residual holdings from partnership agreements signed in 2000 and 2001. No new partnerships were entered into during the year.

Viability statement

The Directors have assessed the prospects of the Company for a period of five years. The Board believes this time period is appropriate having consideration for the Company's principal risks and uncertainties (outlined on page 13); its portfolio of liquid listed international equity investments and cash balances; and its ability to achieve the stated dividend policy and to cover interest payments on the Company's debt.

In making this assessment, the Directors have considered detailed information provided at Board meetings which includes the Company's balance sheet, gearing level, share price discount, asset allocation, income and operating expenses.

Based on the above, the Board confirms it has a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the five year period of this assessment.

Investment risk

The investment portfolio is diversified over a range of industries and regions in order to spread risk. The Company has a long-term policy of borrowing money to invest in equities in the expectation that this will improve returns but, should stockmarkets fall, such borrowings would magnify losses. The Company can buy back and cancel its own shares. All other things being equal, this would have the effect of increasing gearing. Investment risk is considered in more detail in note 17 on page 54.

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 MSCI UK All Cap Index and of international equities through the MSCI All Country World Index (ACWI). During the year, the Company changed its comparator indices from FTSE to the equivalent MSCI indices. Historically, the respective indices have performed broadly in line. The portfolio is not modelled on any index.

Management

The Board has appointed the Company's wholly-owned subsidiary, S.I.T. Savings Limited, as its Alternative Investment Fund Manager (AIFM). Day to day management of the Company is delegated to the Company's executive management which reports directly to the Board.

Strategic Report (continued)

Investor Disclosure Document

In accordance with the Financial Conduct Authority rules implementing the EU Alternative Investment Fund Managers Directive (AIFMD), certain information must be made available to investors before they invest. The Company's Investor Disclosure Document can be found on the Company's website, **www.thescottish.co.uk**

The Association of Investment Companies (AIC)

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

Substantial shareholdings

At 3 January 2017, the Company had been notified of the following holdings in excess of 3% of its shares.

	Shares	% held
Aviva PLC	11,544,732	12.0
Wells Capital Management Inc.	4,924,836	5.1
AXA Investment Managers SA	3,450,050	3.6

Analysis of share register at 31 October 2016

Category of holder	Number	Share capital %
Individuals	18,926	63.7
Insurance companies	11	16.9
Investment companies	72	8.9
Pension funds	35	4.5
Other	110	6.0
Total	**19,154**	**100.0**

Socially responsible investing

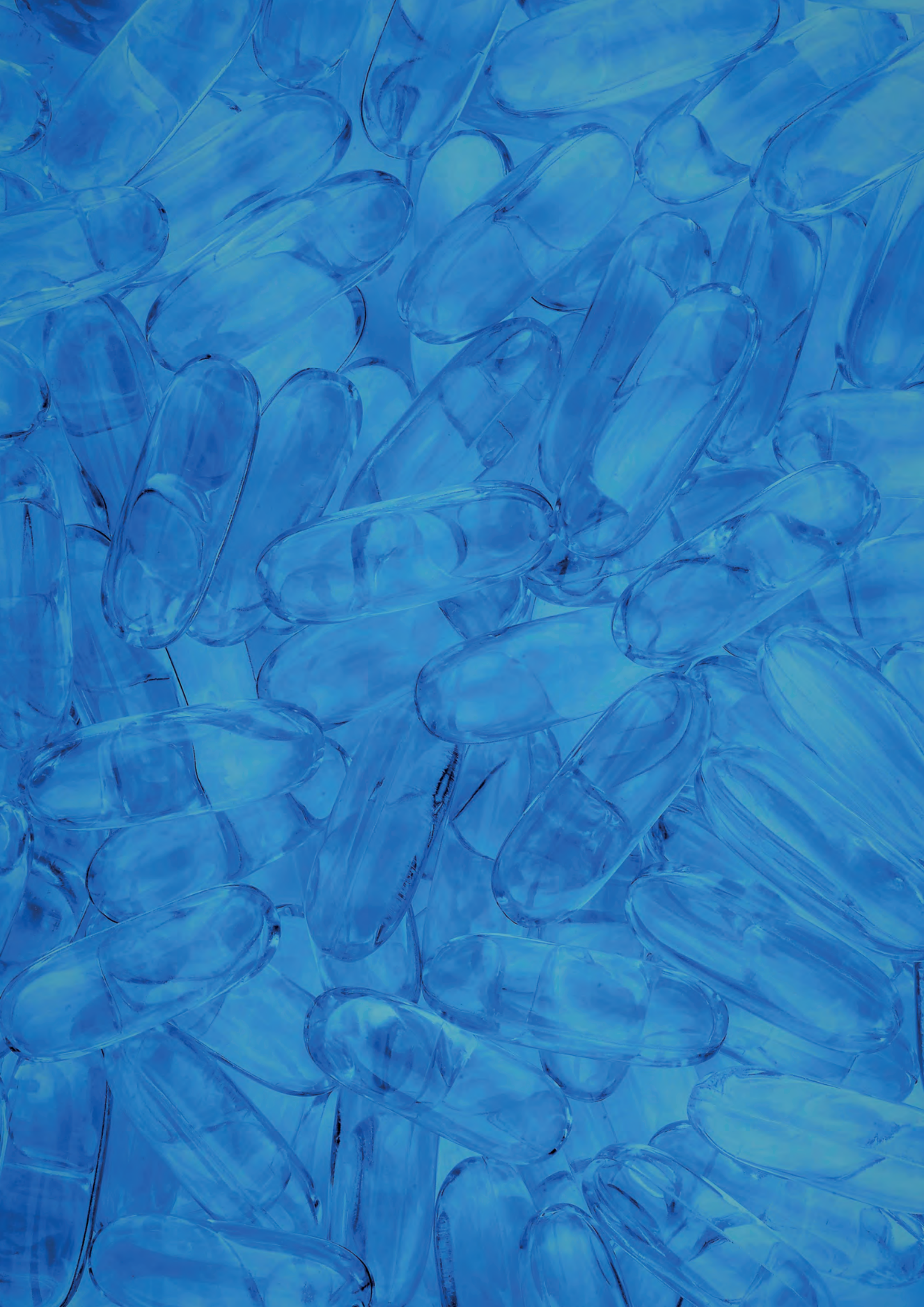
When investments are made, the primary objective is to achieve the best investment return while allowing for an acceptable degree of risk. In pursuing this objective, various factors that may impact on the performance are considered and these may include socially responsible investment issues.

Company's directors and employees

The table below shows the breakdown of directors and employees.

	31 October 2016		31 October 2015	
	Male	Female	Male	Female
Directors	5	1	5	0
Manager	1	0	1	0
Employees	4	2	10	5

James Will
Chairman
3 January 2017



Financial Summary

	2016	2015	Change %	Total return %
NAV with borrowings at market value	854.9p	676.1p	+26.4	+29.4
NAV with borrowings at par	881.2p	694.3p	+26.9	+29.9
Ex-income NAV with borrowings at market value	837.5p	665.0p	+25.9	
Ex-income NAV with borrowings at par	863.9p	683.2p	+26.5	
Share price	769.5p	608.0p	+26.6	+30.0
Discount to ex-income NAV with borrowings at market value	8.1%	8.6%		
MSCI ACWI			+26.4	+29.1
MSCI UK All Cap Index			+7.9	+12.3

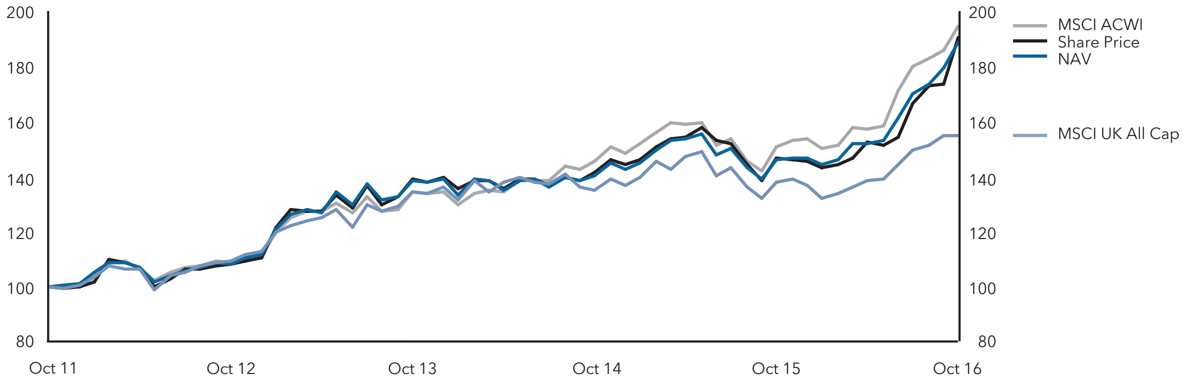
	£'000	£'000
Equity investments	893,432	774,236
Net current assets	42,502	65,769
Total assets	935,934	840,005
Long-term borrowings at par	(83,645)	(104,399)
Pension liability	(3,272)	(2,550)
Shareholders' funds	**849,017**	**733,056**

Total income	28,440	24,057	+18.2
Earnings per share	21.62p	15.91p	+35.9
Regular dividend per share (2016: proposed final 8.25p)	13.50p	12.50p	+8.0
Special dividend per share (proposed)	9.00p	3.50p	
Total dividend per share	22.50p	16.00p	+40.6
UK Consumer Prices Index – annual inflation			+0.9
UK Retail Prices Index – annual inflation			+2.0

Year's High & Low

	Year to 31 October 2016 High	Year to 31 October 2016 Low	Year to 31 October 2015 High	Year to 31 October 2015 Low
NAV with borrowings at market value	867.8p	606.3p	744.9p	619.8p
Closing share price	774.0p	544.5p	668.0p	560.0p
Discount to ex-income NAV with borrowings at market value	14.4%	8.1%	10.4%	6.4%

NAV* and Share Price against Comparator Indices
Total Return – 5 years to 31 October 2016



*with borrowings at market value

List of Investments

As at 31 October 2016

Listed Equities

Holding	Country	Market value £'000	Cumulative weight %
Treasury Wine Estates	Australia	40,410	
Sands China	Hong Kong	33,103	
Microsoft	US	32,833	
Rentokil Initial	UK	30,166	
GlaxoSmithKline	UK	29,771	
Severn Trent	UK	28,288	
Tesco	UK	27,819	
ING	Netherlands	22,910	
Standard Chartered	UK	22,564	
Suncor Energy	Canada	22,559	32.5
Royal Dutch Shell	UK	21,356	
Sumitomo Mitsui Financial	Japan	20,801	
Rio Tinto	UK	19,362	
Kingfisher	UK	19,330	
United Utilities	UK	17,907	
SAP	Germany	17,537	
Comcast	US	17,331	
PepsiCo	US	17,264	
Johnson & Johnson	US	16,868	
BHP Billiton	UK	16,795	53.2
Marks & Spencer	UK	16,411	
Sony	Japan	16,043	
KDDI	Japan	15,931	
Roche	Switzerland	15,916	
BNP Paribas	France	15,224	
Pfizer	US	15,185	
Nintendo	Japan	14,484	
General Electric	US	13,631	
RSA Insurance	UK	13,381	
Total	France	13,249	69.9
National Oilwell Varco	US	11,832	
Baker Hughes	US	11,503	
Verizon Communications	US	11,226	
BT	UK	10,827	
Cemex	Mexico	10,808	
Ambev	Brazil	10,713	
BASF	Germany	10,703	
Toyota Motor	Japan	9,904	
Vinci	France	9,875	
Chevron	US	9,806	81.9
British Land	UK	9,784	
Jardine Matheson	Singapore	9,665	
East Japan Railway	Japan	9,384	
Dürr	Germany	8,957	
Telstra	Australia	8,774	
Citigroup	US	8,720	
Avery Dennison	US	8,602	
Hess	US	7,838	
Adecco	Switzerland	7,650	
Aeroportuario del Sureste	Mexico	6,674	91.5

List of Investments (continued)

As at 31 October 2016

Listed Equities

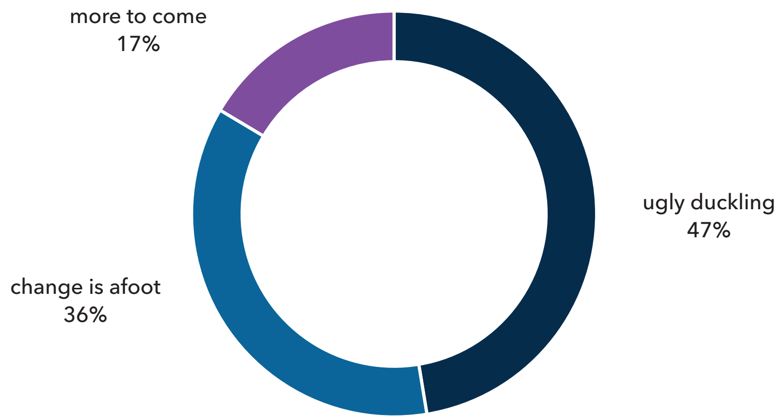
Holding	Country	Market value £'000	Cumulative weight %
Bank of Kyoto	Japan	6,576	
Intesa Sanpaolo	Italy	6,313	
Citizens Financial	US	6,007	
Exxon Mobil	US	5,720	
HSBC	UK	5,566	
Micro Focus International	UK	5,524	
Bank of Ireland	Ireland	5,386	
Tourmaline Oil	Canada	4,784	
International Business Machines	US	4,773	
TGS-NOPEC Geophysical	Norway	4,718	97.7
ANZ Banking	Australia	3,789	
BorgWarner	US	3,428	
Sydney Airport	Australia	2,619	
Freehold Royalties	Canada	2,494	
Vodafone	UK	1,387	
Engie	France	1,048	
Aberdeen Asset Management	UK	966	
Standard Life	UK	949	
Greggs	UK	917	
WPP	UK	866	
Total listed equities		**891,504**	**99.8**

Unlisted

Holding	Country	Market value £'000	Cumulative weight %
Heritable property & subsidiary	UK	1,400	
Boston Ventures V1	US	491	
Apax Europe V-B	UK	37	
Total unlisted		**1,928**	**0.2**
Total equities		**893,432**	**100.0**

The 10 largest holdings have an aggregate market value of £290,423,000.

Total Equities by Category
(Market Value Weighted)

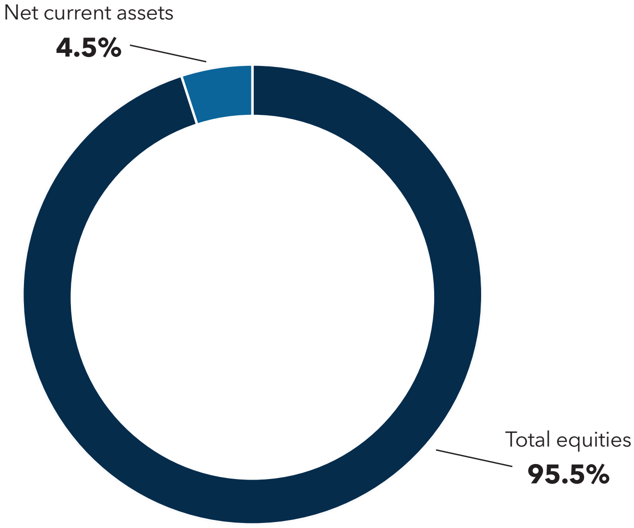


Distribution of Assets

Distribution of Total Assets

by Sector	31 October 2016 %	31 October 2015 %
Energy	12.4	10.1
Materials	7.1	5.3
Industrials	10.5	9.6
Consumer Discretionary	12.4	17.7
Consumer Staples	10.4	6.2
Health Care	8.3	6.2
Financials	15.1	15.0
Information Technology	8.0	8.1
Telecommunication Services	5.1	6.2
Utilities	5.1	6.1
Real Estate	1.1	1.7
Net current assets	4.5	7.8
Total assets	**100.0**	**100.0**

Allocation of Total Assets



by Region	31 October 2016 %	31 October 2015 %
UK	32.2	27.8
Europe (ex UK)	14.9	21.5
North America	24.9	23.7
Latin America	3.0	1.7
Japan	10.0	8.0
Asia Pacific (ex Japan)	10.5	9.5
Net current assets	4.5	7.8
Total assets	**100.0**	**100.0**

Allocation of Shareholders' Funds

	%
Total equities	**105**
Net cash and equivalents	5
Borrowings at par	(10)
Shareholders' funds	**100**
Gearing	5

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Distribution of Assets (continued)

Changes in Asset Distribution

	31 October 2015 £m	Net purchases (sales) £m	Appreciation (depreciation) £m	31 October 2016 £m
Energy	84.7	8.1	23.1	115.9
Materials	44.5	7.1	14.7	66.3
Industrials	81.0	(9.0)	26.6	98.6
Consumer Discretionary	148.8	(55.4)	23.0	116.4
Consumer Staples	51.9	18.5	26.7	97.1
Health Care	51.7	14.1	11.9	77.7
Financials	126.1	(4.3)	19.3	141.1
Information Technology	67.9	(21.9)	29.2	75.2
Telecommunication Services	52.2	(11.3)	7.2	48.1
Utilities	50.9	(4.0)	0.3	47.2
Real Estate	14.5	0.0	(4.7)	9.8
Total equities	**774.2**	**(58.1)**	**177.3**	**893.4**

Changes in Shareholders' Funds

	31 October 2015 £m	Net purchases (sales) £m	31 October 2016 £m	Appreciation (depreciation) £m	Dividend income £m	Total return £m
Total equities	**774.2**	**(58.1)**	**893.4**	**177.3**	**28.3**	**205.6**
Net current assets	65.8	(29.7)	42.5			
Total assets	**840.0**	**(87.8)**	**935.9**			
Long-term borrowings at par	(104.4)	20.8	(83.6)			
Pension liability	(2.5)	0.0	(3.3)			
Shareholders' funds	**733.1**	**(67.0)**	**849.0**			

Ten Year Record

Year to 31 October	Earnings per share p	Regular dividend per share p[1]	Total expenses £'000	Ongoing charges figure %	Total assets £'000	Share-holders' funds £'000	Buybacks £'000	NAV (debt at par) p	Share price p	Discount to NAV %[2]	NAV (debt at par) total return %
2006	9.39	8.72	4,481	0.57	839,641	730,594	288,891[3]	510.4	451.0	8.5	21.3
2007	11.02	9.10	4,709	0.63	910,574	802,353	44,234	597.6	529.0	9.9	19.5
2008	11.00	9.50	4,440	0.64	633,521	525,679	22,919	405.5	372.0	7.5	(30.7)
2009	10.62	9.60	4,139	0.78	696,971	587,675	13,776	465.6	410.0	8.9	17.6
2010	10.26	10.05	4,284	0.72	740,140	630,367	36,046	533.7	469.3	9.0	17.0
2011	12.43	10.40	4,443	0.71	708,972	598,870	19,339	524.2	452.0	8.2	(0.0)
2012	12.01	11.25	4,632	0.79	734,801	628,244	11,121	561.6	479.0	8.6	9.2
2013	13.41	11.60	5,110	0.75	857,545	750,818	10,139	682.7	603.0	8.6	23.8
2014	11.51	12.00	4,887	0.68	841,189	734,293	11,308	679.5	598.0	8.7	1.5
2015	15.91	12.50	4,900	0.52	840,005	733,056	15,426	694.3	608.0	8.6	3.9
2016	**21.62**	**13.50**	**4,080**	**0.49**	**935,934**	**849,017**	**59,944**	**881.2**	**769.5**	**8.1**	**29.9**

Ten Year Growth Record

Year to 31 October	Earnings per share	Regular dividend per share[1]	Retail Prices Index	NAV (debt at market value)	NAV (debt at par)	Share price	NAV (debt at par) total return	Share price total return	MSCI UK All Cap Index total return	MSCI ACWI total return
2006	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	–	100.0
2007	117.4	104.4	104.2	118.9	117.1	117.3	119.5	120.0	–	114.0
2008	117.1	108.9	108.6	81.8	79.5	82.5	82.8	86.4	100.0	82.7
2009	113.1	110.1	107.8	91.3	91.2	90.9	97.4	97.7	123.6	99.5
2010	109.3	115.3	112.7	104.4	104.6	104.1	114.0	114.4	144.3	117.0
2011	132.4	119.3	118.8	100.1	102.7	100.2	113.9	112.5	145.9	116.4
2012	127.9	129.0	122.6	106.3	110.0	106.2	124.4	121.9	159.9	126.6
2013	142.8	133.0	125.7	133.8	133.8	133.7	154.0	156.7	196.4	156.5
2014	122.6	137.6	128.6	132.4	133.1	132.6	156.4	159.0	197.2	169.4
2015	169.4	143.3	129.5	135.3	136.0	134.8	162.6	164.8	201.6	175.4
2016	**230.2**	**154.8**	**132.1**	**171.1**	**172.7**	**170.6**	**211.1**	**214.2**	**226.3**	**226.4**
Ten year return per annum	**8.7%**	**4.5%**	**2.8%**	**5.5%**	**5.6%**	**5.5%**	**7.8%**	**7.9%**	**–**	**8.5%**
Five year return per annum	**11.7%**	**5.4%**	**2.2%**	**11.3%**	**10.9%**	**11.2%**	**13.1%**	**13.8%**	**9.2%**	**14.2%**

1. Excluding special dividends of 2.00p in 2006, 2.00p in 2007, 1.80p in 2013, 3.50p in 2015 and 9.00p in 2016.
2. Discount to ex-income NAV with borrowings at market value.
3. Includes buyback by way of tender offer of £254,577,000.

Responsibility Statement

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Financial Statements for each financial year. Under that law the Directors have elected to prepare the Financial Statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Financial Statements; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and 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 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

The Board of Directors confirms that to the best of its knowledge:

a) the Financial Statements, prepared in accordance with United Kingdom Generally Accepted Accounting Practice, give a true and fair view of the assets, liabilities, financial position and return of the Company;

b) the Strategic Report includes a fair review of the development and performance of the business and the position of the Company together with a description of the principal risks and uncertainties the Company faces; and

c) the Annual Report and Financial Statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

The responsibility statement was approved by the Board of Directors and signed on its behalf by:

James Will

James Will
Chairman
3 January 2017

Corporate Governance Report

Introduction

The Board is committed to implementing high levels of corporate governance within the Company in order to safeguard the interests of its shareholders, to manage the risks that the Company faces and to ensure the efficient and effective running of the Company. Sound governance is at the heart of the Board's efforts to ensure that the Company continues to meet its investment objective. The following statement reports on how the Board, supported by the committees that it has established, has continued to achieve these aims over the course of the year.

Statement of compliance

The Board has reviewed the principles set out in the UK Corporate Governance Code (revised 2014), which can be found at **www.frc.org.uk** and the Association of Investment Companies Code of Corporate Governance by reference to the AIC Corporate Governance Guide for Investment Companies (published in July 2016), both of which can be found at **www.theaic.co.uk** The Company is a member of the Association of Investment Companies.

The Board believes that the way the Company is governed is consistent with the principles of the UK Corporate Governance Code and that the Company has complied with its provisions, except that:

- there is no senior independent director; and
- the Chairman is a member of the Audit Committee.

The Board considers that, as all Directors are independent and non-executive, there is no compelling case for appointing a senior independent director. The Board further considers that the Chairman is independent in character and judgement and, therefore, that there is no reason for James Will not to be a member of the Audit Committee.

Directors' independence

The Board's policy on tenure is that continuity and experience are considered to add significantly to the strength of the Board and, as such, no limit on the overall length of service of any of the Company's Directors, including the Chairman, has been imposed. The Board believes that each Director is independent in character and judgement and that there are no relationships with the Company or its employees which might compromise this independence.

Board committees

The Board has established three committees: Audit, Remuneration and Nomination. Each of the committees has written terms of reference which are reviewed at least annually and clearly define their responsibilities and duties. The terms of reference for these committees are available on the Company's website **www.thescottish.co.uk**

Audit Committee

The Audit Committee comprises the whole Board and is chaired by Ian Hunter. It 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 2016;
- 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 auditor and it has considered the proposed terms of their engagement;
- it has satisfied itself as to the independence of the external auditor and agreed that any non-audit services provided by the auditor must be approved by the Audit Committee in advance; and
- it has satisfied itself that the Strategic Report is consistent with the Financial Statements.

Further details are set out in the Report of the Audit Committee on pages 30 and 31. The terms of reference are available from the Company's website.

Remuneration Committee

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. The Committee is chaired by Jane Lewis. Further details of Directors' remuneration are included in the Directors' Remuneration Report on pages 32 and 33.

The Company aims to provide levels of employee remuneration which reward responsibility and achievement and are comparable with other fund management organisations operating in Scotland. Remuneration is reviewed annually.

Every employee is entitled to a salary and other benefits including a contributory pension scheme. In addition, there is a discretionary performance-related

Corporate Governance Report (continued)

bonus scheme. For investment staff, bonuses payable depend, *inter alia*, on individual performance, the Company's NAV total return and the NAV total return relative to comparator indices and peers. For other staff, bonuses depend, *inter alia*, on individual performance and share price total return. The notice period for all members of staff is three months.

Nomination Committee

There is a Nomination Committee comprising the whole Board. The Committee is chaired by James Will. The Committee meets at least annually to review the structure, size and composition of the Board. It has written terms of reference which are available to view on the Company's website.

The Nomination Committee is responsible for nominating, for the approval of the Board, candidates to fill Board vacancies as and when they arise. The Committee will evaluate the skills, experience, independence, knowledge and diversity of the Board and, subject to the aforementioned, prepare a description of the role and capabilities required to fulfil the appointment.

When Board positions become available as a result of retirement or resignation, the Committee will ensure that a diverse group of candidates is considered. In order to recruit relevant candidates, the identification of such candidates may be carried on in conjunction with the Board by an independent firm of consultants. If such a process is not used, the Committee will disclose the reasons in the Corporate Governance Report or the Directors' Report in the next Annual Report and Accounts.

The Committee will consider candidates on merit and against objective criteria having regard to the benefits of diversity, including gender.

Board and committee meetings

The Board has adopted a schedule of matters reserved for the Board which includes investment strategy, accounting and financial controls, dividends and announcements, capital structure (including share buybacks), gearing and major contracts.

The Board has appointed the Company's wholly-owned subsidiary, S.I.T. Savings Limited, as its Alternative Investment Fund Manager (AIFM). Day-to-day management of the Company is delegated to the Company's executive management, which reports directly to the Board.

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.

The Board normally meets six times a year while the Audit and Remuneration Committees each meet three times and the Nomination Committee meets at least annually. Attendance at the scheduled and additional meetings throughout the year is shown in the table below.

Douglas McDougall retired from the Board on 29 January 2016. He attended all Board and Committee meetings that were held during the current financial year prior to retirement.

Board and Directors' performance appraisal

The performance of each Director was assessed and appraised by the Nomination Committee during the year. The Chairman's performance was assessed and appraised in his absence by the other Directors. The review and assessment by the Nomination Committee of each Director's performance as well as the performance of the Board as a whole and of its committees followed completion by each of the Directors of a written questionnaire. The appraisals and assessments considered, amongst other criteria, the balance of skills of the Board, training and development requirements, the contribution of individual Directors and the overall effectiveness of the Board and its committees.

	Board		Audit Committee		Remuneration Committee		Nomination Committee	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
James Will	9	9	3	3	3	3	1	1
Hamish Buchan	9	9	3	3	3	3	1	1
Russell Napier	9	9	3	3	3	3	1	1
Ian Hunter	9	9	3	3	3	3	1	1
Jane Lewis	9	9	3	3	3	3	1	1
Mick Brewis	9	9	3	3	3	3	1	1

Corporate Governance Report (continued)

Following this process it was concluded that the performance of each Director, the Chairman, the Board and its committees continues to be effective and that each Director and the Chairman remain committed to the Company.

The Board currently considers that the use of external consultants to facilitate the evaluation process is unlikely to be of significant benefit to the process, although the option of doing so is kept under review.

Appointment and re-election of Directors

The Company's policy on the appointment of Directors is shown on the Company's website, **www.thescottish.co.uk**

Jane Lewis and Mick Brewis were appointed in December 2015 and were elected by shareholders at the AGM on 29 January 2016. No external agency was used in the selection process as the Nomination Committee was itself able to identify a 'long list' of high quality and diverse candidates with the skills, knowledge and experience required.

New Directors receive an induction from the Company's Manager and the Company Secretary on joining the Board, and all Directors will receive other relevant training as necessary.

Hamish Buchan has served as a Director for more than nine years. After formal performance evaluation, the Board confirms that Hamish Buchan continues to perform effectively and with great commitment. It is the Board's current intention that Hamish Buchan will retire as a Director at the AGM to be held in 2018.

All Directors are appointed for initial three year terms, renewable every three years, subject to the Company's policy for all Directors to stand for re-election annually. Each of the Directors has made a valuable and effective contribution to the Company and the Board therefore recommends that shareholders vote in favour of their re-election.

Directors' letters of appointment will be available for inspection at the AGM.

The Company's Articles of Association provide that any Director or other officer of the Company may be indemnified out of the assets of the Company against any liability incurred by him or her as a Director or other officer of the Company to the extent permitted by law. The Company entered into deeds of indemnity in favour of each of its Directors on 26 August 2016. The deeds cover any liabilities that may be incurred by a Director in respect of any act or omission (alleged or otherwise) in the exercise of his or her powers or in respect of his or her duties in relation to the Company (including any liabilities arising from negligence, default or breach of trust or duty). The Directors are not indemnified in respect of liabilities to the Company, any regulatory or criminal fines, any costs incurred in connection with criminal proceedings in which the Director is convicted or civil proceedings brought by the Company in which judgement is given against him/her. In addition, the indemnity does not apply to any liability to the extent that it is recovered from another person (pursuant to the Directors' and officers' liability insurance policy which is maintained by the Company or otherwise).

The Board has direct access to the advice and services of the Company Secretary, who is responsible for ensuring that Board procedures are followed and that applicable regulations are complied with. The Company Secretary is also responsible for ensuring timely delivery of information and reports to the Board and for compliance with the Company's statutory obligations.

There is a procedure for Directors to seek independent professional advice at the expense of the Company.

Diversity policy

The Company recognises the need to consider the diversity of its staff and its Board of Directors. As a general principle, the Company will show no bias for age, gender, race, sexual orientation, marital status, religion, nationality, ethnic or national origins, or disability in considering the appointment of staff or board members and will ensure appointments are made on the basis of merit against objective criteria.

The structure, size and composition of the Board of Directors are reviewed at least annually by the Nomination Committee ensuring an appropriate balance of skills, experience, independence and knowledge. In considering new appointments to the Board, the Committee recognises the benefits of diversity on the Board, including gender. The Committee will consider both male and female candidates and ensure appointments are made on the basis of merit against objective criteria. As all appointments will be based on merit and in view of the small size of the Board, the Board does not consider it appropriate to set diversity targets.

Conflicts of interest

The Companies Act 2006 requires that a director of a company must avoid a situation in which he or she has, or might have, an interest that conflicts, or may conflict, with the interests of the company. Each Director submits a list of potential conflicts prior to each meeting. The other Board members consider these and recommend whether or not each potential conflict should be authorised.

Corporate Governance Report (continued)

Going concern

The accounts of the Company have been prepared on a going concern basis. It is the opinion of the Directors that, as most of the Company's assets are readily realisable and exceed its liabilities, it is expected that the Company will continue in operational existence for the foreseeable future. The viability statement, under which the Directors assess the prospects of the Company over a longer period, is contained on page 14.

Internal controls and risk management

The Directors acknowledge that they are responsible for the Company's systems of internal control and for reviewing their effectiveness on an annual basis. A process has been implemented for identifying, evaluating and managing risks faced by the Company. This process has been in place throughout the year ended 31 October 2016 and up to the date that the Financial Statements were approved.

The risk management process and systems of internal control are designed to manage rather than eliminate the risk of failure to achieve the Company's objective. It should be recognised that such systems can only provide reasonable, not absolute, assurance against material mis-statement or loss.

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

- investment and market price risk: the holding of securities and investing activities involve certain inherent risks. The Company holds a portfolio which is well diversified across industrial and geographical areas to help minimise these risks.
- interest rate risk: all debenture stocks and secured bonds are at fixed rates.
- liquidity risk: most of the Company's assets are investments in quoted equities and are readily realisable. Liquidity is reviewed when making investment decisions.
- foreign currency risk: the Company's overseas assets and income are subject to currency movements. Management monitors the Company's exposure to foreign currencies on a weekly basis.
- credit risk: the failure of a counterparty could result in a loss for the Company. The Company only deals with approved parties to agreed limits.
- discount volatility: the discount at which the Company's shares trade can change. The Company monitors the level of discount and has authority to buy back its shares so as to aim, in normal market conditions, to maintain a discount at or below 9% to ex-income NAV, with borrowings at market value.
- custody and depositary risk: failures of control by the depositary, custodian or third party service providers may result in the compromise of the Company's assets.
- operational risk: failure – including breaches of cyber security – of the Company's or third party service providers' systems could result in a misappropriation of assets, or inability to report. The Company has a business continuity plan in place and requires all third party service providers to demonstrate adequate control and continuity plans.

These and other risks facing the Company are reviewed regularly by the Audit Committee and the Board. The existence of assets is subject to annual external audit. A detailed risk map, which identifies significant risks relevant to the Company, is assessed twice per year. These risks include corporate strategy, investment decisions, financial and regulatory activities, business continuity and service providers. Further information on risks is detailed in note 17 to the accounts on pages 53 to 58 and on internal controls in the Report of the Audit Committee on page 30.

Relations with shareholders

The Company recognises the value of good communication with its shareholders. The management meets regularly with private client stockbrokers, wealth managers and the Company's major institutional shareholders. The Board receives regular briefings from the Company's broker. Newsletters are sent to shareholders during the year and are posted on the Company's website.

The Annual General Meeting of the Company is the main forum at which shareholders can ask questions of the Board and management. All shareholders are encouraged to attend the AGM and to vote on the resolutions which are contained in the Notice of Meeting on page 66 and which is posted to shareholders at least 21 days prior to the meeting. Shareholders who cannot attend the AGM are encouraged to vote by proxy on the resolutions. Proxy voting figures are given after each resolution has been voted on and are published after the end of the meeting.

Any shareholder who wishes to ask a question at another time should write to the Chairman at 6 Albyn Place, Edinburgh EH2 4NL.

Corporate Governance Report (continued)

Voting policy

Management reviews resolutions put to general meetings of the companies in which the Company invests and, wherever practicable, will cast its vote, usually by proxy.

Alternative Investment Fund Managers (AIFM) Directive – Leverage

For the purposes of the AIFM Directive, leverage is any method which increases the Company's exposure, including the borrowing of cash and the use of derivatives. It is expressed as a percentage of the Company's exposure to its net asset value and is calculated on a gross and commitment method.

Under the gross method, exposure represents the sum of the Company's positions after deduction of cash balances, without taking account of any hedging or netting arrangements. Under the commitment method, exposure is calculated without the deduction of cash balances and after certain hedging and netting positions are offset against each other.

The leverage limits are set by the AIFM and approved by the Board. The AIFM is also required to comply with the gearing parameters set by the Board in relation to borrowings.

The Company's maximum limits and actual leverage levels are shown below:

Leverage exposure	Gross method	Commitment method
Maximum limit (AIFM)	200%	200%
Maximum limit (Board)	20%	20%
Actual at 31 October 2016	5%	10%

Annual General Meeting

The Company's 129th AGM will be held at The Royal College of Physicians of Edinburgh, 9 Queen Street, Edinburgh, EH2 1JQ on Friday 3 February 2017 at 10.30am.

The Board considers that the resolutions to be proposed at the AGM are all in the best interests of the Company and of the shareholders as a whole and recommends that shareholders vote in favour of them.

Resolutions 1 to 12 are self explanatory. Resolution 13, set out in the Notice of the Annual General Meeting on page 66, seeks to renew the authority to repurchase shares until 3 May 2018. The principal reasons for such repurchases are to enhance the NAV of the shares by repurchasing shares for cancellation at prices which, after allowing for costs, improve the NAV for remaining shareholders and to allow implementation of the Company's discount control policy. The maximum number of shares which may be purchased pursuant to this authority shall be 14,383,606 or, if less, 14.99% of the aggregate issued capital of the Company on the date of passing of the resolution.

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 shares as derived from the Daily Official List of the London Stock Exchange over the five business days immediately preceding the date of purchase and (ii) the higher price of the last independent trade and the highest current independent bid. The minimum price which may be paid is 25p per share.

Resolution 13 will be proposed as a special resolution that requires to be passed by a three-quarters majority of votes cast at the AGM.

Carbon emissions

The Company's carbon emissions result predominantly from its consumption of electricity at its single office. Using Defra/DECC's GHG conversion factors for company reporting 2015, emissions for the year to September 2016 were 56.3 tonnes of CO_2e (2015: 55.8 tonnes CO_2e). This equates to 0.13 tonnes of CO_2e (2015: 0.13 tonnes of CO_2e) per square metre.

The Directors' Report, including the Responsibility Statement on page 24 and the going concern statement on page 28, has been approved by the Board.

The Strategic Report on pages 12 to 15 includes information relating to: Dividends, Share capital and Discount control policy (including share buybacks).

By order of the Board.

R&H Fund Services Limited
Company Secretary
3 January 2017

Report of the Audit Committee

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 and 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 auditor including:

- reviewing the scope and effectiveness of the annual audit;
- the auditor's remuneration;
- the terms of engagement; and
- the level of non-audit work, if any, carried out by the auditor.

Annual Report

The Audit Committee reviews the Annual Report and Accounts to ensure it is fair, balanced and understandable.

Internal controls

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 annually.

The Committee 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 Committee has applied the UK Corporate Governance Code by establishing a continuous process for identifying, evaluating and managing the significant risks the Company faces.

In compliance with the UK Corporate Governance Code, the Committee reviews the effectiveness of the Company's system of internal controls at six-monthly intervals.

The Committee's monitoring covers all controls, including financial, operational and compliance controls and risk management. It is based principally on reviewing reports from management and considering whether significant risks are identified, evaluated, managed and controlled, and whether any significant weaknesses are promptly remedied or require more extensive monitoring. During the course of its review of the system of internal controls, the Committee has not identified, nor been advised of, any material failings or weaknesses. Therefore a confirmation in respect of necessary actions has not been considered appropriate.

Following the outsourcing of the company secretarial, accounting and most administration functions, the Committee also monitors the controls and risk management of R&H Fund Services Limited (RHFSL).

The Committee also monitors the controls and risk management of the Company's custodian, Northern Trust.

There are procedures in place to ensure that:

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

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

Significant issues

The Committee considers the risks that may have an impact on the Company's Financial Statements.

The valuation and ownership of the Company's investments are risks. Investments are valued in accordance with the accounting policy on page 43. The prices of all investments are agreed by RHFSL with an independent source and the ownership of each investment agreed through confirmation received from the Company's independent global custodian, Northern Trust.

The incomplete or inaccurate recognition of income in the Financial Statements are also risks. Internal control systems, including frequent reconciliations, are in place to ensure income is fully accounted for. The Board is provided with information on the Company's income account at each meeting.

Report of the Audit Committee (continued)

Auditor

Assessment

The Company's auditor, Deloitte LLP, was appointed in 2002. The Committee reviews annually the services provided and the related fees. The corporate governance provisions relating to audit tenure have been reviewed and the Committee is of the opinion there is no need to conduct a competitive tender at the present time. The fees for audit and non-audit services were £34,600 (2015: £29,100) and £19,800 (2015: £16,850) respectively. Non-audit services include: tax compliance £6,800; assurance services £5,000 and pension scheme audit £8,000.

The Audit Committee reviews and approves any non-audit services provided by the auditor and assesses the impact of any non-audit work on the ability of the auditor to remain independent.

Partner rotation

The audit partners responsible for the audit are rotated every five years. Andrew Partridge, the current audit partner, was appointed in 2015.

Independence

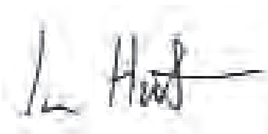
The Committee has satisfied itself of the continuing independence of Deloitte LLP. The Committee confirms the level of non-audit work undertaken does not compromise independence.

Re-appointment of auditor

A resolution to re-appoint Deloitte LLP as the Company's auditor, and to authorise the Directors to fix its remuneration, will be proposed at the forthcoming Annual General Meeting.

Disclosure of information to auditor

It is the Company's policy to allow the auditor 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 auditor is unaware and 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 auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.



Ian Hunter
Chairman of the Audit Committee
3 January 2017

Directors' Remuneration Report

This report has been prepared in accordance with the requirements of section 421 of the Companies Act 2006 incorporating The Large and Medium-Sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 and the Directors' Remuneration Report Regulations 2002. An ordinary resolution for the approval of the Directors' Remuneration Report will be put to shareholders at the AGM on 3 February 2017.

Remuneration Committee

The Company has a Remuneration Committee, the terms of reference of which include setting the fees of the Directors. The full terms of reference are posted on the Company's website. The Committee is chaired by Jane Lewis and the other members are Hamish Buchan, Mick Brewis, Russell Napier, James Will and Ian Hunter.

Policy on Directors' fees

On 31 October 2016, the Board consisted of six Directors, all of whom are non-executive. Directors' fees are set by the Remuneration Committee 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. Fees recommended by the Remuneration Committee are subject to approval by the Board. The Company's articles of association provide for a maximum level of total remuneration of £250,000 in the aggregate payable to Directors in any financial year.

The policy on Directors' fees was approved at the AGM held in January 2014 and this policy applied for the period up to 31 October 2016. A resolution on Director remuneration policy will be put to the AGM in February 2017 and it is intended that this policy will apply for the period to 31 October 2019.

The Remuneration Committee agreed to maintain Directors' fees, with effect from 1 November 2016, at £50,000 per annum for the Chairman and £30,000 per annum for other Directors.

The Board may amend the level of remuneration paid to Directors within the parameters of the Directors' remuneration policy.

Directors are remunerated exclusively by fixed fees in cash and do not receive bonuses, share options, long-term incentives, pension or other benefits.

	Proposed fees for the year to 31 October 2017 £	**Actual fees for the year to 31 October 2016 £**
Chairman	50,000	50,000
Non-executive Director	30,000	30,000

An ordinary resolution for the approval of this Directors' remuneration policy will be put to shareholders at the forthcoming AGM.

Following the votes on this remuneration policy, the Remuneration Committee will take into account shareholders' views should there be any material change to the policy.

Annual statement

There were no changes to the level of Directors' fees during the financial year.

Directors' emoluments (audited)

	Year to 31 October 2016 £	**Year to 31 October 2015 £**
James Will	45,000	30,000
Douglas McDougall (retired 29 January 2016)	12,500	50,000
Hamish Buchan	30,000	30,000
Russell Napier	30,000	30,000
Ian Hunter	30,000	25,952
Jane Lewis (appointed 14 December 2015)	26,309	-
Mick Brewis (appointed 14 December 2015)	26,309	-
James MacLeod (retired 30 January 2015)	-	7,500
	200,118	173,452

As all the Directors are non-executive and their fees are payable quarterly with no performance-based element, there is no correlation between the Directors' fees and the employees' remuneration. The Company is of the view, therefore, that it is not necessary to consult with employees when drawing up the Remuneration Report.

Service contracts

The Directors do not have service contracts. All Directors retire and seek re-election annually.

Directors' Remuneration Report (continued)

Directors' interests

The interests of the Directors and their families in the Company's capital are as follows:

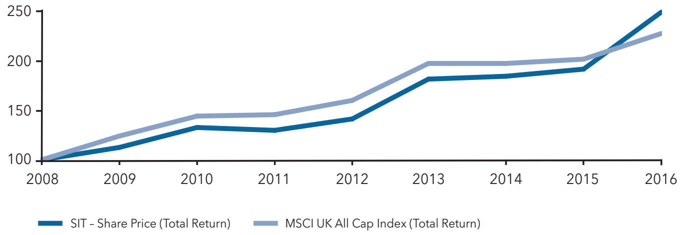
	Shares of 25p 31 October 2016	31 October 2015
James Will	8,000*	8,000*
Hamish Buchan	22,325	22,325
Russell Napier	14,000	14,000
Ian Hunter	22,608	22,608
Jane Lewis	1,000	–
Mick Brewis	10,000	–

* In addition to the 8,000 shares held, Mr Will is a trustee of a trust which holds 22,000 shares in the Company. Mr Will is beneficially or potentially beneficially interested in this holding.

There were no changes in the Directors' interests between 31 October 2016 and 3 January 2017.

Company performance

The graph below shows the Company's eight year share price total return compared to the notional total return of the MSCI UK All Cap Index over the same period.



This index has been chosen as it is a common performance comparator for companies such as The Scottish Investment Trust.

Relative importance of Directors' fees

	2016 £'000	2015 £'000	% Change
Directors' fees	200	173	15.6
Expenses	4,080	4,900	(16.7)
Staff costs	2,277	3,117	(26.9)
Dividends paid and proposed	21,677	16,981	27.7

Directors' fees as a percentage of:	2016 %	2015 %
Expenses	4.9	3.5
Staff costs	8.8	5.6
Dividends paid and proposed	0.9	1.0

Excluding discretionary performance-related bonuses, expenses decreased by 17.7% and staff costs decreased by 32.0%.

Further details of the Company's expenses and staff costs can be found in notes 2 and 3, respectively, on page 45 and of dividends paid in note 7 on page 49.

Approval

Voting on the resolution to approve the Directors' Remuneration Report 2015, at the Company's AGM on 29 January 2016, was as follows:

	% For	% Against	% Withheld
Approve Directors' Remuneration Report	98.8	0.9	0.3

The Directors' Remuneration Report was approved by the Board on 3 January 2017 and signed on its behalf by:

Jane Lewis
Chairman of the Remuneration Committee
3 January 2017

Independent Auditor's Report

Opinion on financial statements of The Scottish Investment Trust PLC

In our opinion the Financial Statements:

- give a true and fair view of the state of the Company's affairs as at 31 October 2016 and of its return for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and the Statement of Recommended Practice issued by the Association of Investment Companies in November 2014 "Financial Statements of Investment Trust Companies and Venture Capital Trusts"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

The financial statements comprise the Income Statement, Balance Sheet, Statement of Comprehensive Income, Statement of Changes in Equity, Cash Flow Statement, Accounting Policies and the related notes 1 to 18.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland") and the Statement of Recommended Practice issued by the Association of Investment Companies in November 2014 "Financial Statements of Investment Trust Companies and Venture Capital Trusts".

Going concern and the Directors' assessment of the principal risks that would threaten the solvency or liquidity of the Company

As required by the Listing Rules we have reviewed the Directors' statement regarding the appropriateness of the going concern basis of accounting contained within accounting policy (a) to the financial statements and the Directors' statement on the longer-term viability of the Company in the Strategic Report on page 14.
We have nothing material to add or draw attention to in relation to:

- the Directors' confirmation on page 28 that they have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures on pages 28 and 53 to 58 that describe those risks and explain how they are being managed or mitigated;
- the Directors' statement on page 28 about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- the Directors' explanation on page 14 as to how they have assessed the prospects of the Company, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We agreed with the Directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.

Independence

We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and we confirm that we are independent of the Company and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.

Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

Independent Auditor's Report (continued)

Risk	How the scope of our audit responded to the risk
Valuation and ownership of listed investments Listed investments of £891.5m (2015: £772.3m) represent the most significant number on the balance sheet and are the main driver of the Company's performance. Listed investments represented 95.3% (2015: 91.9%) of total assets of the Company at 31 October 2016 (see accounting policy (b) and note 8). There is a risk that the prices quoted in respect of the listed investments held by the Company may not be reflective of fair value. There is a risk over whether listed investments recorded are the property of the Company.	We have performed the following procedures to address this risk: • critically assessed the design and implementation of the controls over valuation and ownership of investments; • reviewed the Northern Trust controls report to understand and evaluate the design and implementation of controls around ownership of investments; • confirmed 100% of the bid prices of quoted investments on the investment ledger at year end to closing bid prices published by an independent pricing source; and • confirmed 100% of the Company's investment portfolio at the year end to confirmations received directly from the custodian and depositary.
Recognition of investment income Dividend income of £28.3m (2015: £23.8m) represents 98.8% (2015: 98.7%) of the total income of the trust (see note 1). Dividends from equity shares are accounted for on an ex-dividend basis. Overseas dividends are accounted for on an ex-dividend basis and included gross of withholding tax. There is a risk that revenue is incomplete.	We have performed the following procedures to address this risk: • critically assessed the design and implementation of the controls over revenue recognition including management's monitoring of accuracy and completeness of revenue; • for a sample of investments held, agreed the ex-dividend dates and rates for dividends declared during the year and agree the amounts recorded within the general ledger to confirm that the recognition policy has been applied consistently; and • agreed a sample of dividend income receipts to bank statements.

The description of risks above should be read in conjunction with the significant issues considered by the Audit Committee discussed on page 30.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the Company to be £8.5m (2015: £7.3m), which is 1% (2015: 1%) of net assets. Net assets has been chosen as a benchmark as it is considered the most relevant benchmark for investors.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £169,800 (2015: £147,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

Independent Auditor's Report (continued)

An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the entity and its environment, including internal control, and assessing the risks of material misstatement. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

We note that the accounting and administration for the Company has been outsourced to R&H Fund Services Limited ("RHFSL") as administrator. As part of our audit we evaluated the design and implementation of relevant controls in place at RHFSL.

Opinion on other matters prescribed by the Companies Act 2006

Our audit was scoped by obtaining an understanding of the entity and its environment. In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' Remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' Remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns. We have nothing to report arising from these matters.

Corporate Governance Statement

Under the Listing Rules we are also required to review part of the Corporate Governance Statement relating to the Company's compliance with certain provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

Our duty to read other information in the Annual Report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Company acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the Annual Report is fair, balanced and understandable and whether the Annual Report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

Independent Auditor's Report (continued)

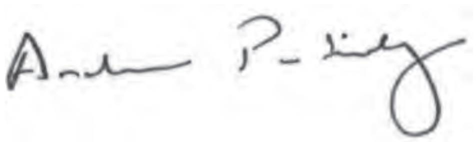
Respective responsibilities of Directors and auditor

As explained more fully in the Responsibility Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.



Andrew Partridge CA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor, Edinburgh, United Kingdom
3 January 2017


ELIZABETH·II·DEI·GRA·REG·FID·DEF
IRB

Income Statement

For the year to 31 October 2016

	Notes	2016 Revenue £'000	2016 Capital £'000	2016 Total £'000	2015 Revenue £'000	2015 Capital £'000	2015 Total £'000
Net gains on investments held at fair value through profit and loss	8	–	177,326	177,326	–	15,778	15,778
Net gains on currencies		–	6,024	6,024	–	3	3
Income	1	28,440	–	28,440	24,057	–	24,057
Expenses	2	(2,407)	(1,673)	(4,080)	(2,892)	(2,008)	(4,900)
Net Return before Finance Costs and Taxation		26,033	181,677	207,710	21,165	13,773	34,938
Premium on repayment of secured bonds		–	(7,393)	(7,393)	–	–	–
Interest payable	5	(2,529)	(2,529)	(5,058)	(3,096)	(3,095)	(6,191)
Return on Ordinary Activities before Tax		23,504	171,755	195,259	18,069	10,678	28,747
Tax on ordinary activities	6	(1,534)	–	(1,534)	(984)	–	(984)
Return attributable to Shareholders		**21,970**	**171,755**	**193,725**	**17,085**	**10,678**	**27,763**
Return per share		**21.62p**	**169.04p**	**190.66p**	**15.91p**	**9.95p**	**25.86p**
Weighted average number of shares in issue during the year			**101,606,378**			**107,353,426**	

	Notes	2016 £'000	2015 £'000
Dividends paid and proposed	7		
Interim 2016: 5.25p (2015: 5.00p)		5,276	5,366
Final 2016: 8.25p (2015: 7.50p)		7,984	7,864
Special 2016: 9.00p (2015: 3.50p)		8,671	3,670
Total 2016: 22.50p (2015: 16.00p)		**21,931**	**16,900**

All revenue and capital items in the above statement derive from continuing operations.

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 2016

		2016		2015	
	Notes	£'000	£'000	£'000	£'000
Fixed Assets					
Equity investments	8		893,432		774,236
Current Assets					
Debtors	10	2,260		24,641	
Cash	8	11,694		14,815	
Cash equivalents	8	29,210		59,138	
		43,164		98,594	
Creditors: liabilities falling due within one year	11	(662)		(32,825)	
Net Current Assets			**42,502**		**65,769**
Total Assets less Current Liabilities			**935,934**		**840,005**
Creditors: liabilities falling due after more than one year					
Long-term borrowings at par	12		(83,645)		(104,399)
Pension liability	4		(3,272)		(2,550)
Net Assets			**849,017**		**733,056**
Capital and Reserves					
Called-up share capital	13		24,086		26,397
Share premium account	14		39,922		39,922
Other reserves					
Capital redemption reserve	14		46,775		44,464
Capital reserve	14		682,209		570,812
Revenue reserve	14		56,025		51,461
Shareholders' Funds			**849,017**		**733,056**
Net Asset Value per share with borrowings at par			**881.2p**		**694.3p**
Number of shares in issue at year end			**96,342,683**		**105,587,426**

The Financial Statements on pages 39 to 58 were approved by the Board of Directors and were signed on its behalf by:

James Will
Chairman
3 January 2017

The accompanying notes are an integral part of this statement.

Statement of Comprehensive Income

For the year to 31 October 2016

	Notes	2016 Revenue £'000	2016 Capital £'000	2016 Total £'000	2015 Revenue £'000	2015 Capital £'000	2015 Total £'000
Return attributable to shareholders		21,970	171,755	193,725	17,085	10,678	27,763
Actuarial losses relating to pension scheme	4	(596)	(414)	(1,010)	(252)	(175)	(427)
Total comprehensive income for the year		21,374	171,341	192,715	16,833	10,503	27,336
Total comprehensive income per share		21.04p	168.63p	189.67p	15.68p	9.78p	25.46p

Statement of Changes in Equity

For the year to 31 October 2016

	Notes	2016 £'000	2015 £'000
Balance at 1 November		733,056	734,293
Total recognised gains		192,715	27,336
Dividend payments	7	(16,810)	(13,147)
Share buybacks		(59,944)	(15,426)
Balance at 31 October		849,017	733,056

The accompanying notes are an integral part of this statement.

Cash Flow Statement

As at 31 October 2016

	2016 £'000	2015 £'000
Operating activities		
Net revenue before finance costs and taxation	26,033	21,165
Expenses charged to capital	(1,673)	(2,008)
Increase in accrued income	(287)	(92)
Decrease in other payables	(403)	(297)
Decrease in other receivables	81	861
Adjustment for pension funding	(288)	(490)
Tax on investment income	(1,919)	(1,289)
Net cash inflow from operating activities	**21,544**	**17,850**
Investing activites		
Purchases of investments	**(162,884)**	**(319,796)**
Disposals of investments	**218,530**	**326,984**
Cash flows from investing activities	**55,646**	**7,188**
Cash flows before financing activities	**77,190**	**25,038**
Financing activities		
Equity dividends paid	(16,810)	(13,147)
Repayment of secured bond	(28,241)	-
Share buybacks	(60,158)	(15,042)
Interest paid	(5,030)	(6,075)
Overseas tax recovered	–	205
Cash flows from financing activities	**(110,239)**	**(34,059)**
Net movement in cash and cash equivalents	**(33,049)**	**(9,021)**
Cash and cash equivalents at the beginning of year	**73,953**	**82,974**
Cash and cash equivalents at the end of year	**40,904**	**73,953**

The accompanying notes are an integral part of this statement.

Accounting Policies

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

(a) Basis of accounting

The Financial Statements are prepared on a going concern basis (see page 28) under the historical cost convention, modified to include the revaluation of investments at fair value, and in accordance with applicable United Kingdom accounting standards. This is the first year that the Company has presented its Financial Statements under Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council and under the AIC's Statement of Recommended Practice "Financial Statements of Investment Trust Companies and Venture Capital Trusts" (SORP) issued in 2014. The last Financial Statements under previous UK GAAP were for the year ended 31 October 2015 and the date of transition to FRS 102 was therefore 1 November 2014. There have been no changes in accounting policies as a consequence of adopting FRS 102. The Cash Flow Statement and details of the Pension Scheme (note 4) for 31 October 2015, have been re-presented to be consistent with the format of FRS 102. The Financial Statements have been prepared on a going concern basis. The functional and presentation currency is pounds sterling, which is the currency of the environment in which the Company operates.

(b) Valuation of investments

Listed investments and current asset investments are valued at fair value through profit and 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 International Private Equity and 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, permanent impairments in the value of investments and unrealised surpluses and deficits on the revaluation of investments are taken to capital reserve as explained in note (i) below.

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

(c) Valuation of debt

The Company's secured bonds and debentures are held at amortised cost being the nominal value of the bonds in issue less the unamortised costs of issue.

(d) Income

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

Interest and other income from non-equity securities, including debt securities, are recognised on a time apportionment basis so as to reflect the effective yield on the securities.

Where the Company elects to receive dividends in the form of additional shares (scrip dividends) 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.

(e) Expenses

All expenses are accounted for on an accruals basis.

Investment expenses are allocated equally between revenue and capital reserve in line with the Directors' expectations of the nature of long-term future returns from the Company's investments (2015: same).

Expenses which are incidental to the acquisition or disposal of an investment are treated as part of the cost, or deducted from the sales proceeds, of the investment.

(f) Finance costs

Interest payable is charged one-half to revenue reserve and one-half to capital reserve in line with the Directors' expectations of long-term future returns from the Company's investments (2015: same).

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

(g) Taxation

Current tax is provided at amounts expected to be paid (or recovered).

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.

Accounting Policies (continued)

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. The Company has no deferred tax asset or liability.

(h) Foreign currency

Transactions denominated in foreign currencies are recorded in the local currency at actual exchange rates at the date of the transaction or, where appropriate, at the rate of exchange in a related forward contract. 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.

(i) Capital reserve

The following are accounted for in this reserve:

- gains and losses on the realisation of investments;
- realised and unrealised exchange differences of a capital nature;
- realised and unrealised gains and losses on transactions undertaken to hedge an exposure of a capital nature;
- the funding of share and secured bond buybacks;
- expenses and interest charged to capital;
- increases and decreases in the valuation of investments held at the year end; and
- increases and decreases in the valuation of the pension fund surplus or deficit.

(j) Pensions

Employer contributions for the defined benefit scheme are calculated by reference to the triennial actuarial valuation. Employer contributions for the defined contribution scheme are a predetermined percentage of the employee’s salary.

Actuarial gains and losses are recognised in the Statement of Comprehensive Income.

Further information on the Company’s pension scheme is contained in note 4 to the Financial Statements on pages 46 to 48.

Critical accounting estimates and judgements

The preparation of the financial statements necessarily requires the exercise of judgement, both in application of accounting policies, which are set out above, and in the selection of assumptions used in the calculation of estimates. These estimates and judgements are reviewed on an ongoing basis and are continually evaluated based on historical experience and other factors. However, actual results may differ from these estimates. The most significantly affected component of the financial statements and associated critical judgements is as follows:

Defined benefit scheme

The estimation of the expected cash flows used in the calculation of the defined benefit scheme's liabilities includes a number of assumptions around mortality and inflation rates applicable to defined benefit schemes. More detail is given in note 4 of the financial statements. The Directors take actuarial advice when selecting these assumptions and when selecting the discount rate used to calculate the defined benefit scheme deficit.

Notes to the Financial Statements

For the year to 31 October 2016

1. Income

	2016 £'000	2015 £'000
UK dividends including special dividends of £152,000 (2015: £374,000)	7,511	7,333
Overseas dividends including special dividends of £240,000 (2015: £462,000)	20,836	16,423
Income from unlisted investments	–	86
Deposit interest	93	215
	28,440	**24,057**

2. Expenses

	2016 £'000	2015 £'000
Staff costs (note 3)	2,277	3,117
Auditor's remuneration for audit services	35	29
Auditor's remuneration for pension scheme audit	8	6
Auditor's remuneration for tax compliance services	7	7
Auditor's remuneration for other assurance services	5	4
Investment and accounting services	306	325
Professional fees, marketing and scheme administration	422	417
Company secretarial and administration fee	117	–
Office expenses	247	296
Depositary, custody and bank charges	175	206
Other expenses	481	493
	4,080	**4,900**

3. Staff costs

	2016 £'000	2015 £'000
Remuneration	1,766	2,343
Social security costs	223	268
Pensions and post-retirement benefits	288	506
	2,277	**3,117**

The average monthly number of persons employed during the year was:	2016 Number	2015 Number
Investment	4	8
Administration	6	8
	10	**16**

Notes to the Financial Statements (continued)

4. Pension scheme

The Company's defined benefit pension scheme, based on final salary, closed to future accrual on 30 September 2015. Members of the defined benefit pension scheme were enrolled in the Company's defined contribution scheme on 1 October 2015. The assets of the scheme are held separately from those of the Company. The scheme is under the control of trustees and is administered by Punter Southall & Co, consulting actuaries.

Actuarial valuations are obtained triennially and are updated at each balance sheet date. A full actuarial valuation was carried out in 2013 by Punter Southall & Co which disclosed a scheme deficit of £3,406,000. The Company agreed to meet this deficit over nine years by equal instalments. It should be noted that this deficit differs from that disclosed by Financial Reporting Standard 102 (FRS102) which is set out below and which is the liability required to be shown in the Financial Statements. The main reason for the difference is that FRS102 requires future liabilities to be calculated actuarially using a rate of return based on the yield from investment grade corporate bonds which is lower than the expected rate of return on the equities in which the scheme is invested. The FRS102 liability is separately disclosed in the balance sheet.

The triennial actuarial valuation for 2016 is ongoing.

For the defined benefit scheme, the amounts charged against revenue, as part of staff costs, are the actuarial estimation of 'current service costs' (that is, the increase in scheme liabilities arising from employee service) for the current accounting period and gains and losses from settlements (whereby the Company is relieved of a pension obligation) and from curtailments (whereby the estimated years of future service are reduced) in the period. The cost of past service benefits which have vested are charged against revenue as they arise. Where such benefits have not vested, costs are accrued until vesting occurs.

The Company operates a defined contribution scheme under which the Company has agreed to pay contributions as a percentage of salary, but has no obligation to pay further contributions. For this scheme, the amount charged to revenue is the contributions payable for the year.

The following statement has been prepared for the defined benefit scheme in accordance with the requirements of FRS102, the purpose of which is to ensure that:

1. the Company's Financial Statements show the assets of the scheme at fair value, and the liabilities arising from its obligations to employees on their retirement, actuarially estimated as prescribed by FRS102;

2. the operating costs of providing retirement benefits to employees, actuarially estimated, are charged against the profits of the years in which employees earn those benefits; and

3. the Financial Statements adequately disclose the cost of providing retirement benefits and the related gains, losses, assets and liabilities.

Notes to the Financial Statements (continued)

4. Pension scheme (continued)

The major assumptions used for the actuarial valuation of the final salary scheme were:	2016 %	2015 %	2014 %	2013 %	2012 %
Rate of increase in salaries	3.2	3.2	3.2	3.2	3.7
Rate of increase in pensions in payment	3.7	3.8	3.8	3.8	3.5
Discount rate	3.3	4.3	4.3	4.4	4.8
Inflation – RPI	3.5	3.6	3.6	3.7	3.1
– CPI	2.5	2.8	2.8	2.9	2.3
Life expectancies on retirement at age 60 are:					
Retiring today – males	27.2	28.1	27.9	27.8	27.7
– females	29.4	30.8	30.7	30.6	30.5
Retiring in 20 years' time – males	29.5	30.2	30.1	30.0	29.9
– females	31.8	32.9	32.8	32.7	32.6

The fair value of the scheme assets and the present value of the scheme liabilities were:	2016 £'000	2015 £'000	2014 £'000	2013 £'000	2012 £'000
Equities	7,401	6,224	4,996	5,043	4,007
Bonds	6,181	5,717	5,922	4,879	3,845
With-profit policies	264	251	149	202	192
Cash	1,976	2,343	2,243	1,646	2,294
Total fair value of assets	15,822	14,535	13,310	11,770	10,338
Present value of scheme liabilities	(19,094)	(17,085)	(15,923)	(14,330)	(12,844)
Net pension liability	**(3,272)**	**(2,550)**	**(2,613)**	**(2,560)**	**(2,506)**

Reconciliation of the opening and closing balances of the present value of the scheme assets	2016 £'000	2015 £'000
Fair value of scheme assets at beginning of year	14,535	13,310
Interest income on scheme assets	605	585
Returns on assets, excluding interest income	1,272	(30)
Contributions by employer	389	819
Contributions by scheme participants	–	31
Benefits paid	(979)	(240)
Fair value of scheme assets at end of year	**15,822**	**14,535**

Reconciliation of the opening and closing balances of the present value of the scheme liabilities	2016 £'000	2015 £'000
Liabilities at beginning of year	17,085	15,923
Current service cost	–	327
Interest cost	706	687
Contributions by scheme participants	–	31
Actuarial losses	2,282	357
Benefits paid	(979)	(240)
Liabilities at end of year	**19,094**	**17,085**

Notes to the Financial Statements (continued)

4. Pension scheme (continued)

Analysis of amount chargeable to operating profit during the year	2016 £'000	2015 £'000	2014 £'000	2013 £'000	2012 £'000
Current service cost	–	358	423	407	369
Past service cost	–	–	–	–	41
Total operating charge	–	358	423	407	410
Employee contribution to be set off	–	(31)	(38)	(40)	(39)
Analysis of amount credited to other finance income:					
Interest income return on assets	605	685	643	544	503
Interest on liabilities	(706)	(687)	(636)	(623)	(571)
Net return	(101)	(2)	7	(79)	(68)
Movement in deficit during year: Deficit at beginning of year	(2,550)	(2,613)	(2,560)	(2,506)	(2,249)
Movement in year:					
Current service cost	–	(358)	(423)	(407)	(369)
Past service cost	–	–	–	–	(41)
Contributions for year	389	850	858	747	782
Net return from other finance income	(101)	(2)	7	(79)	(68)
Actuarial losses in Statement of Comprehensive Income	(1,010)	(427)	(495)	(315)	(561)
Deficit at end of year	**(3,272)**	**(2,550)**	**(2,613)**	**(2,560)**	**(2,506)**

Notes to the Financial Statements (continued)

5. Interest payable

	2016 £'000	2015 £'000
On secured bonds and debentures	4,964	6,075
Amortisation of secured bonds issue expenses	94	116
	5,058	**6,191**

6. Tax on ordinary activities

	2016 £'000	2015 £'000
Taxation		
UK corporation tax at 20.00% (2015: 20.42%)	–	–
Overseas tax	1,534	984
Current tax	**1,534**	**984**

The tax charge for the year is lower than that resulting from applying the standard rate of corporation tax in the UK.

	2016 £'000	2015 £'000
Return on ordinary activities before tax	195,259	28,747
Corporation tax at 20.00% (2015: 20.42%)	39,052	5,870
Effects of:		
Non-taxable capital returns	(35,191)	(2,181)
Finance costs and expenses charged to capital	(840)	(1,042)
Non-taxable dividends	(5,669)	(4,868)
Unutilised expenses	2,648	2,221
Overseas tax	1,534	984
	1,534	**984**

7. Dividends

	2016 £'000	2015 £'000
Dividends paid on shares recognised in the year:		
Previous year final of 7.50p per share (2014: 7.20p)	7,864	7,781
Previous year special of 3.50p per share (2014: nil p)	3,670	–
Interim of 5.25p per share (2015: 5.00p)	5,276	5,366
	16,810	**13,147**

Notes to the Financial Statements (continued)

8. Investments

	2016 £'000	2015 £'000
Investments listed on a recognised investment exchange	891,504	772,344
Unlisted investments	1,575	1,539
Subsidiary undertakings (note 9)	353	353
	893,432	**774,236**

	Listed in UK £'000	Listed overseas £'000	Unlisted £'000	Total £'000
Opening book cost	206,261	490,195	579	697,035
Opening unrealised appreciation	25,497	50,391	1,313	77,201
Opening valuation	**231,758**	**540,586**	**1,892**	**774,236**
Movements in the year:				
Purchases at cost	87,430	47,060	–	134,490
Sales – proceeds	(46,092)	(146,355)	(173)	(192,620)
– realised gains/(losses) on sales	20,082	41,364	(48)	61,398
Increase in unrealised appreciation	6,758	108,913	257	115,928
Closing valuation	**299,936**	**591,568**	**1,928**	**893,432**
Closing book cost	267,681	432,264	358	700,303
Closing unrealised appreciation	32,255	159,304	1,570	193,129
Closing valuation	**299,936**	**591,568**	**1,928**	**893,432**

Total purchases of equities amounted to £134,490,000 (2015: £337,923,000) and sales were £192,620,000 (2015: £346,644,000). The purchases at cost and sales proceeds figures include transaction costs of £1,083,000 (2015: £2,062,000), comprising commissions, government stamp duty and other fees.

Unlisted investments include heritable property valued at £1,050,000 (2015: £1,050,000). The property was valued on an open market basis by Allied Surveyors Scotland PLC, chartered surveyors, on 8 October 2015.

	2016 £'000	2015 £'000
Realised gains on sales	61,398	96,207
Increase/(decrease) in unrealised appreciation	115,928	(80,429)
Net gains on investments	**177,326**	**15,778**

		2016			2015	
Financial assets – cash and deposits	Fixed £'000	Floating £'000	Total £'000	Fixed £'000	Floating £'000	Total £'000
Sterling	10,000	11,044	21,044	30,000	9,972	39,972
US dollar	19,210	650	19,860	29,138	4,843	33,981
	29,210	**11,694**	**40,904**	**59,138**	**14,815**	**73,953**

The maximum period for fixed rate deposits outstanding at the year end was 1 day (2015: 6 days). The weighted average fixed interest rate at the year end was 0.20% (2015: 0.19%). Floating interest rates vary in relation to short-term rates in the currencies in which deposits are held.

Notes to the Financial Statements (continued)

9. Subsidiary undertaking

The Company has investments in the following subsidiary:

Name of undertaking	Principal activities	Country of incorporation and voting and operation	Description of shares held	Proportion of nominal value of issued shares and voting rights held
S.I.T. Savings Limited	AIFM and investment products	UK	Ordinary	100%

The accounts of this subsidiary 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 subsidiary reflects and does not exceed the value of the underlying assets.

10. Debtors

	2016 £'000	2015 £'000
Amounts due from brokers	–	22,898
Overseas tax recoverable	734	423
Prepayments and accrued income	1,526	1,320
	2,260	**24,641**

11. Creditors: liabilities falling due within one year

	2016 £'000	2015 £'000
Amounts due to brokers	170	31,790
Other creditors	492	1,035
	662	**32,825**

12. Creditors: liabilities falling due after more than one year

	2016		2015	
	Book value £'000	Fair value £'000	Book value £'000	Fair value £'000
4% Perpetual Debenture Stock	350	401	350	301
4¼% Perpetual Debenture Stock	700	853	700	640
5% Perpetual Debenture Stock	1,009	1,448	1,009	1,086
5¾% Secured Bonds due 17 April 2030	81,586	106,357	102,340	121,567
	83,645	**109,059**	**104,399**	**123,594**

The secured bonds are secured by a floating charge over the assets of the Company and have a redemption value in 2030 of £82,827,000.

The debenture stocks and secured bonds are stated in the balance sheet at book value. Restating them at market value of £109.0m (2015: £123.6m) has the effect of decreasing the year end NAV per share from 881.2p to 854.9p (2015: decreasing from 694.3p to 676.1p).

Market value is the estimated fair value of the Company's secured bonds and debenture stocks. The current estimated fair value of the Company's borrowings is based on the redemption yield of the relevant existing reference gilt plus a margin derived from the spread of BBB UK corporate bond yields (15 years+) over UK gilt yields (15 years+). The reference gilt for the secured bonds is the 6% UK Treasury Stock 2028 and the reference gilt for the perpetual debenture stocks is the longest-dated UK Treasury stock listed in the Financial Times.

£21,188,000 nominal of the 5¾% Secured Bonds due 17 April 2030 were repurchased on 4 December 2015.

Notes to the Financial Statements (continued)

13. Called-up share capital

	2016	2015
Shares of 25p	£24,086,000	£26,397,000
Number of shares in issue	96,342,683	105,587,426

9,244,743 shares were repurchased in the stockmarket during the year to 31 October 2016 (2015: 2,479,500).

388,000 shares were repurchased from 1 November 2016 to 3 January 2017.

14. Reserves

	Share premium account £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000
At 31 October 2015	39,922	44,464	570,812	51,461
Net gains on currencies	–	–	6,024	–
Net gains on realisation of investments	–	–	61,398	–
Increase in unrealised appreciation	–	–	115,928	–
Share buybacks	–	2,311	(59,944)	–
Actuarial losses relating to pension scheme	–	–	(414)	(596)
Expenses and interest charged to capital	–	–	(4,202)	–
Premium on debenture buyback	–	–	(7,393)	–
Return attributable to shareholders	–	–	–	21,970
Dividends paid	–	–	–	(16,810)
At 31 October 2016	**39,922**	**46,775**	**682,209**	**56,025**

15. Analysis of changes in net debt during the year

	31 October 2015 £'000	Cash flows £'000	Non-cash movements £'000	31 October 2016 £'000
Cash	14,815	(3,121)	–	11,694
Short-term deposits	59,138	(29,928)	–	29,210
Long-term borrowings at par	(104,399)	28,241	(7,487)	(83,645)
	(30,446)	**(4,808)**	**(7,487)**	**(42,741)**

16. Contingencies, guarantees and financial commitments

	2016 £'000	2015 £'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	**950**	**753**

Notes to the Financial Statements (continued)

17. Financial instruments

Summary of financial assets and financial liabilities by category

The Company's financial assets and financial liabilities at the balance sheet date are as follows. The Accounting Policies on page 43 explain how the various categories of financial instrument are measured.

	2016 £'000	2015 £'000
Financial assets		
Financial assets at fair value through profit and loss:		
Fixed asset investments – designated as such on initial recognition	893,432	774,236
Current assets:		
Debtors	2,260	24,641
Cash and deposits	40,904	73,953
	43,164	98,594
	936,596	**872,830**
Financial liabilities		
Creditors: liabilities falling due within one year		
Amounts due to brokers	(170)	(31,790)
Other creditors	(492)	(1,035)
	(662)	(32,825)
Creditors: liabilities falling due after more than one year		
Long-term borrowings at par	(83,645)	(104,399)
Pension liability	(3,272)	(2,550)
	(86,917)	(106,949)
	(87,579)	**(139,774)**

Notes to the Financial Statements (continued)

17. Financial instruments (continued)

Risk management policies and procedures

As an investment trust, the Company invests in equities and other investments for the long term so as to secure its investment objective stated on the inside front cover. In pursuing its investment objective, the Company is exposed to a variety of risks that could result in a reduction in the Company's net assets and a reduction in the profits available for dividend.

The main risks include investment and market price risk (comprising foreign currency risk and interest rate risk), liquidity risk and credit risk. The Directors' approach to the management of these risks is set out below. The Directors of the Company and of S.I.T. Savings Limited coordinate the Company's risk management.

The Company's policies and processes for managing the risks, and the methods used to measure the risks, which are set out below, have not changed from those applied in the previous year.

a. Investment and market price risk

The holding of securities and investing activities involve certain inherent risks. Events may occur which affect the value of investments. The Company holds a portfolio which is well diversified across industrial and geographical areas to help minimise these risks. It may also use derivatives. From time to time, the Company may wish to use derivatives in order to protect against a specific risk or to facilitate a change in investment strategy such as the movement of funds from one area to another. No such transaction may take place without the prior authorisation of the Board.

b. Foreign currency risk

Approximately 70% of the Company's assets are invested overseas which gives rise to a currency risk. From time to time, specific hedging transactions are undertaken. The Company's overseas income is subject to currency movements. The currency profile of the Company's monetary assets and liabilities is set out below.

Management of the risk

Management monitors the Company's exposure to foreign currencies on a daily basis, and reports to the Board at regular intervals. Management measures the risk to the Company of the foreign currency exposure by considering the effect on the Company's net asset value and income of a movement in the rates of exchange to which the Company's assets, liabilities, income and expenses are exposed.

Foreign currency borrowings and forward currency contracts may be used to limit the Company's exposure to anticipated future changes in exchange rates which might otherwise adversely affect the value of the portfolio of investments or the income received from them. These borrowings and contracts are limited to currencies and amounts commensurate with the asset exposure to those currencies.

Income denominated in foreign currencies is converted to sterling on receipt. The Company does not use financial instruments to mitigate the currency exposure in the period between the time that income is receivable and its receipt.

Notes to the Financial Statements (continued)

17. Financial instruments (continued)

Foreign currency exposure

The fair values of the Company's monetary items denominated in foreign currencies at 31 October 2016 and 31 October 2015 are shown below.

2016	US $ £'000	Euro £'000	Other £'000
Debtors (amounts due from brokers, dividends receivable and accrued income)	212	292	1,302
Creditors (amounts due to brokers)	–	–	–
Cash	19,861	–	–
Foreign currency exposure on net monetary items	20,073	292	1,302
Equity investments at fair value through profit and loss	240,916	111,239	239,941
Total net foreign currency exposure	**260,989**	**111,531**	**241,243**
2015			
Debtors (amounts due from brokers, dividends receivable and accrued income)	15,776	141	4,959
Creditors (amounts due to brokers)	(10,684)	–	(9,848)
Cash	33,981	–	–
Foreign currency exposure on net monetary items	39,073	141	(4,889)
Equity investments at fair value through profit and loss	198,084	110,635	232,357
Total net foreign currency exposure	**237,157**	**110,776**	**227,468**

The above year end amounts are not representative of the exposure to risk during the year, because the levels of foreign currency exposure may change significantly throughout the year. The maximum and minimum net monetary assets/(liabilities) amounts for each currency were as follows.

Year to 31 October 2016	US $ £'000	Euro £'000	Other £'000
Maximum	34,297	–	–
Minimum	18,282	–	–
Year to 31 October 2015			
Maximum	39,021	13,036	6,500
Minimum	793	–	(7,982)

Notes to the Financial Statements (continued)

17. Financial instruments (continued)

Foreign currency sensitivity

The following table illustrates the sensitivity of the total return for the year and the shareholders' funds in regard to the Company's financial assets and financial liabilities. It assumes a 10% depreciation of sterling against both the US dollar and the euro at 31 October 2016. These percentages have been determined based on the average market volatility in exchange rates in the previous twelve months. The sensitivity analysis is based on the Company's monetary foreign currency financial instruments held at each balance sheet date.

	2016		2015	
	US $ £'000	Euro £'000	US $ £'000	Euro £'000
If sterling had weakened by 10% against the currencies shown, this would have had the following effect:				
Income statement – return on ordinary activities after taxation:				
Revenue return	557	455	580	473
Capital return	26,078	11,124	23,699	11,064
Return attributable to shareholders	**26,635**	**11,579**	**24,279**	**11,537**

A 10% strengthening of sterling against the above currencies would result in an equal and opposite effect on the above amounts.

In the opinion of the Directors, the above sensitivity analyses are broadly representative of the whole of the current and comparative years.

c. Interest rate risk

The Company finances its operations through a combination of investment realisations, retained revenue reserves, debenture stocks and secured bonds. All debenture stocks and secured bonds are at fixed rates. Details of interest rates on financial assets are included in note 8 on page 50. Details of interest rates on financial liabilities are included in note 12 on page 51.

Management of the risk

The Company finances part of its activities through borrowings at levels which have been approved and are monitored by the Board.

Interest rate exposure

The exposure, at the year end, of financial assets and financial liabilities to interest rate risk is shown below.

	2016			2015		
	Within one year £'000	More than one year £'000	Total £'000	Within one year £'000	More than one year £'000	Total £'000
Exposure to floating interest rates						
Cash	11,694	–	11,694	14,815	–	14,815
Exposure to fixed interest rates						
Short-term deposits	29,210	–	29,210	59,138	–	59,138
Long-term borrowings	–	(83,645)	(83,645)	–	(104,399)	(104,399)
Total exposure	**40,904**	**(83,645)**	**(42,741)**	**73,953**	**(104,399)**	**(30,446)**

Notes to the Financial Statements (continued)

17. Financial instruments (continued)

Interest rate sensitivity

If interest rates had decreased by 5%, with all other variables held constant, the return attributable to shareholders as shown on the Income Statement would have decreased by the amounts shown in the table below:

	2016 £'000	2015 £'000
Return attributable to shareholders	(5)	(11)

A 5% increase in interest rates would result in an equal and opposite effect on the above amounts.

d. Liquidity risk

Almost all 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 maturity profile of the Company's borrowings is included in note 12 on page 51.

Management of the risk

Liquidity risk is not as significant as the other risks as most of the Company's assets are investments in quoted equities and are readily realisable. The manager reviews the liquidity of the portfolio when making investment decisions.

e. Credit risk

The failure of the counterparty to a transaction to discharge its obligations under that transaction could result in the Company suffering a loss.

Credit risk exposure

The amounts shown in the balance sheet under debtors and cash and deposits represent the maximum exposure to credit risk at the current and comparative year ends.

Cash comprises balances held by banks with a satisfactory credit rating (2015: same).

Management of the risk

This risk is managed as follows:

- by dealing only with brokers and banks which have been approved by the Audit Committee and which have credit ratings assigned by international credit rating agencies; and
- by setting limits on the maximum exposure to any one counterparty at any time, which are reviewed semi-annually at meetings of the Audit Committee.

f. Capital management policies and procedures

The Company carries on its business as a global growth 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.

The levels of gearing and gross gearing are monitored closely by the Board and the Manager. The Company applies a ceiling on gearing of 20%. While gearing will be employed in a typical range of 0% to 20%, the Company retains the ability to lower equity exposure to a net cash position if deemed appropriate.

The Board, with the assistance of the management, monitors and reviews the structure of the Company's capital on an ongoing basis. This review includes the planned level of gearing which will take into account the management's view on the market, the need to buy back shares for cancellation and the level of dividends.

The Company's policies and processes for managing capital are unchanged from the previous year.

Notes to the Financial Statements (continued)

17. Financial instruments (continued)

Fair value measurements recognised in the balance sheet

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from information other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 fair value measurements are those derived from valuation techniques not based on observable market data.

	2016			
	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets at fair value through profit and loss	**891,504**	**–**	**1,928**	**893,432**

	2015			
	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets at fair value through profit and loss	**772,344**	**–**	**1,892**	**774,236**

There were no transfers between Level 1 & 2 during the year (2015: same).

Reconciliation of Level 3 fair value measurements of financial assets	Fair value through profit and loss 2015 £'000
Balance at 31 October 2015	1,892
Purchase costs	–
Sales proceeds	(173)
Total profit: in profit and loss	209
Balance at 31 October 2016	**1,928**

The table above only includes financial assets. There were no financial liabilities measured at fair value on Level 3 fair value measurement bases.

18. Related party transactions

Directors' fees are detailed in the Directors' Remuneration Report on pages 32 and 33. There were no matters requiring disclosure under section 412 of the Companies Act 2006.

Investor Information

How to invest

You can buy the Company's shares directly on the stockmarket through a stockbroker or a share dealing platform. Your bank, lawyer, accountant or other professional adviser may also be able to help with this. The Company's registrar, Computershare Investor Services PLC, provides a share dealing service which can be accessed on its website, **www.investorcentre.co.uk** or by telephoning **0370 703 0195**.

The Company's wholly-owned subsidiary, S.I.T. Savings Ltd, provides a number of low-cost, flexible investment products which enable investors to acquire the Company's shares easily.

STOCKPLAN

Our 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 £12.50 to sell some or all of your holding. 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 restart investing at any time.

STOCKPLAN: A Flying Start

Our 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

This is one of the lowest-charging investment trust company 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 the Company.

The SIT ISA Transfer

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

Update on tax-efficient investing

ISAs

- The overall annual ISA investment limit for the 2016/17 tax year is £15,240.
- Up to the full £15,240 can be invested in a stocks and shares ISA with one provider. Alternatively, up to the full £15,240 can be put into a cash ISA, or into both a stocks and shares ISA and a cash ISA, splitting the £15,240 between the two as you wish.
- The annual ISA investment limit for the 2017/18 tax year will be £20,000.
- If an ISA holder dies on, or after, 3 December 2014, the surviving spouse or civil partner can now inherit their ISA tax benefits provided they were married to, or in a civil partnership with, and living with their spouse/civil partner at the time of their death. The surviving spouse/civil partner is eligible for an allowance equal to the value of the ISA on the date of the holder's death. This allowance is in addition to the surviving spouse/civil partner's annual ISA allowance.

Contact telephone numbers

Full contact details for the scheme administrators and the Company's registrar can be found in the Useful Addresses section on page 63.

STOCKPLAN and **ISA** investors wishing to:

- give a change of address
- instruct a sale
- request a valuation
- make an investment using their debit card
- change the amount of their monthly investment
- obtain help with accessing their STOCKPLAN and ISA information online
- make general queries about their account or scheme

can contact the scheme administrator, Halifax Share Dealing Limited (HSDL), on: **0345 850 0181** or **0113 267 1063**.

Shareholders who hold share certificates can contact the registrar, Computershare Investor Services PLC, on: **0370 703 0195**.

Investor Information (continued)

Dividends

The following dividends have been paid during 2015/16:

Dividends	Amount	XD date	Record date	Payment date
Interim 2016	5.25p	15 June 2016	17 June 2016	20 July 2016
Final 2015	7.50p	31 December 2015	4 January 2016	4 February 2016
Special 2015	3.50p	31 December 2015	4 January 2016	4 February 2016

SIT STOCKPLAN and ISA schemes

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 **0345 850 0181** or **0113 267 1063** if they would like to change their dividend arrangements.

Shareholders who hold share certificates

Conversely, for shareholders who hold share certificates (investors whose names are on the Company's share register and who are not in the Company's savings schemes), dividends are automatically paid as income. However, it is easy to arrange to have these dividends reinvested by joining the Company's Dividend Reinvestment Plan (DRIP). Details are available from Computershare Investor Services, the Company's registrar, on **0370 703 0195**, or from the investor relations section on the Company's website, **www.thescottish.co.uk**

Monitoring your investment

The Company's share price, together with performance information and product details, can be found on the Company's website, **www.thescottish.co.uk**

A number of financial websites, such as the FT, **www.ft.com** and the London Stock Exchange, **www.londonstockexchange.com** carry share price information. In addition, the share price is published daily in most quality newspapers.

The Company publishes a daily NAV and a monthly factsheet on its website. An Interim Report is issued in June of each year and the Annual Report is distributed to all investors in January. STOCKPLAN, STOCKPLAN: A Flying Start and ISA investors receive twice yearly statements of their holdings.

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 halifaxsharedealing-online. This can be accessed through the links in the various product sections on the Company's website, **www.thescottish.co.uk** or by visiting: **www.halifaxsharedealing.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 the Company's scheme administrator, HSDL, on **0345 850 0181** or **0113 267 1063**.

Shareholders who hold share certificates

Investors who hold share certificates can check their holdings by registering on the Company's registrar's website, **www.investorcentre.co.uk** or through the link in the investor relations section on the Company's website, **www.thescottish.co.uk**

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

By registering for the Investor Centre facility on Computershare's website, investors can also 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** for further information.

Electronic communications

Shareholders who hold share certificates

Investors who hold share certificates (i.e. who are not in the STOCKPLAN, ISA or SIPP schemes, nor in a broker's nominee), may choose to receive the Company's interim and Annual Reports and other shareholder communications electronically instead of in paper form.

To register, simply visit the link in the investor relations section on the Company's website, **www.thescottish.co.uk** and provide email details. Investors will then be advised by email when an electronic communication is available to be accessed.

Shareholders' meetings

Shareholders who hold share certificates

Investors who hold share certificates 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.

Investor Information (continued)

STOCKPLAN, STOCKPLAN: A Flying Start, ISA, and SIPP investors who invest in The Scottish Investment Trust

STOCKPLAN, STOCKPLAN: A Flying Start, ISA and SIPP investors who invest in the Company are entitled to attend the AGM and other general meetings and vote by completing and returning the form of direction enclosed with this report.

The AGM will be held at the Royal College of Physicians of Edinburgh, 9 Queen Street, Edinburgh EH2 1JQ, on 3 February 2017 at 10.30am.

Electronic voting

Shareholders who hold share certificates

Shareholders who hold share certificates are able to submit proxy votes electronically for the AGM. Please follow the instructions on your proxy card.

Personal taxation

Dividend tax allowance

From April 2016 dividend tax credits were replaced by an annual £5,000 tax-free allowance on dividend income across an individual's entire share portfolio. Above this amount, individuals will pay tax on their dividend income at a rate dependent on their income tax bracket and personal circumstances. The Company will continue to provide registered shareholders with a confirmation of the dividends paid and this should be included with any other dividend income received when calculating and reporting total dividend income received. It is the shareholder's responsibility to include all dividend income when calculating any tax liability.

If you have any tax queries, please contact a Financial Advisor.

Capital Gains Tax (CGT)

When investors sell all or part of their holdings, they may be liable to CGT. Currently, the first £11,100 per annum of such gains from all sources is exempt.

For investors who acquired shares 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 investments remain exempt from CGT.

Please remember that we are unable to offer individual investment or tax advice. If you require such advice, you should consult your professional adviser.

STOCKPLAN, STOCKPLAN: A Flying Start and The SIT ISA are provided by S.I.T. Savings Limited which is authorised and regulated by the Financial Conduct Authority (FCA), 25 The North Colonnade, Canary Wharf, London E14 5HS.

The Common Reporting Standard

With effect from 1 January 2016 all new shareholders outside of CREST will be sent a certification form for the collection of information required for compliance with The OECD Common Reporting Standard for Automatic Exchange of Financial Account Information (The Common Reporting Standard).

Further information can be found on HMRC's website; **www.gov.uk/government/publications/exchange-of-information-account-holders.**

Retail investors advised by IFAs

The Company currently conducts its affairs so that its shares can be recommended by Independent Financial Advisors (IFAs) to retail private investors in accordance with the Financial Conduct Authority's (FCA) rules in relation to non-mainstream pooled investment producers.

The shares are excluded from the FCA's restrictions which apply to non-mainstream investment products because they are shares in a UK-listed investment trust.

Risk warning

Past performance may not be repeated and is not a guide to future performance. The value of shares and the income from them can go down as well as up as a result of market and currency fluctuations. You may not get back the amount you invest. 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 but should stockmarkets fall, such borrowings would magnify losses on these investments. The Company can buy back and cancel its own shares. All other things being equal, this would have the effect of increasing gearing. Investment in The Scottish Investment Trust is intended as a long-term investment. Tax rates and reliefs can change in the future and the value of any tax advantages will depend on personal circumstances.

Financial Calendar 2017

Dividend and interest payments

Final and special for the financial year to 31 October 2016	17 February 2017
Interim	July
Secured bonds	17 April, 17 October
Perpetual debenture stock	30 April, 31 October

Announcement of results

NAV	Daily
Interim figures	June
Final figures	January
Annual Report & Accounts	January
Annual General Meeting (AGM)	3 February 2017

Useful Addresses

Registered Office
6 Albyn Place
Edinburgh EH2 4NL
Registered no. SC001651
Telephone: 0131 225 7781
Website: www.thescottish.co.uk
Email: info@thescottish.co.uk

Company Secretary
R&H Fund Services Limited
20 Forth Street
Edinburgh EH1 3LH

Depositary
Northern Trust Global Services Limited
50 Bank Street
Canary Wharf
London E14 5NT

Custodian
The Northern Trust Company
50 Bank Street
Canary Wharf
London E14 5NT

Auditor
Deloitte LLP
Saltire Court
20 Castle Terrace
Edinburgh EH1 2DB

Actuaries
Punter Southall & Co
7 Castle Street
Edinburgh EH2 3AH

The Association of Investment Companies
The Scottish Investment Trust is a member of The Association of Investment Companies (AIC) which publishes a number of useful fact sheets and email updates for investors interested in investment trust companies.

The AIC
9th Floor
24 Chiswell Street
London EC1Y 4YY
Telephone: 0207 282 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:

Shareholders who hold share certificates:
Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol BS99 6ZZ
Helpline: 0370 703 0195
Website: www.investorcentre.co.uk

STOCKPLAN, STOCKPLAN: A Flying Start and The SIT ISA investors:
SIT Schemes
Halifax Share Dealing Limited
Lovell Park Road
Leeds LS1 1NS
Helpline: 0345 850 0181 or 0113 267 1063
Website: www.halifaxsharedealing.co.uk/online

Glossary

Borrowings at par is the nominal value of the Company's 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 borrowings is based on the redemption yield of the relevant existing reference gilt plus a margin derived from the spread of BBB UK corporate bond yields (15 years+) over UK gilt yields (15 years+). The reference gilt for the secured bonds is the 6% UK Treasury Stock 2028 and the reference gilt for the perpetual debenture stocks is the longest-dated UK Treasury stock listed in the Financial Times.

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

Ex-income NAV is the NAV excluding current year revenue.

Gross gearing is the geared position if all the borrowings were invested in equities: borrowings expressed as a percentage of shareholders' funds.

Gearing is the true geared position of the Company: borrowings less cash and equivalents expressed as a percentage of shareholders' funds.

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

Total assets means total assets less current liabilities.

Notice of Annual General Meeting

Notice is hereby given that the one hundred and twenty-ninth annual general meeting of The Scottish Investment Trust PLC will be held at The Royal College of Physicians of Edinburgh, 9 Queen Street, Edinburgh EH2 1JQ, on 3 February 2017 at 10.30am, for the purpose of transacting the following:

1. To receive and consider the Directors' Report and statement of accounts for the year to 31 October 2016.
2. To approve the Directors' remuneration policy.
3. To approve the Directors' Remuneration Report for the year to 31 October 2016.
4. To declare a final dividend of 8.25p per share.
5. To declare a special dividend of 9.00p per share.
6. To re-elect James Will as a Director.
7. To re-elect Hamish Buchan as a Director.
8. To re-elect Russell Napier as a Director.
9. To re-elect Ian Hunter as a Director.
10. To re-elect Jane Lewis as a Director.
11. To re-elect Mick Brewis as a Director.
12. To re-appoint Deloitte LLP as auditor and to authorise the Directors to fix their remuneration.
13. To authorise the Company, in accordance with section 701 of the Companies Act 2006 (the 'Act') and in substitution for any pre-existing such authority, to make market purchases (within the meaning of section 693 of the Act) of shares of 25p each for cancellation, provided that:

    a) the maximum number of shares hereby authorised to be purchased shall be 14,383,606 or, if less, 14.99% of the aggregate issued shares on the date this resolution is passed;

    b) the minimum price which may be paid for a share shall be 25p;

    c) the maximum price (exclusive of expenses) which may be paid for a share 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 3 May 2018, save that the Company may, prior to such expiry, enter into a contract to purchase shares under such authority which will or might be executed wholly or partly after the expiration of such authority and may make a purchase of shares pursuant to any such contract.

All resolutions are ordinary resolutions except number 13 which is a special resolution.

R&H Fund Services Limited
Company Secretary
3 January 2017

Map showing location of AGM venue

Notice of Annual General Meeting (continued)

Notes

Arrangements have been made to enable all investors to attend, speak and vote at the annual general meeting.

Registered shareholders whose names appear on the Company's register of members no later than 48 hours (excluding non-working days) prior to the commencement of the AGM or any adjourned meeting shall be entitled to attend, speak and vote or be represented at the meeting in respect of the shares registered in their name at that time. Changes to the register of members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting.

A member entitled to attend, speak and vote at the meeting is entitled to appoint one or more proxies to attend, speak and vote on his or her behalf. If a shareholder wishes to appoint more than one proxy, each proxy must be appointed to exercise rights attaching to a different share (or shares) held by the shareholder. A proxy need not be a member of the Company but must attend the AGM to represent the relevant shareholder. Shareholders may not use any electronic address provided either in this notice or any related documents, including the proxy form, to communicate with the Company for any purpose other than those expressly stated.

A proxy may only be appointed using the procedure set out in these notes and the notes to the proxy form. Proxy forms and the original or duly certified copy of the power of attorney or other authority, if any, under which it is signed or authenticated, must be lodged with the Company's registrar not less than 48 hours (excluding non-working days) before the meeting or, in the case of a poll taken more than 48 hours after it was demanded, not less than 24 hours, excluding non-working days, before the time appointed for the taking of the poll. Completion of the proxy form will not prevent a member from attending the meeting and voting in person.

CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual and by logging on to the website **www.euroclear.com/CREST**. CREST personal members or other CREST-sponsored members and those CREST members who have appointed a voting service provider, should refer to their CREST sponsor or voting service provider who will be able to take the appropriate action on their behalf.

For a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with Euroclear UK and Ireland Limited's specifications, and must contain the information required for such instruction, as described in the CREST manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the Company's registrar (Computershare Investor Services PLC) (CREST ID number 3RA50) no later than 48 hours (excluding non-working days) before the time of the meeting or any adjournment. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Application Host) from which the Company's registrar is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to proxies appointed through CREST should be communicated to the appointee by other means.

CREST members and, where applicable, their CREST sponsors or voting service provider(s) should note that Euroclear UK and Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.
The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

Any person holding 3% or more of the total voting rights in the Company who appoints a person other than the Chairman as his proxy will need to ensure that both he and such third party comply with their respective disclosure obligations under the Disclosure and Transparency Rules. On 3 January 2017, the Company's issued share capital comprised 95,954,683 shares (none

Notice of Annual General Meeting (continued)

of which is held in treasury). Each share carries the right to one vote at a general meeting of the Company.

Accordingly, as at 3 January 2017, the total number of voting rights exercisable at the AGM was 95,954,683.

Shareholders may require the Company to publish, on its website, without payment, a statement, which is also passed to the auditor, setting out any matter relating to the audit of the Company's accounts, including the auditor's report and the conduct of the audit, which they intend to raise at the meeting. The Company will be required to do so once it has received such requests from either (i) members representing at least 5% of the total voting rights of the Company or (ii) at least 100 members who have rights to vote and hold shares in the Company on which there has been paid up an average sum per member of at least £100. Such requests must be made in writing and must state the member's full name and address and be sent to the Company's registered office at 6 Albyn Place, Edinburgh, EH2 4NL.

The Company may not require the members requesting any such website publication to pay its expenses in complying with sections 527 or 528 of the Companies Act 2006.

Further information regarding the AGM, including the information required by section 311A of the Companies Act 2006 is available from **www.thescottish.co.uk**

Under section 319A of the Companies Act 2006, the Company must answer any question relating to the business being dealt with at the meeting put by a member attending the meeting unless:

a) answering the question would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information;
b) the answer has already been given on a website in the form of an answer to a question; or
c) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.

The Directors' letters of appointment are available for inspection at the registered office of the Company during normal business hours on any weekday. The register of Directors' interests maintained by the Company together with copies of Directors' appointment letters will be available at the place of the Annual General Meeting from 15 minutes prior to the commencement of the annual general meeting until the conclusion thereof. No Director has any service contract with the Company.

STOCKPLAN, STOCKPLAN: A Flying Start, ISA and SIPP investors who invest in the Scottish Investment Trust are welcome to attend and may vote by completing the Form of Direction enclosed with this report. This must be returned to the Company's registrar no later than 10.30am on 25 January 2017. Other investors whose holdings are in nominee names and who wish to attend and vote are advised to contact their nominee before 25 January 2017.

The final and special dividends, if approved, will be paid on 17 February 2017 to shareholders registered at the close of business on 13 January 2017.

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

THE SCOTTISH
Investment Trust

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