THE SCOTTISH Investment Trust

THE SCOTTISH INVESTMENT TRUST PLC 130TH ANNUAL REPORT & ACCOUNTS

31 OCTOBER 2017

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.

Our High Conviction, Global Contrarian Investment Approach

We are contrarian investors.

We believe markets are driven by cycles of emotion rather than dispassionate calculation. This creates profitable investment opportunities.

We take a different view from the crowd. We seek undervalued, unfashionable companies that are ripe for improvement. We are prepared to be patient.

We back our judgement and run a portfolio of our best ideas, selected on a global basis.

Our portfolio is unlike any benchmark or index and we fully expect to have differentiated performance.

Our approach will not always be in fashion but we believe it delivers above-average returns over the longer term, by which we mean at least five years.

Cover painting:
High Sierra by Madeleine Gardiner

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Year at a Glance

31 October 2017

12.8%
Share price total return†
MSCI UK All Cap 13.5%
MSCI ACWI 13.3%

11.0%
NAV* total return†
MSCI UK All Cap 13.5%
MSCI ACWI 13.3%

8.8%
Share price discount to NAV* (cum-income)
31 October 2016: 10.0%

48.1%
Increase in regular dividend per share
CPI 3.0%

11.1%
Increase in total dividend per share
CPI 3.0%

4th Quartile
AIC Global peer group (one year total return)
31 October 2016: 1st quartile

3x
Dividend reserves (regular dividend)
31 October 2016: 4x

34 years
of consecutive increase in regular dividend

54
Number of listed holdings
31 October 2016: 70

22%
Portfolio turnover rate
Year to 31 October 2016: 19%

5%
Gearing
31 October 2016: 5%

0.49%
Ongoing charges figure
31 October 2016: 0.49%

* NAV with borrowings at market value.
† 2016: Share price total return +30.0%; NAV total return +29.4%; MSCI UK All Cap +12.3%; MSCI ACWI +29.1%
Please refer to the Glossary for definitions of the metrics on this page.

Chairman's Statement

Performance

I am pleased to report that during the 12 months to 31 October 2017 a combination of capital appreciation and strong dividend income meant that the Company delivered another year of robust total returns. Over that period, the share price total return was 12.8% and the net asset value per share (NAV) total return (with borrowings at market value) was 11.0%.

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 13.3% while the UK based MSCI UK All Cap Index total return was 13.5%. As noted in previous communications, elsewhere in this statement and in the Manager's review, we do not expect the Company's portfolio return to match any particular index return over any defined period due to the contrarian nature of the portfolio's composition. Our contrarian approach aims to achieve above average long-term performance. Given this focus and the fact that we expect to make more of our gains in particular market conditions, we believe that a period of at least five years is required to evaluate the Company's returns.

With the Company's portfolio rebalanced towards the high conviction, global contrarian approach described below, the Board now believes that the Company will generate a higher level of dividend income through an investment cycle than has previously been the case. The Board wishes to ensure that shareholders have greater clarity about their future dividend expectations and therefore recommends a positive step change increase in the regular dividend. I explain this later in this statement.

Low cost active management

Over the last three years, the Company has undertaken a significant process of change with our goal to continue to provide an attractive, low cost investment vehicle for our shareholders, who are mainly, and increasingly, individuals.

In the last year, we have reinvigorated our approach to marketing and communications, within our longstanding marketing budget. It is important that we raise the Company's profile, as we believe that our investment approach should appeal to a broad range of investors.

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 as a proportion of net assets. We have reduced our costs in recent years, most notably by restructuring the investment team and by outsourcing a number of functions.

The ongoing charges figure has remained the same as last year, despite the reduction in net assets following the repurchase of Aviva's shareholding.

High conviction, global contrarians

The high conviction, global contrarian investment approach adopted by Alasdair McKinnon and his team clearly differentiates the Company from our global investment trust peers and from the vast array of passive investment products through which investors can 'track' stockmarket indices.

The approach reflects the investment team's natural style as independent thinkers and active, long-term investors who seldom follow the herd. The Manager believes that opportunities are created by the natural human tendency to focus on past performance as a predictor of future performance. Our approach aims to profit by investing in carefully selected, but unfashionable, companies which are undervalued as they are overlooked by other investors who prefer the comfort of investing with the crowd.

The portfolio reflects this contrarian philosophy and is constructed without reference to any benchmark or stockmarket index. Accordingly, we do not expect the portfolio return to be similar to a particular index return in any given year and we expect that the contrarian style will work differently depending on market conditions. For example, the Manager expects that the Company might not fully participate in more speculative market conditions as the investment team seeks to avoid investments that are sustained by overly enthusiastic positive sentiment. Likewise, we might expect better than average performance when market spirits are more tempered, as our holdings typically have less positive sentiment priced in.

During the year, the number of portfolio holdings was further reduced as the Manager believes that the best long-term returns will be generated by having the

Chairman's Statement (continued)

conviction to back the team's best investment ideas. The portfolio currently contains 54 listed equity holdings, which compares with 70 at the previous year end. The number of holdings will vary as the investment team unearths new opportunities.

Contrarian style boosts income generation

Over the past year earnings per share rose by 6.7% to 23.1p (2016: 21.6p).

In previous reports, I have noted that 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. In recent years, this has been achieved by appropriate increases to the regular dividend, with any excess being distributed as a special dividend.

Since the adoption of the contrarian investment approach, income generated has been considerably more than that required to pay the regular dividend. The Board has discussed this extensively with the Manager and, despite the approach not explicitly targeting high yielding investments, we expect the contrarian investment style to generate a higher level of investment income through an investment cycle than was previously the case. A higher than average level of dividend income is often, but not always, a consequence of an investment in an unfashionable company.

Step change increase in the regular dividend

Given the above, the Board considers it is appropriate to make a significant step change increase in the regular dividend to make it clear to shareholders and prospective investors that the Company expects to generate a higher level of income through an investment cycle. A consequence of such a change will be that the Company is less likely to pay discretionary special dividends in future years and will not necessarily distribute income generated in excess of the requirements of the regular dividend.

One particular advantage of such a significant step change increase in the regular dividend is that it will give shareholders and potential investors a clearer indication of the income that they can expect to receive. This is because, when calculating the yield on ordinary shares, many investors ignore special dividends as they consider them non-recurring. The proposed step change increase in the regular dividend will, going forward, materially increase the stated yield of the Company's shares, which the Board believes will enhance their attraction to investors. Following the change, the Company will have one of the highest stated dividend yields among its global investment trust peers.

The Board recommends a final dividend of 14.5p per share which, if approved, will mean that the total regular dividend for the year will increase by 48.1% to 20.0p and will represent the 34th consecutive year of regular dividend increase.

The Board also recommends a special dividend of 5.0p per share in order to distribute the income generated in the year to 31 October 2017 in excess of the requirements of the proposed regular dividend. This recommendation reflects past indications made as to how the Board would likely deal with such balance of income generated in respect of the financial year. As mentioned previously, the Company is less likely to pay discretionary special dividends in future years. If approved, the total dividend for the year will increase by 11.1%.

It is worth clarifying that the Board has not changed its future intentions for regular dividend increases. The Board wishes, from this higher level, to continue the Company's long track record of dividend increases and its aim to provide dividend growth ahead of UK inflation over the longer term.

Importantly, the Board remains of the view that the composition of the portfolio should not be dictated by this change to dividend policy and recognises that there may be occasions when the portfolio will generate a lower level of income that does not necessarily cover the requirements of the regular dividend. This dividend policy is supported by the Company's healthy revenue reserves of 70.6p per share, which would currently cover more than three years of the proposed new higher regular dividend. The Board considers that it would be appropriate to utilise such revenue reserves as required to support such a policy, drawing from revenue reserves in some years to supplement earnings for that year and adding to revenue reserves in other years.

Move to quarterly dividend payments

I announced in the interim report that the Company intended to adopt a quarterly schedule of dividend payments starting in the 2017/18 financial year. The Board recognises that predictable, regular distribution of income is desirable for the majority of our shareholders.

The proposed final and special dividends, which, if approved, will be paid to shareholders in February 2018 will mark the last dividends of the current distribution schedule before we move to quarterly payments. The Board's target is to declare three quarterly interim dividends of 5.0p in the year to 31 October 2018 and

Chairman's Statement (continued)

recommend a final dividend of at least 5.0p for approval by Shareholders at the Annual General Meeting in 2019. It is intended that the first quarterly dividend will be paid in May 2018. The second and third quarterly dividends are expected to be paid no later than August and November 2018. The final dividend will be reviewed in accordance with the Board's desire to continue the long track record of annual dividend increases and the aim of the Company to provide dividend growth ahead of UK inflation over the longer term.

Aviva share repurchase

As I noted in the interim report, in March the Company completed the repurchase and cancellation of the shareholding of Aviva, representing 11.9% of the Company's issued share capital at that time. Aviva had gained control of this substantial shareholding in November 2015 through its purchase of Friends Life. Aviva had not previously been a long-term investor in the Company, did not have a history of holding investment trusts and had indicated that it did not plan to retain this shareholding.

At a specially convened General Meeting, shareholders approved the repurchase for cancellation of 11.4m shares from Aviva at a 10.75% discount to the cum-income NAV (with borrowings at market value). The Board considered this transaction to be in the best interests of the Company and shareholders as it removed a known seller of a large block of shares and enhanced this NAV for the ongoing shareholders by 1.4%.

Gearing

Gearing ended the year largely unchanged at 5%. During the year, the Company briefly moved to a net cash position to facilitate the transaction with Aviva.

Buybacks and updated policy

During the year, 16.9m shares were purchased for cancellation (2016: 9.2m) at an average discount of 10.5% to the cum-income NAV with borrowings at market value (9.5% to the ex-income NAV) and a cost of £135.2m. Excluding the repurchase for cancellation of the Aviva shares, 5.5m shares were repurchased at an average discount of 9.7% to the cum-income NAV (8.1% to the ex-income NAV) with borrowings at market value and a cost of £44.9m.

As announced in the interim results, the Company's buyback policy has been adjusted to aim, in normal market conditions, to maintain the discount to the cum-income NAV (with borrowings at market value) at or below 9%. This is a change from the previous policy which aimed to control the discount to the ex-income NAV (with borrowings at market value). The Company was an early adopter of a buyback policy in 2006 and, since then, it has become more normal industry practice to use the cum-income NAV rather than the ex-income NAV.

Successful migration of savings schemes

The savings schemes previously offered by the Company have now been closed but scheme holders were offered an attractive alternative arrangement for their shareholding. I would like to thank those shareholders affected for their understanding throughout the transition.

The schemes were set up in an era when it was expensive and complicated, particularly for a smaller shareholder, to buy shares directly in a single company. However, in recent years, a number of ways to buy the Company's shares in a simple and cost effective manner have been developed and very few providers offer the infrastructure to support single company savings schemes.

Accordingly, when the savings schemes' administrator informed us that they intended to withdraw from this business area, we were, despite an extensive search, unable to identify a viable alternative scheme administrator.

The majority of scheme holders have now transferred to AJ Bell Youinvest. We look forward to working with AJ Bell Youinvest in continuing to communicate with our shareholders.

Board composition

I would like to welcome Karyn Lamont to the Board. Karyn was appointed as a non-executive director and Chair of the Audit Committee in October 2017. Karyn brings a wealth of specialist audit experience from her long career in the field and will stand for election at the Annual General Meeting.

Karyn replaced Ian Hunter who retired after three years of valuable service to the Company. The Board and I would like to extend our gratitude to Ian for his considerable contribution, particularly over the last eighteen months as the Company reorganised a number of its key administrative functions.

Hamish Buchan will retire at the AGM. The Company has benefited greatly from Hamish's knowledge and experience over the last fourteen years. On behalf of the Board, I should like to thank Hamish for his outstanding contribution. There is no current intention to replace Hamish as the Board considers that its membership will continue to ensure that the appropriate balance of skills, experience, independence and knowledge will be achieved.

Chairman's Statement (continued)

Outlook

I have previously discussed the anti-establishment mood that seems to have characterised recent voting on both sides of the Atlantic. The most obvious examples are the Brexit vote, the election of Donald Trump and the unexpected result in the UK 'snap' election.

President Clinton's victory in the 1992 US Presidential election has often been attributed to the slogan "It's the economy, stupid" and this catchphrase remains highly relevant today. Large sections of the population, in a number of countries, feel disadvantaged in the current economic environment. Government policies have favoured asset prices with unintended consequences for the cost of living.

Markets do not operate in a vacuum and, to date, have generally interpreted this shift in the political climate as a positive development. This is justified, to some extent, as stimulatory measures to boost the 'real economy' may well improve the prospects of sections of the corporate sector. On the other hand, some of the more radical measures occasionally mooted, no doubt with the best of intentions, have potential to harm sections of the corporate sector and will not necessarily achieve their end purpose.

The US Federal Reserve, which sets the tone for global monetary policy, has continued to increase interest rates from a very low base and has started tentatively to reduce the stockpile of bonds purchased to lower long-term interest rates. Other central banks have taken this cue and have started either to reduce, or at least slow, the rate of increase in stimulatory measures. This is evidenced by the recent interest rate increase by the Bank of England and the planned reduction in European Central Bank bond purchases. Markets have undoubtedly benefited from low long-term interest rates and it remains to be seen how dependent these low rates are on central bank largesse.

As ever, there are a number of events which could potentially destabilise markets if the worst fears come to pass, or potentially boost markets if they are successfully resolved. Of the prominent events, tension in the Korean peninsula remains confined to sabre-rattling while some modest progress seems to have been made in the Brexit negotiations.

The Board is pleased with the progress made to transform the investment approach, to increase the regular dividend, to reduce the cost base and to improve the profile of the Company. It now believes that the Company is differentiated, competitive in costs and an attractive investment vehicle focused on delivering above-average returns and dividend growth over the longer term.

James Will
Chairman
8 December 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.

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

Jane Lewis

Appointed to the Board in December 2015. Chair 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 and Invesco Perpetual UK Smaller Companies Investment Trust.

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

Karyn Lamont

Appointed to the Board in October 2017. Chair of the Audit Committee.

She is a chartered accountant and former audit partner at PwC. She has over 25 years of experience and provided audit and other services to a range of clients across the UK's financial services sector including a number of investment trusts. Her specialist knowledge includes financial reporting, audit and controls, risk management, regulatory compliance and governance.

Other investment company directorships: None.

Shares held: 2,500 **Fees:** £30,000

Manager's Review

Our contrarian approach

Shareholders who have read my previous Manager's Reviews will be aware that a simple philosophy underpins our approach to investment. At the core of this philosophy is a recognition that investors, in aggregate, are not dispassionate calculating machines but, in fact, retain human emotions.

While this may not seem a particularly radical observation, it nonetheless flies in the face of a large body of scholarly research into finance and economics. Theory would argue that, while any individual can behave irrationally this is averaged out within a group so that a rational decision is reached. In contrast, we do not think that groups always make rational investment decisions and, to evidence this, would merely point to the numerous bubbles which have bedevilled markets over the years. Over the last 20 years, we have witnessed bubbles in emerging markets, euro convergence beneficiaries, dotcom stocks, house builders, property stocks, oil stocks, miners and emerging markets (again).

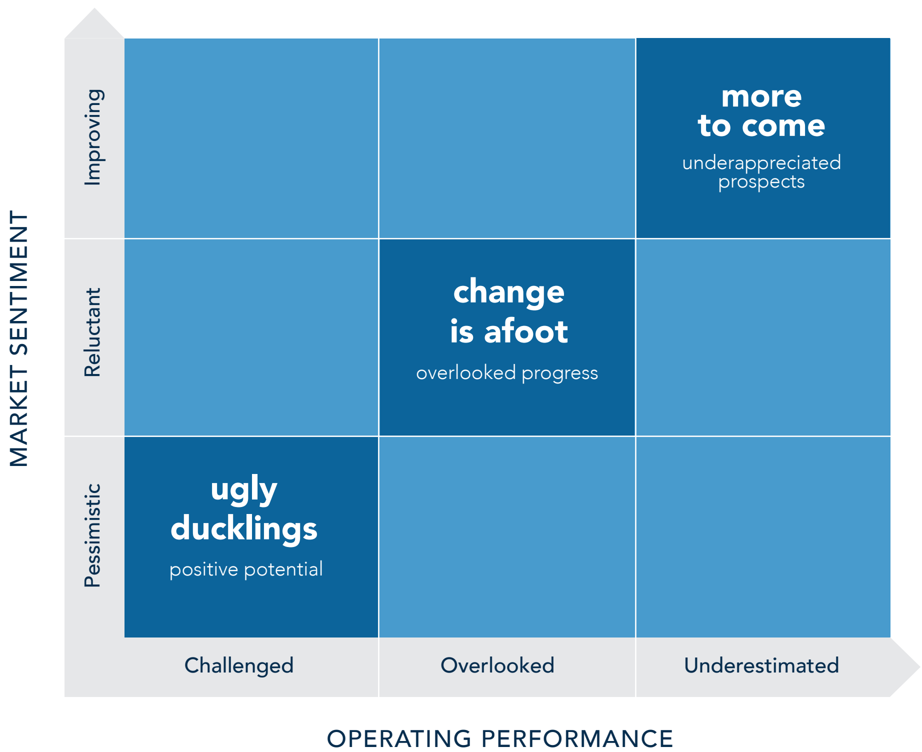
The reason for this difference of opinion perhaps arises because, in many human endeavours, the group does indeed reach a rational solution. In more arduous times, our very survival depended on working as a group and the crucial skill to develop as an individual was cooperation as part of this group. An isolated individual was vulnerable and, even if the group was pursuing an endeavour in a suboptimal manner, it was safer to remain part of the group.

Society as we know it today, which has built a great civilisation, continues to depend on this cohesive group approach. Most individuals subconsciously understand that they need to recognise the written and unwritten rules of society and therefore feel uncomfortable outwith the mainstream.

However, we believe that this crowding instinct does not usefully translate into financial markets. This is because the view of the crowd naturally gravitates towards what has recently been successful and shuns what has recently been unsuccessful. The challenge posed by financial markets is that, by the time an investment has performed sufficiently well (or badly) for it to become an accepted wisdom, conditions are ripe for the trend to change.

Business and investment cycles have operated throughout recorded human history. The specifics are always different but the principles remain the same. Initially, a conducive environment and opportunity attracts investment to a 'good thing' and initial and subsequent success attracts further and further investment, with later investors increasingly willing to suspend disbelief about the durability of future prospects. The 'upcycle' is hypnotic but it always ends. Excess investment destroys the scarcity of the 'good thing' while those propagating it become heady on their

Categorisation of Investments



Manager's Review (continued)

success and throw caution to the winds. The downcycle occurs when the bubble bursts and this process goes into reverse, eventually creating an opportunity again.

We think that to profit, an investor has to take a different stance and that the biggest challenge for an investor is to recognise when the voice of the crowd no longer suggests a sensible balance between risk and reward. We seek to avoid speculation, which we define as investing largely on the basis that somebody else will pay more for an already fully priced, popular asset.

We are, of course, stockmarket investors and even if we are very skilful with our stock picking, we are likely to be affected by wider market movements. However, we think that one of the most prudent ways to make money in the stockmarket is to invest when others are reluctant to do so. We actively seek unpopular areas because this is where the balance between risk and reward can be most favourable. We believe in cycles rather than perpetual trends and wish to purchase at depressed prices to improve our margin of safety.

Our style is distinct and we would expect other investors to ebb and flow in their support for the types of stocks we favour. We aim to achieve above-average long-term performance, although we do not expect this to be achieved in a linear manner. We are less likely to participate in the exhilarating latter stages of a bull market because we think it is vitally important to survive the down leg of an investment cycle.

NAV Absolute Performance Attribution
Year to 31 October 2017

	Contribution %
Equity portfolio (ungeared)	+9.5
Gearing	+0.8
Total equities	**+10.3**
Other income and currency	-0.2
Buybacks	+1.7
Expenses	-0.5
Interest charges	-0.6
Change in market value of borrowings	+0.0
Change in pension liability	+0.3
NAV with borrowings at market value total return	**+11.0**

Gains and Losses
Year to 31 October 2017

	Performance %	Gains £m
Treasury Wine Estates	39.6	15.4
Rentokil Initial	49.1	14.7
Nintendo	51.5	8.3
ING	34.4	7.8
Royal Dutch Shell	22.7	4.6
BNP Paribas	29.4	4.4
Citigroup	38.8	4.1
Microsoft*	25.6	3.6
SAP	20.6	3.6
Comcast*	20.4	3.5

	Performance %	Losses £m
General Electric	-34.3	-4.6
Tesco	-13.5	-3.7
GlaxoSmithKline	-12.1	-3.1
BT	-27.3	-2.9
KDDI	-17.2	-2.7
Baker Hughes	-26.1	-2.5
Macy's	-22.3	-2.2
Cemex	-13.6	-2.1
Kingfisher*	-13.2	-2.0
Tourmaline Oil	-35.8	-1.7

* Sold during the year.

Manager's Review (continued)

To apply our approach, 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.

The second category consists of companies where **change is afoot**. These companies have also endured a long period of poor operating performance but have recently demonstrated that their prospects have significantly improved. However, other investors continue to overlook this change for historical reasons.

In our third category, **more to come**, we have investments that are more generally recognised as good businesses with decent prospects. However, we see an opportunity as we believe there is scope for further improvement that is not yet fully recognised.

The Financial Year

Investment returns were again strong during the year. In contrast with last year, markets showed less favour towards a margin of safety based investment approach such as our own.

The election of President Trump represented a blow to the establishment but investors interpreted this positively, as it provided the theoretical basis for a new round of stimulatory policies. The slight conundrum is that Donald Trump was elected to improve the living standards of the mass of population, rather than boost asset prices. There is a risk that investors may discover that populist policies do not necessarily coincide with their interests.

Investors in general seem enthusiastic about the prospects for asset markets and exhibit a low level of scepticism about some of the most popular investment themes. Confidence has returned and there is now a lot of money seeking a return driven by low cash interest rates and the commensurate low cost of debt.

Central banks, led by the US Federal Reserve, have taken the first steps to unwind this era of ultra cheap money. Central banks clearly do not wish to unduly upset investors but this assumes that they have perfect control and, as suggested above, the political backdrop is shifting.

The most obvious sign of overly confident cheap money is the current boom in cryptocurrencies such as Bitcoin. We have concerns because, although the core technology has potential, there appears an unlimited supply of these currencies and governance appears very poor. Likewise, it is noteworthy that some of the largest US stocks have gained the moniker 'FANG' (an acronym of Facebook, Amazon/Apple, Netflix, Google). It is probably fair to say that by the time an investment theme gains an acronym it is so well established that a reasonable opportunity for a risk-adjusted return may no longer exist. The last 'acronym investment theme' you may recall was the 'BRICs' (Brazil, Russia, India, China), which did very well for the early entrants but less so for later participants who probably lost money.

The Portfolio

Portfolio turnover was elevated by the need to raise funds for the buyback transaction with Aviva. Rather than apply a pro-rata reduction across the portfolio, we took the opportunity to selectively reduce the number of holdings.

Given our focus on individual stock ideas, I thought it most useful to discuss the notable gains and losses, in total return terms, over the year.

Treasury Wine Estates (+£15.4m), the Australian wine producer continued to refocus on premium brands to drive higher profit margins. Having delivered outstanding performance since it was bought as an 'ugly duckling' in 2015, the company has now graduated through each of our three categories. We now see Treasury Wine Estates as one with 'more to come'.

Rentokil Initial (+£14.7m) also moved into the 'more to come' category after another year of excellent performance. Its transformation from an unloved and underperforming conglomerate to a business focused chiefly on the attractive market for pest control helped the group to deliver strong results.

We added to our holding in **Nintendo** (+£8.3m), as we were surprised by the muted investor reaction towards the new 'Switch' games console. The Switch is an excellent product but, later in the year, as other investors became more enthusiastic and as expectations of future success increased, we reduced our holding. We have also moved this company into the 'more to come' category.

Our bank holdings performed strongly, as they had previously been inexpensively valued and stood to benefit from the prospect of higher interest rates and stimulus policies designed to help the mainstream economy. Our biggest gain was from Dutch lender **ING** (+£7.8m), while we also saw strong gains from **BNP Paribas** (+£4.4m), **Citigroup** (+£4.1m), **Intesa Sanpaolo** (+£2.6m), **Bank of Kyoto** (+£2.1m), **Citizens Financial** (+£2.1m), **Sumitomo Mitsui Financial Group** (+£1.7m) and **Standard Chartered** (+£1.2m).

Manager's Review (continued)

The continued rebound in commodities prices helped a number of our investments, with energy holdings a notable beneficiary later in the period. **Royal Dutch Shell** (+£4.6m), produced the biggest gain, as well as **BHP Billiton** (+£2.6m), **BASF** (+£1.8m), **Total** (+£1.7m), **Suncor Energy** (+£1.5m) and **Diamond Offshore Drilling** (+£1.4m). However, we lost money in **Hess** (-£1.1m) and **Tourmaline Oil** (-£1.7m).

German software provider, **SAP** (+£3.6m) gained credit for an encouraging transition to a recurring subscription-based model. **Vinci** (+£2.7m) did well on an improved outlook for the European construction market. **RSA Insurance** (+£2.3m), was buoyed by the continued progress of a turnaround strategy. Good results from **Johnson & Johnson's** (+£2.2m) pharmaceuticals business helped the business to deliver a solid performance, while **Adecco** (+£2.0m) gained on the prospect of better conditions in the temporary staffing market.

We consider **Tesco** (-£3.7m), one of our 'ugly ducklings', an excellent turnaround opportunity but this was obscured by the proposed acquisition of wholesaler Booker. However, we think that other investors will pay more attention now that this transaction has been approved. Our holding in **Marks & Spencer** (+£1.2m) endured fluctuating fortunes but showed some signs of progress and has a senior management team committed to change. We sold our entire holding in **Kingfisher** (-£2.0m), prompted by a need to raise funds for the Aviva transaction but also because we preferred the outlook for Marks & Spencer.

General Electric (-£4.6m) performed poorly in anticipation of a strategy review update at which new leadership reset profit and dividend expectations. **GlaxoSmithKline** (-£3.1m), also delivered a negative return as the new CEO unnerved investors as to where the dividend lay on her list of priorities.

Our telecom holdings in **BT** (-£2.9m), **KDDI** (-£2.7m) and **China Mobile** (-£1.1m) did not prove fruitful over the year. BT depressed investors with a disappointing trading update but, in general, we think that these telecom stocks have suffered from a rotation away from the more defensive areas of the market.

We sold our entire holding in **Microsoft** (+£3.6m) as we thought that the turnaround in the company's fortunes was adequately reflected in the share price. We also completely sold **Comcast** (+£3.5m) as, although the company is likely to continue to benefit from greater demand for high-speed internet we judged that the valuation already reflected this.

Outlook

The late Andy Grove, founder and former CEO of Intel, distilled his thoughts about management into a book called "Only the Paranoid Survive". However, I've always thought this would make a good title for a book about investing.

The reason for this is that a successful investor has to continually question their every assumption because things can, and do, change. The political environment is never static, new competition can emerge, advances in technology can drive structural change, management can remove their focus on the core business and apparently successful business models can mask hidden flaws while apparently unsuccessful business models can evolve positively.

The views of the crowd are a particularly poor predictor of future investment performance because the crowd extrapolates recent history and assumes it is a constant.

We could debate whether particular asset classes are overly elevated but perhaps less in question is that there have been a number of years of good returns and there are now signs of complacency in investors' attitude to risk. To some extent this is understandable as the world is awash with cheap money and the curators of this capital are desperate for a return. Symptoms of this excess are the appearance of get-rich-quick schemes such as cryptocurrency investments and the fact that an acronym (FANG) has been attributed to a narrow group of stocks which are all viewed as sure-fire winners.

This is not to say that the wider market will fall but more to observe that the risks currently being taken in some areas may not be justified by the future returns. The spread of valuations across the market is wide and, accordingly, we continue to identify opportunities which we believe will generate good long-term returns for shareholders.

We are contrarian investors and, as such, we seek unfashionable and unpopular investments that we think can recover. We invest, but with our guard up, as hot money has less tendency to inhabit the areas we favour. As I have noted in previous Manager's Reviews, our investment approach is designed to anticipate and benefit from change and we will continue to seek out opportunities with potential to profit the long-term investor.

Alasdair McKinnon
Manager

8 December 2017

The Investment Team

Alasdair McKinnon
Manager

Alasdair joined the Company in 2003 and became Manager in 2015. He has 18 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 15 years of investment experience. She graduated with a Master of Business Administration from the University of Edinburgh. She also has broader investor relations experience and has previously gained a BA in Commerce and Post Graduate CIM Diploma in Marketing. Sarah is a member of the CFA Institute.

Igor Malewicz
Investment Analyst

Igor joined the Company in 2017. He graduated MA with Honours in Economics and Finance and MSc in Petroleum, Energy Economics and Finance both from the University of Aberdeen.

Martin Robertson
Deputy Manager

Martin joined the Company in 2004 and became Deputy Manager in 2015. He has 30 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 7 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 Tax 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 20 and 21 and detailed analysis of the spread of investments by geographic region and industry sector is shown on page 22. A further analysis of changes in asset distribution by industry sector over the year, including the sources of appreciation/depreciation, is shown on page 23. Attribution of NAV performance is shown on page 10.

At the year end, the number of listed holdings was 54. The top ten holdings comprised 35.1% of total assets (2016: 31.0%).

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 to 6 and the Manager's Review on pages 9 to 12.

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:

- strategic – the ongoing attractiveness and sustainability of the Company's corporate objective;
- investment portfolio and performance – investment approach, stock selection and overall investment performance;
- financial – covering market risk, liquidity risk, credit risk and counterparty risk;
- operational – specific focus on potential failure of the Company's or third party service providers' systems, including vulnerability to cyber attack; and
- tax, legal and regulatory – compliance with existing requirements and the ability to identify and respond to change.

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. Further information on risks is detailed in the Corporate Governance Report on pages 30 to 31 and in note 17 to the accounts on pages 59 to 64 and on internal controls in the Report of the Audit Committee on page 34.

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 14.5p and a special dividend of 5.0p per share, payable on 9 February 2018. With the interim dividend of 5.50p already paid in July 2017, this makes a total of 20.0p for the year. Based on 79,468,458 shares in issue at 31 October 2017, the final and special dividend will cost £15.496m. The total dividend for the year will cost £20.039m.

Share capital

General

The Company had 79,468,458 shares of 25p each in issue on 31 October 2017 (2016: 96,342,683). Since the year end, the Company has bought back 845,389 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

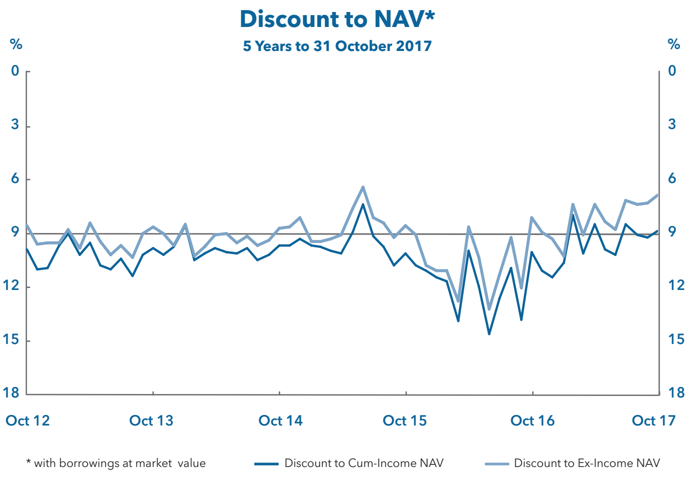
Strategic Report (continued)

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.

Discount control policy

The Company's policy aims, in normal market conditions, to maintain the discount to cum-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 2017, the Company bought back for cancellation a total of 16,874,225 shares of 25p each representing 17.5% of shares in issue at 31 October 2016, at a cost of £135,188,000. This included 11,402,090 shares bought from Aviva.

At the AGM on 3 February 2017, authority was granted to repurchase up to 14.99% of shares in issue on that date. The number of shares authorised for repurchase was 14,358,873. Share buybacks from the date of the AGM to the Company's year end, excluding the Aviva buyback, amounted to 4,919,135 shares or 5.14 percentage points of the 14.99% authority.



Holding in listed closed-ended investment fund

Company holdings include one investment in a listed closed-ended investment fund of £12.7m: 1.5% of total assets (2016: £9.8m: 1.0%). 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 £1.4m (0.2% of shareholders' funds). These comprise our office property, subsidiary and Apax Europe V-B partnership. 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 15); 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 the Corporate Governance Report on page 30 and in note 17 on page 60.

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). 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)

The Board has also appointed Maitland Administration Services (Scotland) Limited (Maitland) to provide company secretarial, administration and accounting services to the Company. Maitland purchased the previous administrators, R&H Fund Sevices Limited, in May 2017.

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**

Key Information Document

With effect from 3 January 2018, in accordance with the EU Packaged Retail and Insurance-based Investment Products (PRIIP) Regulation, the Company's Key Information Document will also be available on the website.

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

	Shares	% held
Wells Capital Management Inc.	4,924,826	6.3
AXA Investment Managers SA	3,450,050	4.4

Analysis of share register at 31 October 2017

Category of holder	Number	Share capital %
Individuals	17,566	77.8
Insurance companies	12	2.4
Investment companies	52	7.9
Pension funds	22	8.3
Other	66	3.6
Total	**17,718**	**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 2017		31 October 2016	
	Male	Female	Male	Female
Directors	4	2	5	1
Manager	1	0	1	0
Employees	6	2	4	2

James Will
Chairman
8 December 2017

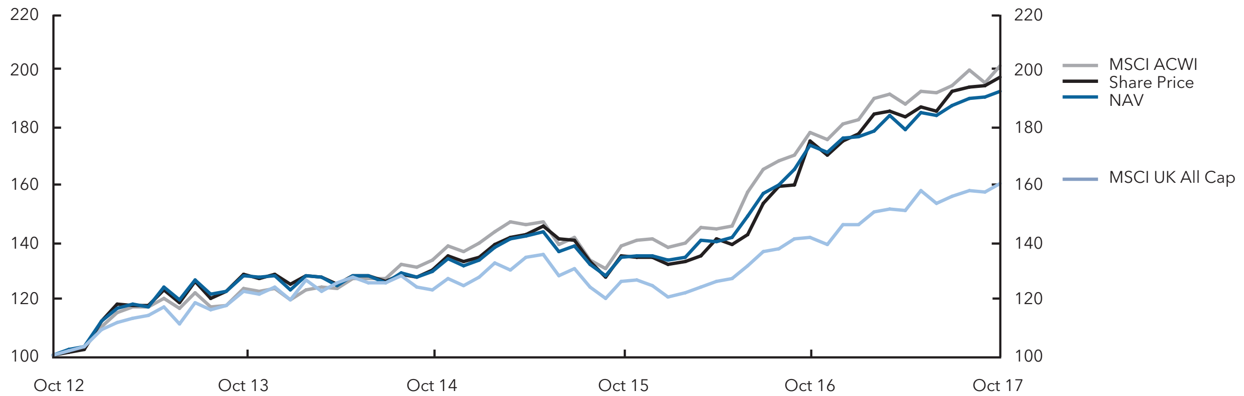
Financial Summary

	2017	2016	Change %	Total return %
NAV with borrowings at market value	924.4p	854.9p	+8.1	+11.0
NAV with borrowings at amortised cost	956.8p	881.2p	+8.6	+11.4
Ex-income NAV with borrowings at market value	904.8p	837.5p	+8.0	
Ex-income NAV with borrowings at amortised cost	937.2p	863.9p	+8.5	
Share price	843.0p	769.5p	+9.6	+12.8
Discount to cum-income NAV with borrowings at market value	8.8%	10.0%		
Discount to ex-income NAV with borrowings at market value	6.8%	8.1%		
MSCI ACWI			+11.1	+13.3
MSCI UK All Cap Index			+9.2	+13.5
	£'000	£'000		
Equity investments	801,302	893,432		
Net current assets	43,897	42,502		
Total assets	845,199	935,934		
Long-term borrowings at amortised cost	(83,737)	(83,645)		
Pension liability	(1,091)	(3,272)		
Shareholders' funds	**760,371**	**849,017**		
Earnings per share	23.06p	21.62p	+6.7	
Regular dividend per share (2017: proposed final 14.50p)	20.00p	13.50p	+48.1	
Special dividend per share (proposed)	5.00p	9.00p		
Total dividend per share	25.00p	22.50p	+11.1	
UK Consumer Prices Index – annual inflation			+3.0	

Year's High & Low

	Year to 31 October 2017 High	Year to 31 October 2017 Low	Year to 31 October 2016 High	Year to 31 October 2016 Low
NAV with borrowings at market value	938.2p	817.1p	867.8p	606.3p
Closing share price	850.0p	739.0p	774.0p	544.5p
Discount to cum-income NAV with borrowings at market value	12.2%	7.1%	15.8%	9.3%
Discount to ex-income NAV with borrowings at market value	10.6%	6.6%	14.4%	8.1%

NAV* and Share Price against Comparator Indices
Total Return – 5 years to 31 October 2017



*with borrowings at market value

List of Investments

As at 31 October 2017

Listed Equities

Holding	Country	Market value £'000	Cumulative weight %
Treasury Wine Estates	Australia	48,511	
Rentokil Initial	UK	44,389	
ING	Netherlands	29,626	
Standard Chartered	UK	27,787	
Marks & Spencer	UK	25,508	
Newcrest Mining	Australia	25,301	
Royal Dutch Shell	UK	24,452	
Tesco	UK	23,945	
Suncor Energy	Canada	23,517	
GlaxoSmithKline	UK	23,218	37.0
Sumitomo Mitsui Financial	Japan	21,867	
SAP	Germany	20,919	
Gap	US	20,627	
BNP Paribas	France	18,891	
Johnson & Johnson	US	18,674	
BHP Billiton	UK	18,537	
Citigroup	US	16,574	
Pepsico	US	16,352	
United Utilities	UK	15,869	
Exxon Mobil	US	15,691	59.9
China Mobile	Hong Kong	15,554	
Pfizer	US	15,466	
RSA Insurance	UK	15,223	
Cemex	Mexico	14,894	
Roche	Switzerland	14,744	
Total	France	14,187	
British Land	UK	12,677	
Vinci	France	12,302	
BASF	Germany	12,191	
Macy's	US	11,860	77.3
National Oilwell Varco	US	11,609	
KDDI	Japan	10,918	
Ambev	Brazil	10,589	
Verizon Communications	US	10,291	
Chevron	US	9,991	
East Japan Railway	Japan	9,447	
Adecco	Switzerland	9,403	
Sony	Japan	9,298	
Nintendo	Japan	9,114	
General Electric	US	8,694	89.7
Bank of Kyoto	Japan	8,592	
Intesa Sanpaolo	Italy	8,450	
Citizens Financial	US	7,986	
International Business Machines	US	7,657	
BT	UK	7,500	
Hess	US	6,649	
Bank of Ireland	Ireland	6,056	
Baker Hughes	US	6,008	
Diamond Offshore Drilling	US	5,414	
TGS Nopec Geophysical	Norway	4,916	98.3

List of Investments (continued)

As at 31 October 2017

Listed Equities

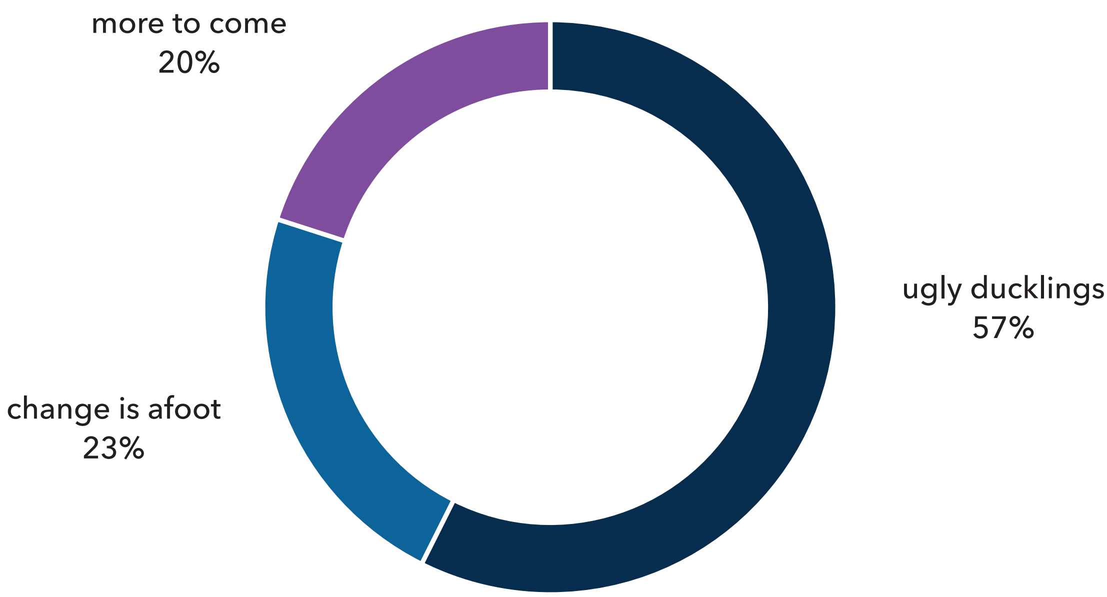
Holding	Country	Market value £'000	Cumulative weight %
BorgWarner	US	4,645	
Tourmaline Oil	Canada	3,074	
Freehold Royalties	Canada	2,990	
Greggs	UK	1,223	
Total listed equities		**799,867**	**99.8**

Unlisted

Holding	Country	Market value £'000	Cumulative weight %
Heritable property & subsidiary	UK	1,400	
Apax Europe V-B	UK	35	
Total unlisted		**1,435**	**0.2**
Total equities		**801,302**	**100.0**

The 10 largest holdings have an aggregate market value of £296,254,000.

Total Equities by Category
(Market Value Weighted)

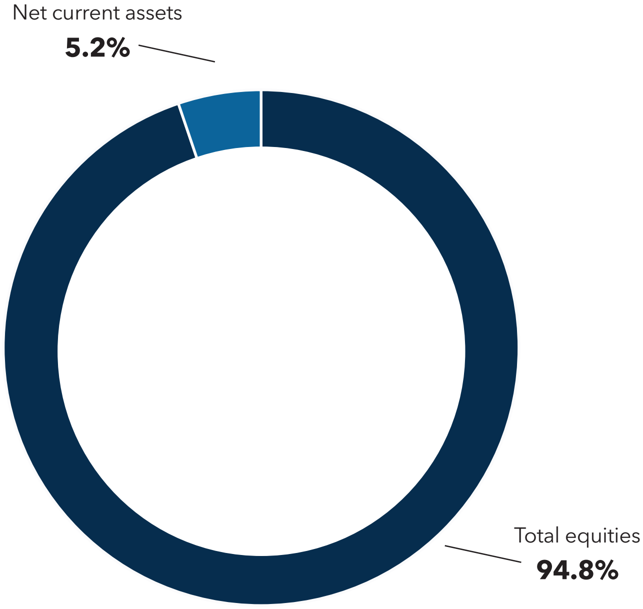


Distribution of Assets

Distribution of Total Assets

by Sector	31 October 2017 %	31 October 2016 %
Energy	15.2	12.4
Materials	8.4	7.1
Industrials	10.0	10.5
Consumer Discretionary	8.6	12.4
Consumer Staples	11.8	10.4
Health Care	8.5	8.3
Financials	19.2	15.1
Information Technology	4.5	8.0
Telecommunication Services	5.2	5.1
Utilities	1.9	5.1
Real Estate	1.5	1.1
Net current assets	5.2	4.5
Total assets	**100.0**	**100.0**

Allocation of Total Assets



by Region	31 October 2017 %	31 October 2016 %
UK	28.6	32.2
Europe (ex UK)	17.9	14.9
North America	26.5	24.9
Latin America	3.0	3.0
Japan	8.2	10.0
Asia Pacific (ex Japan)	10.6	10.5
Net current assets	5.2	4.5
Total assets	**100.0**	**100.0**

Allocation of Shareholders' Funds

	%
Total equities	**105.4**
Net current assets	5.8
Borrowings at amortised cost	(11.0)
Pension liability	(0.2)
Shareholders' funds	**100.0**

Distribution of Assets (continued)

Changes in Asset Distribution

by Sector	31 October 2016 £m	Net purchases (sales) £m	Appreciation (depreciation) £m	31 October 2017 £m
Energy	115.9	25.2	(12.6)	128.5
Materials	66.3	2.8	1.8	70.9
Industrials	98.6	(27.6)	13.2	84.2
Consumer Discretionary	116.4	(60.0)	16.7	73.1
Consumer Staples	97.1	(6.4)	8.7	99.4
Health Care	77.7	(2.0)	(3.6)	72.1
Financials	141.1	(1.5)	22.9	162.5
Information Technology	75.2	(50.9)	13.4	37.7
Telecommunication Services	48.1	5.6	(9.4)	44.3
Utilities	47.2	(28.1)	(3.2)	15.9
Real Estate	9.8	–	2.9	12.7
Total equities	**893.4**	**(142.9)**	**50.8**	**801.3**

Changes in Shareholders' Funds

	31 October 2016 £m	Net purchases (sales) £m	31 October 2017 £m	Appreciation (depreciation) £m	Dividend income £m	Total return £m
Total equities	**893.4**	**(142.9)**	**801.3**	**50.8**	**25.7**	**76.5**
Net current assets	42.5	2.6	43.9			
Total assets	**935.9**	**(140.3)**	**845.2**			
Borrowings at amortised cost	(83.6)	(0.1)	(83.7)			
Pension liability	(3.3)	–	(1.1)			
Shareholders' funds	**849.0**	**(140.4)**	**760.4**			

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] cum-income %	Discount to NAV[2] ex-income %	NAV (debt at par) total return %
2007	11.02	9.10	4,709	0.63	910,574	802,353	44,234	597.6	529.0	10.9	9.9	19.5
2008	11.00	9.50	4,440	0.64	633,521	525,679	22,919	405.5	372.0	9.0	7.5	(30.7)
2009	10.62	9.60	4,139	0.78	696,971	587,675	13,776	465.6	410.0	10.1	8.9	17.6
2010	10.26	10.05	4,284	0.72	740,140	630,367	36,046	533.7	469.3	10.0	9.0	17.0
2011	12.43	10.40	4,443	0.71	708,972	598,870	19,339	524.2	452.0	9.6	8.2	(0.0)
2012	12.01	11.25	4,632	0.79	734,801	628,244	11,121	561.6	479.0	9.8	8.6	9.2
2013	13.41	11.60	5,110	0.75	857,545	750,818	10,139	682.7	603.0	9.8	8.6	23.8
2014	11.51	12.00	4,887	0.68	841,189	734,293	11,308	679.5	598.0	9.6	8.7	1.5
2015	15.91	12.50	4,900	0.52	840,005	733,056	15,426	694.3	608.0	10.1	8.6	3.9
2016	21.62	13.50	4,080	0.49	935,934	849,017	59,944	881.2	769.5	10.0	8.1	29.9
2017	**23.06**	**20.00**	**3,517**	**0.49**	**845,199**	**760,371**	**135,188[3]**	**956.8**	**843.0**	**8.8**	**6.8**	**11.4**

Ten Year Growth Record

Year to 31 October	Earnings per share	Regular dividend per share[1]	Consumer Prices Index	Share price	Share price total return	NAV (debt at par) total return	NAV (debt at market value) total return	MSCI UK All Cap Index total return	MSCI ACWI[4] total return
2007	100.0	100.0	100.0	100.0	100.0	100.0	100.0	-	100.0
2008	99.8	104.4	104.4	70.3	72.0	69.3	70.3	100.0	72.6
2009	96.4	105.5	106.0	77.5	81.5	81.5	80.4	123.6	87.2
2010	93.1	110.4	109.4	88.7	95.4	95.4	93.9	144.3	102.6
2011	112.8	114.3	114.8	85.4	93.8	95.4	91.6	145.9	102.1
2012	109.0	123.6	117.9	90.5	101.6	104.2	99.3	159.9	111.0
2013	121.7	127.5	120.4	114.0	130.7	128.9	127.3	196.4	137.3
2014	104.4	131.9	122.0	113.0	132.5	130.9	128.6	197.2	148.5
2015	144.4	137.4	121.9	114.9	137.4	136.1	133.8	201.6	153.8
2016	196.2	148.4	123.0	145.5	178.6	176.7	173.2	226.3	198.6
2017	**209.3**	**219.8**	**126.6**	**159.4**	**201.5**	**196.9**	**192.2**	**257.0**	**224.9**
Ten year return per annum	**7.7%**	**8.2%**	**2.4%**	**4.8%**	**7.3%**	**7.0%**	**6.8%**	**–**	**8.4%**
Five year return per annum	**13.9%**	**12.2%**	**1.4%**	**12.0%**	**14.7%**	**13.6%**	**14.1%**	**9.9%**	**15.2%**

1. Excluding special dividends of 2.00p in 2007, 1.80p in 2013, 3.50p in 2015, 9.00p in 2016 and 5.00p in 2017.
2. Discount to NAV with borrowings at market value.
3. Includes Aviva repurchase of £90,255,000.
4. MSCI ACWI is the MSCI All Countries World Index.

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 position, 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
8 December 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;
- the Chairman is a member of the Audit Committee; and
- evaluation of the Board has not been externally facilitated.

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

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 Karyn Lamont. 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 2017;
- 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;
- it has satisfied itself that the Strategic Report is consistent with the Financial Statements; and
- it has reviewed the Company's procedures for handling allegations from whistleblowers.

Further details are set out in the Report of the Audit Committee on pages 34 and 35. 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 36 and 37.

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 bonus scheme. For all staff, bonuses payable depend, *inter alia*, on individual performance and the Company's short and medium term performance in both absolute and relative terms. Any other metrics that are considered appropriate may be taken into account.

Corporate Governance Report (continued)

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.

On 30 September 2017, Ian Hunter resigned from the Board as a director and Chair of the Audit Committee. Having reviewed the skills, composition and structure of the Board, the Company engaged Trust Associates, a specialist recruitment company with no connection to the Company, to draw up a list of candidates for consideration as a replacement Director. A number of of strong candidates were interviewed by the Nomination Committee, whereafter a recommendation was made to the Board to appoint Karyn Lamont as a director and Chair of the Audit Committee. Karyn was appointed on 1 October 2017 and shareholders will be asked to elect her at the AGM.

Hamish Buchan will retire from the Board at the AGM. There is no current intention to replace him as the Board considers that its membership will continue to ensure that the appropriate balance of skills, experience, independence and knowledge will be achieved.

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.

	Board		Audit Committee		Remuneration Committee		Nomination Committee	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
James Will	9	9	4	4	5	5	4	4
Hamish Buchan (retiring at AGM 2 February 2018)	9	9	4	4	5	5	4	4
Russell Napier	9	9	4	4	5	4	4	4
Ian Hunter (resigned 30 September 2017)	8	8	4	4	5	5	3	3
Jane Lewis	9	9	4	4	5	5	4	4
Mick Brewis	9	9	4	4	5	5	4	4
Karyn Lamont (appointed 1 October 2017)	1	1	–	–	–	–	1	1

Corporate Governance Report (continued)

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.

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.

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**

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.

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 and election in the case of Karyn Lamont.

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 and in favour of Karyn Lamont on her appointment. 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 16.

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 2017 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 Board considers the following as the principal risks and uncertainties faced by the Company:

Principal risks	Mitigation
Strategic Risks in relation to the ongoing attractiveness and sustainability of the Company's investment objective placing pressure on the share price discount to net asset value per share.	The Board considers strategy and the business model on a periodic basis, including the discount levels and the marketing plans for the business.
Investment portfolio and performance The holding of securities and investing activities involve certain inherent risks, principally in relation to market risk. A contrarian investment approach is a distinctive style that may deviate from comparator indices and peer group performance over discrete periods.	Company performance is monitored at each Board meeting, including investment performance. The Manager seeks to maintain a diversified portfolio. The contrarian investment approach is explained in our marketing content and through meetings with media and the investor community.
Financial The Company's normal business activities are exposed to market risk (including market price risk, foreign currency risk and interest rate risk), liquidity risk, credit risk and counterparty risk.	The Company holds a portfolio which is well diversified across industrial and geographical areas. Most assets are held in listed securities and are therefore readily realisable. All debenture stocks and secured bonds are at fixed rates. Only approved counterparties are used and within agreed limits.
Operational Failure of the Company's or third party service providers' systems could result in a misappropriation of assets or an inability to report to shareholders. There could be a possible impact on reputation if any such events were to occur. The Company is also exposed to the operational risk that one or more of its service providers may not provide the required level of service. The threat of cyber attack has become more prevalent across all sectors.	The Company monitors the performance of its service providers, whether internal (S.I.T Savings Limited is the Company's AIFM) or external (custody and depositary, company secretarial, administration and accounting services) through regular meetings and review of available internal control reports.

Corporate Governance Report (continued)

Principal risks	Mitigation
Tax, legal and regulatory The Company is required to comply with a range of legislation and regulation and may be impacted by changes in the external environment.	The Company employs internal and external resource to ensure compliance with relevant legislation and regulation and the Board receives periodic reports on any issues and potential changes.

These and other risks facing the Company are reviewed regularly by the Audit Committee and the Board. Risk maps are considered every six months.

Further information on risks is detailed in note 17 to the accounts on page 60.

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 72 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.

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 2017	5%	11%

Annual General Meeting

The Company's 130th AGM will be held at The Royal College of Physicians of Edinburgh, 9 Queen Street, Edinburgh, EH2 1JQ on Friday 2 February 2018 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 11 are self-explanatory. Resolution 12, set out in the Notice of the Annual General Meeting on page 72, seeks to renew the authority to repurchase shares until 2 May 2019. 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

Corporate Governance Report (continued)

Company's discount control policy. The maximum number of shares which may be purchased pursuant to this authority shall be 11,785,598 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 12 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 October 2017 were 28.1 tonnes of CO_2e (2016: 56.3 tonnes CO_2e). This equates to 0.07 tonnes of CO_2e (2016: 0.13 tonnes of CO_2e) per square metre.

The Directors' Report on pages 26 to 37, which includes the Responsibility Statement, the Corporate Governance Statement, the Report of the Audit Committee and the Directors' Remuneration Report, and the Going concern statement on page 30, have been approved by the Board.

The Strategic Report on pages 14 to 17 includes information relating to: Dividends, Share capital and Discount control policy (including share buybacks).

By order of the Board.

M. Woodward

Maitland Administration Services (Scotland) Limited
Company Secretary
8 December 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 Maitland Administration Services (Scotland) Limited ("Maitland").

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 49. The prices of all investments are agreed by Maitland 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 appointment of the auditor, the services provided and the related fees. The Committee is aware that EU regulations in relation to statutory audits of EU listed companies will require the Company to change its audit firm by 2023. 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 £34,000 (2016: £34,600) and £21,950 (2016: £19,800), respectively. Non-audit services include: tax compliance £9,850; assurance services £5,400 and pension scheme audit £6,700.

All costs for non-audit services are considered to be appropriate relative to fees paid for audit services. An engagement letter is issued for all non-audit work and subsequently reviewed by the Audit Committee to ensure that the independence and objectivity of the auditor is not compromised by the provision of non-audit services.

The Company has complied with the provisions of the Statutory Audit Services for Larger Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilites) Order 2014.

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.

Karyn Lamont
Chair of the Audit Committee
8 December 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 2 February 2018.

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 Karyn Lamont.

Policy on Directors' fees

On 31 October 2017, 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 and retaining individuals, taking into account the skills and experience necessary for the effective stewarding of the Company and the expected contribution of the Board as a whole in continuing to achieve the Company's investment objective. It aims to be fair and reasonable in relation to similar investment trusts and other similar sized financial companies. 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 aggregate payable to Directors in any financial year.

The policy on Directors' fees was approved at the AGM held in February 2017 and this policy applied for the period up to 31 October 2017. This approval is valid for three years but, because of the proposal to increase Directors' fees, detailed below, the Board has decided that an ordinary resolution on Director remuneration policy will be put to the AGM in February 2018 and it is intended that this policy will apply for the period to 31 October 2020.

The Remuneration Committee recommended an increase in Directors' fees, with effect from 1 November 2017, to £60,000 per annum for the Chairman, £37,500 per annum for the Chair of the Audit Committee and £32,500 per annum for other Directors. Directors' fees were last increased in 2013.

Over the period between 2013 and now there has been a significant increase in the level of work required of both the Board in general and the Chairman and the Audit Committee Chair in particular. The Remuneration Committee believes it is appropriate to review the level of fees paid to Directors taking account of their expected workload and to recognise the additional responsibilities undertaken by the Chairman and the Chair of the Audit Committee.

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 2018 £	Actual fees for the year to 31 October 2017 £
Chairman	60,000	50,000
Audit Committee Chair	37,500	30,000
Non-executive Director	32,500	30,000

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 2017 £	Year to 31 October 2016 £
James Will [1]	50,000	45,000
Douglas McDougall [2] (retired 29 January 2016)	-	12,500
Hamish Buchan	30,000	30,000
Russell Napier	30,000	30,000
Ian Hunter [3] (resigned 30 September 2017)	27,500	30,000
Jane Lewis (appointed 14 December 2015)	30,000	26,309
Mick Brewis (appointed 14 December 2015)	30,000	26,309
Karyn Lamont [4] (appointed 1 October 2017)	2,500	nil
	200,000	200,118

[1] Chairman (with effect from 29 January 2016)
[2] Chairman (retired 29 January 2016)
[3] Audit Committee Chair (resigned 30 September 2017)
[4] Audit Committee Chair (with effect from 1 October 2017)

Directors' Remuneration Report (continued)

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' interests

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

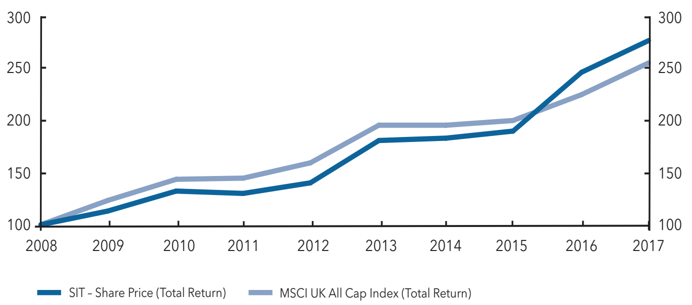
	Shares of 25p 31 October 2017	31 October 2016
James Will	8,000*	8,000*
Hamish Buchan	22,325	22,325
Russell Napier	14,000	14,000
Jane Lewis	1,000	1,000
Mick Brewis	10,000	10,000
Karyn Lamont	2,500	n/a

* 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 and 8 December 2017.

Company performance

The graph below shows the Company's share price total return compared to the notional total return of the MSCI UK All Cap Index (assuming all dividends were reinvested for both the Company and the Index) over a 9 year 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

	2017 £'000	2016 £'000	% Change
Directors' fees	200	200	-
Expenses	3,517	4,080	(13.8)
Staff costs	1,612	2,277	(29.2)
Dividends paid and proposed	20,039	21,828	(8.2)

Directors' fees as a percentage of:	2017 %	2016 %
Expenses	5.7	4.9
Staff costs	12.4	8.8
Dividends paid and proposed	1.0	0.9

Excluding discretionary performance-related bonuses, expenses decreased by 16.6% and staff costs decreased by 34.8%.

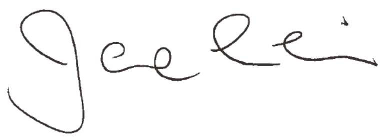
Further details of the Company's expenses and staff costs can be found in notes 2 and 3, respectively, on page 51 and of dividends paid in note 7 on page 55.

Approval

Voting on the resolution to approve the Directors' Remuneration Report 2016, at the Company's AGM on 3 February 2017, was as follows:

	% For	% Against	% Withheld
Approve Directors' Remuneration Report	99.1	0.6	0.3

The Directors' Remuneration Report was approved by the Board on 8 December 2017 and signed on its behalf by:



Jane Lewis
Chair of the Remuneration Committee
8 December 2017

Independent Auditor's Report

Opinion

In our opinion the Financial Statements:

- give a true and fair view of the state of the Company's affairs as at 31 October 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 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 and updated in January 2017 "Financial Statements of Investment Trust Companies and Venture Capital Trusts"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of The Scottish Investment Trust PLC (the 'Company') which comprise:

- the Income Statement;
- the Balance Sheet;
- the Statement of Comprehensive Income;
- the Statement of Changes in Equity;
- the Cash Flow Statement; and
- the related notes 1 to 19.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland") (United Kingdom Generally Accepted Accounting Practice) and the Statement of Recommended Practice issued by the Association of Investment Companies in November 2014 and updated in January 2017 "Financial Statements of Investment Trust Companies and Venture Capital Trusts".

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Valuation and existence of listed investments • Recognition of investment income Within this report any key audit matters which are the same as the prior year are identified with ».
Materiality	The materiality that we used in the current year was £7.5m which was determined on the basis of 1% of net assets at 31 October 2017.
Scoping	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.
Significant changes in our approach	There were no significant changes in our approach from the prior year.

Independent Auditor's Report (continued)

Conclusions relating to principal risks, going concern and viability statement

We have reviewed the Directors' statement regarding the appropriateness of the going concern basis of accounting contained within the Accounting Policies section of the financial statements and the Directors' statement on the longer-term viability of the Company contained within the strategic report on page 16.

We are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on pages 30 to 31 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation on page 30 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 Directors' statement in the Accounting Policies section of the financial statements 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 16 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; or
- whether the Directors' statements relating to going concern and the prospects of the Company required in accordance with Listing Rule 9.8.6R(3) are materially inconsistent with our knowledge obtained in the audit.

We confirm that we have nothing material to add or draw attention to in respect of these matters.

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.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

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

Valuation and existence of listed investments	
Key audit matter description	Listed investments of £799.9m (2016: £891.5m) represent the most significant number on the balance sheet and are the main driver of the Company's performance. Listed investments represented 94.6% (2016: 95.3%) of total assets of the Company at 31 October 2017 (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 the recording and custody of listed investments, and whether listed investments recorded are the property of the Company. The description of the key audit matter above should be read in conjunction with the significant issues considered by the Audit Committee discussed on page 34.

Independent Auditor's Report (continued)

Valuation and existence of listed investments

How the scope of our audit responded to the key audit matter	We have performed the following procedures to address this key audit matter: • critically asssessed the design and implementation of the controls over valuation and 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.
Key observations	Based on the audit procedures performed, we have not identified any material errors which required reporting to those charged with governance.

Recognition of investment income

Key audit matter description	Dividend income of £25.7m (2016: £28.3m) represented 99.2% (2016: 98.8% of the total income of the Company (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 investment income is incomplete which could have a material impact on the Company's net asset value. We also identified this key audit matter as a potential fraud risk. The description of the key audit matter above should be read in conjunction with the significant issues considered by the Audit Committee discussed on page 34.
How the scope of our audit responded to the key audit matter	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 the 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 agreed 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.
Key observations	Based on the audit procedures performed, we have not identified any material errors which required reporting to those charged with governance.

Independent Auditor's Report (continued)

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.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Materiality	£7.5m (2016: £8.5m)
Basis for determining materiality	1% (2016: 1%) of net assets.
Rationale for the benchmark applied	Net assets has been chosen as a benchmark as it is considered the most relevant benchmark for investors and is the key driver of shareholder value.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £150,000 (2016: £169,800), 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.

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 misstatements was performed directly by the audit engagement team.

As part of our risk assessment, we assessed the control environment in place at the administrator to the extent relevant to our audit.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report including the Strategic Report and the Directors' Report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Independent Auditor's Report (continued)

Other information

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- *Fair, balanced and understandable* – the statement given by the Directors that they consider the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- *Audit Committee reporting* – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- *Directors' statement of compliance with the UK Corporate Governance Code* – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Responsibilities of Directors

As explained more fully in the Directors' 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, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

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.

Independent Auditor's Report (continued)

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

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

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 by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company's 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 in respect of these matters.

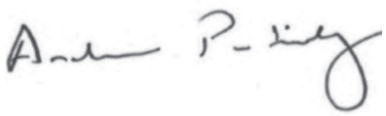
Other matters

Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the Board of Directors on 1 August 2002 to audit the financial statements for the year ending 31 October 2002 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 16 years, covering the years ending 31 October 2002 to 31 October 2017.

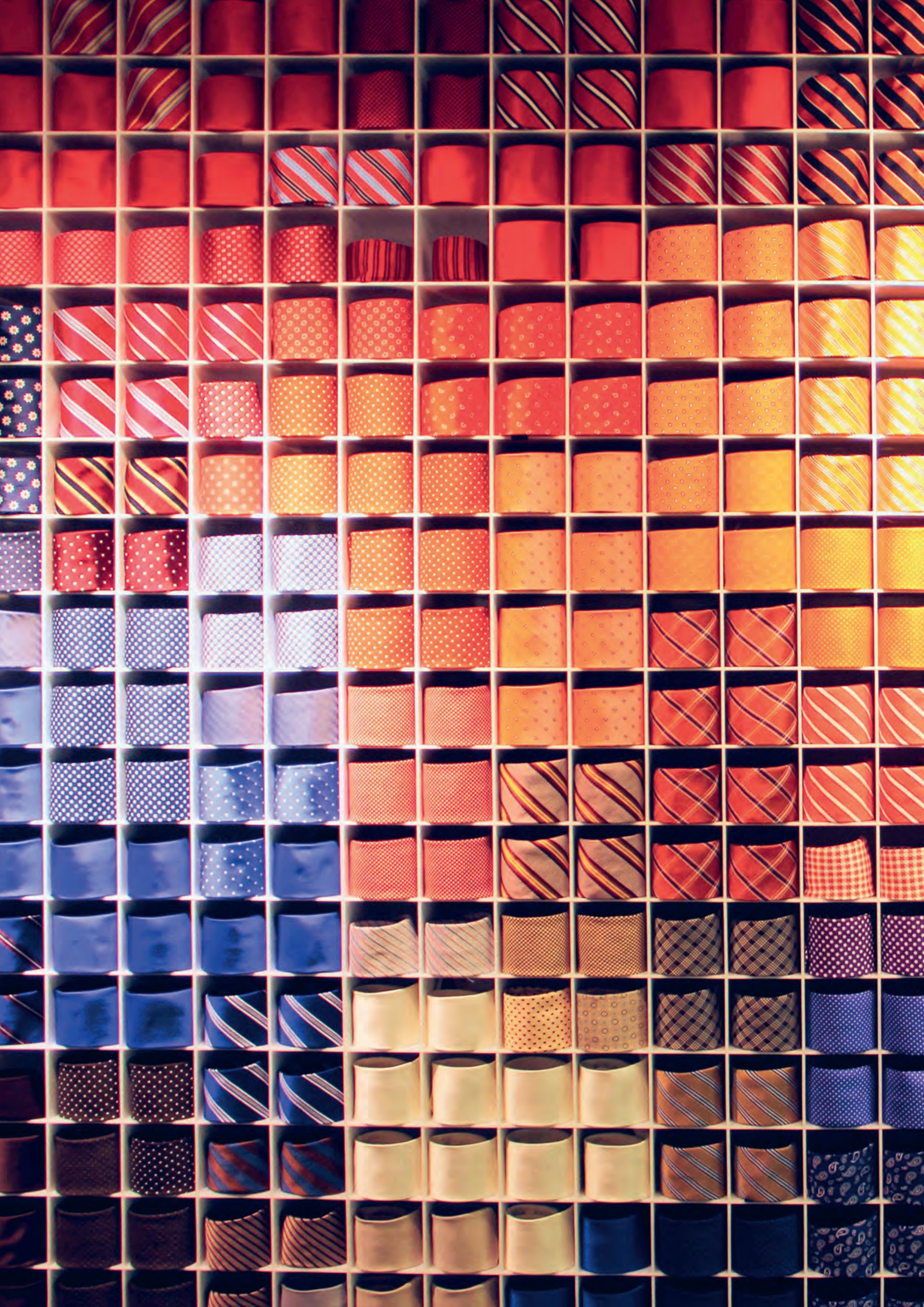
Consistency of the audit report with the additional report to the Audit Committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).



Andrew Partridge CA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
Edinburgh, United Kingdom

8 December 2017



Income Statement

For the year to 31 October 2017

	Notes	2017 Revenue £'000	2017 Capital £'000	2017 Total £'000	2016 Revenue £'000	2016 Capital £'000	2016 Total £'000
Net gains on investments held at fair value through profit and loss	8	–	50,816	50,816	–	177,326	177,326
Net (losses)/gains on currencies		–	(1,185)	(1,185)	–	6,024	6,024
Income	1	25,898	–	25,898	28,440	–	28,440
Expenses	2	(2,075)	(1,442)	(3,517)	(2,407)	(1,673)	(4,080)
Net Return before Finance Costs and Taxation		23,823	48,189	72,012	26,033	181,677	207,710
Premium on repayment of secured bonds		–	–	–	–	(7,393)	(7,393)
Interest payable	5	(2,474)	(2,475)	(4,949)	(2,529)	(2,529)	(5,058)
Return on Ordinary Activities before Tax		21,349	45,714	67,063	23,504	171,755	195,259
Tax on ordinary activities	6	(1,252)	–	(1,252)	(1,534)	–	(1,534)
Return attributable to Shareholders		**20,097**	**45,714**	**65,811**	**21,970**	**171,755**	**193,725**
Return per share (basic and fully diluted)		**23.06p**	**52.46p**	**75.52p**	**21.62p**	**169.04p**	**190.66p**
Weighted average number of shares in issue during the year			**87,144,760**			**101,606,378**	

	Notes	2017 £'000	2016 £'000
Dividends paid and proposed	7		
Interim 2017: 5.50p (2016: 5.25p)		4,543	5,276
Final 2017: 14.50p (2016: 8.25p)		11,523	7,916
Special 2017: 5.00p (2016: 9.00p)		3,973	8,636
Total 2017: 25.00p (2016: 22.50p)		**20,039**	**21,828**

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 2017

	Notes	2017 £'000	2017 £'000	2016 £'000	2016 £'000
Fixed Assets					
Investments	8		801,302		893,432
Current Assets					
Debtors	10	2,113		2,260	
Cash	8	5,240		11,694	
Cash equivalents	8	37,696		29,210	
		45,049		43,164	
Creditors: liabilities falling due within one year	11	(1,152)		(662)	
Net Current Assets			**43,897**		**42,502**
Total Assets less Current Liabilities			**845,199**		**935,934**
Creditors: liabilities falling due after more than one year					
Long-term borrowings at amortised cost	12		(83,737)		(83,645)
Provisions for liabilities					
Pension liability	4		(1,091)		(3,272)
Net Assets			**760,371**		**849,017**
Capital and Reserves					
Called-up share capital	13		19,867		24,086
Share premium account	14		39,922		39,922
Other reserves					
Capital redemption reserve	14		50,994		46,775
Capital reserve	14		593,484		682,209
Revenue reserve	14		56,104		56,025
Shareholders' Funds			**760,371**		**849,017**
Net Asset Value per share with borrowings at amortised cost (basic and fully diluted)			**956.8p**		**881.2p**
Number of shares in issue at year end			**79,468,458**		**96,342,683**

The Financial Statements on pages 45 to 64 were approved by the Board of Directors and were signed on its behalf by:

James Will
Chairman
8 December 2017

The accompanying notes are an integral part of this statement.

Statement of Comprehensive Income

For the year to 31 October 2017

	Notes	2017 Revenue £'000	2017 Capital £'000	2017 Total £'000	2016 Revenue £'000	2016 Capital £'000	2016 Total £'000
Return attributable to shareholders		20,097	45,714	65,811	21,970	171,755	193,725
Actuarial gains/(losses) relating to pension scheme	4	1,077	749	1,826	(596)	(414)	(1,010)
Total comprehensive income for the year		21,174	46,463	67,637	21,374	171,341	192,715
Total comprehensive income per share		24.30p	53.31p	77.61p	21.04p	168.63p	189.67p

Statement of Changes in Equity

For the year to 31 October 2017

	Notes	2017 £'000	2016 £'000
Opening balance		849,017	733,056
Total comprehensive income		67,637	192,715
Dividend payments	7	(21,095)	(16,810)
Aviva share buyback		(90,255)	–
Regular share buybacks		(44,933)	(59,944)
Closing balance		760,371	849,017

The accompanying notes are an integral part of this statement.

Cash Flow Statement

For the year to 31 October 2017

	2017 £'000	2016 £'000
Operating activities		
Net revenue before finance costs and taxation	23,823	26,033
Expenses charged to capital	(1,442)	(1,673)
Decrease/(increase) in accrued income	226	(287)
Increase/(decrease) in other payables	47	(403)
(Increase)/decrease in other receivables	(3)	81
Adjustment for pension funding	(355)	(288)
Tax on investment income	(1,327)	(1,919)
Cash flows from operating activities	**20,969**	**21,544**
Investing activites		
Purchases of investments	**(131,714)**	**(162,884)**
Disposals of investments	**273,474**	**218,530**
Cash flows from investing activities	**141,760**	**55,646**
Cash flows before financing activities	**162,729**	**77,190**
Financing activities		
Dividends paid	(21,095)	(16,810)
Repayment of secured bond	–	(28,241)
Aviva share buyback	(90,255)	–
Regular share buybacks	(44,490)	(60,158)
Interest paid	(4,857)	(5,030)
Cash flows from financing activities	**(160,697)**	**(110,239)**
Net movement in cash and cash equivalents	**2,032**	**(33,049)**
Cash and cash equivalents at the beginning of year	**40,904**	**73,953**
Cash and cash equivalents at the end of year	**42,936**	**40,904**

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 have been prepared in accordance with Financial Reporting Standard 102 and with the AIC 's Statement of Recommended Practice "Financial Statements of Investment Trust Companies and Venture Capital Trusts" (SORP) issued in 2014 and updated in January 2017. They are also prepared on a going concern basis (see page 30) under the historical cost convention, modified to include the revaluation of investments at fair value. 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.

Expenses are allocated equally between revenue and capital reserve (after allocating 18% to revenue) in line with the Directors' expectations of the nature of long-term future returns from the Company's investments (2016: 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 (2016: 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. 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.

Accounting Policies (continued)

(h) Foreign currency

Transactions denominated in foreign currencies are recorded in the local currency at actual exchange rates at the date of the transaction. 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

(i) Share Premium Account – the surplus of net proceeds received from the issue of new ordinary shares over the nominal value of such shares is credited to this account. The nominal value of the shares issued is recognised in share capital. This reserve is non-distributable.

(ii) Capital Redemption Reserve – the nominal value of the Ordinary Shares bought back for cancellation was added to this reserve. This reserve is non-distributable.

(iii) 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.

Dividends paid may be deducted from accumulated realised capital profits recognised within this reserve.

(iv) Revenue Reserve – the net profit/loss arising in the revenue column of the Statement of Comprehensive Income is added to this reserve. Dividends paid during the year may be deducted from this reserve.

(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 52 to 54.

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 Directors do not believe any accounting judgements or estimates have been applied to this set of financial statements that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year.

Notes to the Financial Statements

For the year to 31 October 2017

1. Income

	2017 £'000	2016 £'000
UK dividends including special dividends of £nil (2016: £152,000)	8,337	7,511
Overseas dividends including special dividends of £429,000 (2016: £240,000)	17,368	20,836
Deposit interest	193	93
	25,898	**28,440**

2. Expenses

	2017 £'000	2016 £'000
Staff costs (note 3)	1,612	2,277
Auditor's remuneration for audit services	34	35
Auditor's remuneration for pension scheme audit	7	8
Auditor's remuneration for tax compliance services	10	7
Auditor's remuneration for other assurance services	5	5
Investment and accounting services	290	306
Professional fees, marketing and scheme administration	392	422
Company secretarial and administration fee	182	117
Office expenses	336	247
Depositary, custody and bank charges	180	175
Other expenses	469	481
	3,517	**4,080**

3. Staff costs

	2017 £'000	2016 £'000
Remuneration	1,127	1,766
Social security costs	144	223
Pensions and post-retirement benefits	341	288
	1,612	**2,277**

The average monthly number of persons employed during the year was:	2017 Number	2016 Number
Investment	5	4
Administration	4	6
	9	**10**

Details of the Directors' remuneration are noted on pages 36 and 37.

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 as at 31 July 2016 by Punter Southall & Co which disclosed a scheme deficit of £6,942,000. The Company agreed to meet this deficit over fifteen years and seven months. 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.

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:	2017 %	2016 %	2015 %	2014 %	2013 %
Rate of increase in salaries	3.2	3.2	3.2	3.2	3.2
Rate of increase in pensions in payment	3.5	3.7	3.8	3.8	3.8
Discount rate	3.2	3.3	4.3	4.3	4.4
Inflation – RPI	3.2	3.5	3.6	3.6	3.7
– CPI	2.2	2.5	2.8	2.8	2.9
Life expectancies on retirement at age 60 are:					
Retiring today – males	26.7	27.2	28.1	27.9	27.8
– females	28.6	29.4	30.8	30.7	30.6
Retiring in 20 years' time – males	28.2	29.5	30.2	30.1	30.0
– females	30.3	31.8	32.9	32.8	32.7

The fair value of the scheme assets and the present value of the scheme liabilities were:	2017 £'000	2016 £'000	2015 £'000	2014 £'000	2013 £'000
Equities	7,913	7,401	6,224	4,996	5,043
Bonds	4,992	6,181	5,717	5,922	4,879
With-profit policies	288	264	251	149	202
Cash	1,180	1,976	2,343	2,243	1,646
Total fair value of assets	14,373	15,822	14,535	13,310	11,770
Present value of scheme liabilities	(15,464)	(19,094)	(17,085)	(15,923)	(14,330)
Net pension liability	**(1,091)**	**(3,272)**	**(2,550)**	**(2,613)**	**(2,560)**

Reconciliation of the opening and closing balances of the present value of the scheme assets	2017 £'000	2016 £'000
Fair value of scheme assets at beginning of year	15,822	14,535
Interest income on scheme assets	476	605
Returns on assets, excluding interest income	906	1,272
Contributions by employer	455	389
Benefits paid	(3,286)	(979)
Fair value of scheme assets at end of year	**14,373**	**15,822**

Reconciliation of the opening and closing balances of the present value of the scheme liabilities	2017 £'000	2016 £'000
Liabilities at beginning of year	19,094	17,085
Interest cost	576	706
Actuarial (gains)/losses	(920)	2,282
Benefits paid	(3,286)	(979)
Liabilities at end of year	**15,464**	**19,094**

Notes to the Financial Statements (continued)

4. Pension scheme (continued)

Analysis of amount chargeable to operating profit during the year	2017 £'000	2016 £'000	2015 £'000	2014 £'000	2013 £'000
Current service cost	–	–	358	423	407
Past service cost	–	–	–	–	–
Total operating charge	–	–	358	423	407
Employee contribution to be set off	–	–	(31)	(38)	(40)
Analysis of amount credited to other finance income:					
Interest income return on assets	476	605	685	643	544
Interest on liabilities	(576)	(706)	(687)	(636)	(623)
Net return	(100)	(101)	(2)	7	(79)
Movement in deficit during year: Deficit at beginning of year	(3,272)	(2,550)	(2,613)	(2,560)	(2,506)
Movement in year:					
Current service cost	–	–	(358)	(423)	(407)
Past service cost	–	–	–	–	–
Contributions for year	455	389	850	858	747
Net return from other finance income	(100)	(101)	(2)	7	(79)
Actuarial gains/(losses) in Statement of Comprehensive Income	1,826	(1,010)	(427)	(495)	(315)
Deficit at end of year	**(1,091)**	**(3,272)**	**(2,550)**	**(2,613)**	**(2,560)**

Notes to the Financial Statements (continued)

5. Interest payable

	2017 £'000	2016 £'000
On secured bonds and debentures	4,857	4,964
Amortisation of secured bonds issue expenses	92	94
	4,949	**5,058**

6. Tax on ordinary activities

	2017 £'000	2016 £'000
Taxation		
UK corporation tax at 19.41% (2016: 20.00%)	–	–
Overseas tax	1,252	1,534
Current tax	**1,252**	**1,534**

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

	2017 £'000	2016 £'000
Return on ordinary activities before tax	67,063	195,259
Corporation tax at 19.41%* (2016: 20.00%)	13,017	39,052
Effects of:		
Non-taxable capital returns	(9,633)	(35,191)
Finance costs and expenses charged to capital	(760)	(840)
Non-taxable dividends	(4,989)	(5,669)
Unutilised expenses	2,365	2,648
Overseas tax	1,252	1,534
	1,252	**1,534**

* The rate of corporation tax was lowered from 20% to 19% from 1 April 2017 in accordance with the Finance Act 2015.

7. Dividends

	2017 £'000	2016 £'000
Dividends paid on shares recognised in the year:		
Previous year final of 8.25p per share (2015: 7.50p)	7,916	7,864
Previous year special of 9.00p per share (2015: 3.50p)	8,636	3,670
Interim of 5.50p per share (2016: 5.25p)	4,543	5,276
	21,095	**16,810**

Notes to the Financial Statements (continued)

8. Investments

	2017 £'000	2016 £'000
Investments listed on a recognised investment exchange	799,867	891,504
Unlisted investments	1,082	1,575
Subsidiary undertakings (note 9)	353	353
	801,302	**893,432**

	Listed in UK £'000	Listed overseas £'000	Unlisted £'000	Total £'000
Opening book cost	267,681	432,264	358	700,303
Opening unrealised appreciation	32,255	159,304	1,570	193,129
Opening valuation	**299,936**	**591,568**	**1,928**	**893,432**
Movements in the year:				
Purchases at cost	15,991	115,129	–	131,120
Sales – proceeds	(81,864)	(191,685)	(517)	(274,066)
– realised gains on sales	8,748	83,621	517	92,886
Decrease in unrealised appreciation	(2,481)	(39,096)	(493)	(42,070)
Closing valuation	**240,330**	**559,537**	**1,435**	**801,302**
Closing book cost	210,556	439,329	358	650,243
Closing unrealised appreciation	29,774	120,208	1,077	151,059
Closing valuation	**240,330**	**559,537**	**1,435**	**801,302**

Total purchases of equities amounted to £131,120,000 (2016: £134,490,000) and sales were £274,066,000 (2016: £192,620,000). The purchases at cost and sales proceeds figures include transaction costs of £937,000 (2016: £1,083,000), comprising commissions, government stamp duty and other fees.

Unlisted investments include heritable property valued at £1,050,000 (2016: £1,050,000). The property was valued on an open market basis by Allied Surveyors Scotland PLC, chartered surveyors, on 8 October 2015 and the Directors still consider this to be an appropriate value as at 31 October 2017.

	2017 £'000	2016 £'000
Realised gains on sales	92,886	61,398
(Decrease)/increase in unrealised appreciation	(42,070)	115,928
Net gains on investments	**50,816**	**177,326**

Financial assets – cash and deposits	2017 Fixed £'000	2017 Floating £'000	2017 Total £'000	2016 Fixed £'000	2016 Floating £'000	2016 Total £'000
Sterling	20,000	3,034	23,034	10,000	11,044	21,044
US dollar	17,696	2,206	19,902	19,210	650	19,860
	37,696	**5,240**	**42,936**	**29,210**	**11,694**	**40,904**

The maximum maturity period for fixed rate deposits outstanding at the year end was 3 days (2016: 1 day). The weighted average fixed interest rate at the year end was 0.55% (2016: 0.20%). 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.

The registered office of the subsidiary is 6 Albyn Place, Edinburgh, EH2 4NL.

10. Debtors

	2017 £'000	2016 £'000
Overseas tax recoverable	809	734
Prepayments and accrued income	1,304	1,526
	2,113	**2,260**

11. Creditors: liabilities falling due within one year

	2017 £'000	2016 £'000
Amounts due to brokers	613	170
Other creditors	539	492
	1,152	**662**

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

	2017		2016	
	Book value £'000	Fair value £'000	Book value £'000	Fair value £'000
4% Perpetual Debenture Stock	350	426	350	401
4¼% Perpetual Debenture Stock	700	906	700	853
5% Perpetual Debenture Stock	1,009	1,538	1,009	1,448
5¾% Secured Bonds due 17 April 2030	81,678	106,652	81,586	106,357
	83,737	**109,522**	**83,645**	**109,059**

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 amortised cost. Restating them at market value of £109.5m (2016: £109.0m) has the effect of decreasing the year end NAV per share from 956.8p to 924.4p (2016: decreasing from 881.2p to 854.9p).

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

	2017	2016
Shares of 25p	£19,867,000	£24,086,000
Number of shares in issue	79,468,458	96,342,683

16,874,225 shares were repurchased in the stockmarket during the year to 31 October 2017 (2016: 9,244,743).

845,389 shares were repurchased from 1 November to 7 December 2017.

14. Reserves

	Share premium account £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000
At 31 October 2016	39,922	46,775	682,209	56,025
Net losses on currencies	–	–	(1,185)	–
Net gains on realisation of investments	–	–	92,886	–
Decrease in unrealised appreciation	–	–	(42,070)	–
Share buybacks	–	4,219	(135,188)	–
Actuarial gains relating to pension scheme	–	–	749	1,077
Expenses and interest charged to capital	–	–	(3,917)	–
Return attributable to shareholders	–	–	–	20,097
Dividends paid	–	–	–	(21,095)
At 31 October 2017	**39,922**	**50,994**	**593,484**	**56,104**

15. Analysis of changes in net debt during the year

	31 October 2016 £'000	Cash flows £'000	Non-cash movements £'000	31 October 2017 £'000
Cash	11,694	(6,454)	–	5,240
Short-term deposits	29,210	8,486	–	37,696
Long-term borrowings at amortised cost	(83,645)	–	(92)	(83,737)
	(42,741)	**2,032**	**(92)**	**(40,801)**

16. Contingencies, guarantees and financial commitments

	2017 £'000	2016 £'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**

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 49 explain how the various categories of financial instrument are measured.

	2017 £'000	2016 £'000
Financial assets		
Financial assets at fair value through profit and loss:		
Fixed asset investments – designated as such on initial recognition	801,302	893,432
Current assets:		
Debtors	2,113	2,260
Cash and short-term deposits	42,936	40,904
	45,049	43,164
	846,351	**936,596**
Financial liabilities		
Creditors: liabilities falling due within one year		
Amounts due to brokers	(613)	(170)
Other creditors	(539)	(492)
	(1,152)	(662)
Creditors: liabilities falling due after more than one year		
Long-term borrowings at amortised cost	(83,737)	(83,645)
Provisions for liabilities		
Pension liability	(1,091)	(3,272)
	(84,828)	(86,917)
	(85,980)	**(87,579)**

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. 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 2017 and 31 October 2016 are shown below.

2017	US $ £'000	Euro £'000	Other £'000
Debtors (amounts due from brokers, dividends receivable and accrued income)	165	238	1,331
Creditors (amounts due to brokers)	–	–	–
Cash	19,902	–	–
Foreign currency exposure on net monetary items	20,067	238	1,331
Equity investments at fair value through profit and loss	219,670	122,660	217,244
Total net foreign currency exposure	**239,737**	**122,898**	**218,575**

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**

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 2017	US $ £'000	Euro £'000	Other £'000
Maximum	28,381	–	–
Minimum	10,788	–	–
Year to 31 October 2016			
Maximum	34,297	–	–
Minimum	18,282	–	–

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 2017. 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.

	2017		2016	
	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	604	417	557	455
Capital return	23,957	12,266	26,078	11,124
Return attributable to shareholders	**24,561**	**12,683**	**26,635**	**11,579**

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 56. Details of interest rates on financial liabilities are included in note 12 on page 57.

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.

	2017			2016		
	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	5,240	–	5,240	11,694	–	11,694
Exposure to fixed interest rates						
Short-term deposits	37,696	–	37,696	29,210	–	29,210
Long-term borrowings	–	(83,737)	(83,737)	–	(83,645)	(83,645)
Total exposure	**42,936**	**(83,737)**	**(40,801)**	**40,904**	**(83,645)**	**(42,741)**

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:

	2017 £'000	2016 £'000
Return attributable to shareholders	**(10)**	**(5)**

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. The maturity profile of the Company's borrowings is included in note 12 on page 57.

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 (2016: 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 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 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. Further details on the valuation techniques used for level 3 investments are included in the Company's accounting policies on page 49.

	2017			
	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets at fair value through profit and loss	**799,867**	**–**	**1,435**	**801,302**

	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**

There were no transfers between Level 1 & 2 during the year (2016: same).

Reconciliation of Level 3 fair value measurements of financial assets	Fair value through profit and loss 2016 £'000
Balance at 31 October 2016	1,928
Purchase costs	–
Sales proceeds	(517)
Total profit: in profit and loss	24
Balance at 31 October 2017	**1,435**

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 36 and 37. There were no matters requiring disclosure under section 412 of the Companies Act 2006.

19. Subsequent events

Since the year end the Board has declared a final dividend of 14.50p per ordinary share and a special dividend of 5.00p per ordinary share in respect of the year ended 31 October 2017.

Details of shares repurchased since the year end are disclosed in note 13 on page 58.

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**.

Dividends

The following dividends have been paid during 2016/17:

Dividends	Amount	XD date	Record date	Payment date
Interim 2017	5.50p	29 June 2017	30 June 2017	28 July 2017
Final 2016	8.25p	31 December 2016	13 January 2017	17 February 2017
Special 2016	9.00p	31 December 2016	13 January 2017	17 February 2017

Shareholders who hold share certificates

For shareholders who hold share certificates (investors whose names are on the Company's share register), 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 literature section on the Company's website, **www.thescottish.co.uk**

Monitoring your investment

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

A number of financial websites, such as the Financial Times, **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 December.

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 shareholder information 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 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 shareholder information 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.

Other publications

If you would like to receive electronic versions of our newsletter, monthly factsheet and alerts when we publish information on the company please register your email address at **www.thescottish.co.uk/subscribe**

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.

The AGM will be held at the Royal College of Physicians of Edinburgh, 9 Queen Street, Edinburgh EH2 1JQ, on Friday 2 February 2018 at 10.30am.

Investor Information (continued)

Attendance at AGM

All investors are welcome to attend our AGM.
If your shares are held on the main register please return your proxy card to Computershare, the Company's Registrar.

If your shares are held by your stockbroker or other platform nominee please email **info@thescottish.co.uk** to reserve your place.

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.

Voting

If you hold your shares through AJ Bell Youinvest you can ask them to vote your shares. To do this you will need to log into your account and send them a secure message (not email) with your instructions for each resolution.

If you hold your shares through a stockbroker or other platform nominee you should contact them to make arrangements to vote.

You will not be able to vote at the meeting if your shares are held in a nominee.

Personal taxation

Dividend tax allowance

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 £11,300 per annum of such gains from all sources is exempt (£11,700 for 2018/19 tax year).

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.

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 2018

Dividend and interest payments

Final and special for the financial year to 31 October 2017	9 February 2018
First Interim	11 May 2018
Second Interim	3 August 2018
Third Interim	2 November 2018
Final	8 February 2019
Secured bonds	17 April, 17 October
Perpetual debenture stock	30 April, 31 October

Announcement of results

NAV	Daily
Interim figures	June
Final figures	December
Annual Report & Accounts	December
Annual General Meeting (AGM)	2 February 2018

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
Maitland Administration Services (Scotland) 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**

Glossary

Borrowings at amortised cost 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.

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

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

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

NAV total return is the measure of how the Company's NAV has performed over a period of time, taking into account both capital returns and entitlement to dividends declared by the Company.

Ongoing charges figure is the measure of the regular, recurring costs of the Company expressed as a percentage of the average daily shareholders' funds with borrowings at market value.

Portfolio turnover rate is the average of investment purchases and sales expressed as a percentage of opening total assets.

Share price total return is the measure of how the Company's share price has performed over a period of time, taking into account both capital returns and entitlement to dividends declared by the Company.

Total assets means total assets less current liabilities.

Notice of Annual General Meeting

Notice is hereby given that the one hundred and thirtieth Annual General Meeting (AGM) of The Scottish Investment Trust PLC will be held at The Royal College of Physicians of Edinburgh, 9 Queen Street, Edinburgh EH2 1JQ, on Friday 2 February 2018 at 10.30am, for the purpose of transacting the following:

1. To receive and consider the Directors' Report and Accounts for the year to 31 October 2017.
2. To approve the Directors' remuneration policy.
3. To approve the Directors' Remuneration Report for the year to 31 October 2017.
4. To declare a final dividend of 14.50p per share.
5. To declare a special dividend of 5.00p per share.
6. To elect Karyn Lamont as a Director.
7. To re-elect James Will as a Director.
8. To re-elect Russell Napier as a Director.
9. To re-elect Jane Lewis as a Director.
10. To re-elect Mick Brewis as a Director.
11. To re-appoint Deloitte LLP as auditor and to authorise the Directors to fix their remuneration.
12. 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 11,785,598 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 2 May 2019, 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 12 which is a special resolution.

Maitland Administration Services (Scotland) Limited
Company Secretary
8 December 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 AGM)

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 7 December 2017, the Company's issued share capital comprised 78,623,069.

Notice of Annual General Meeting (continued)

shares (none of which is held in treasury). Each share carries the right to one vote at a general meeting of the Company.

Accordingly, as at 7 December 2017, the total number of voting rights exercisable at the AGM was 78,623,069.

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 AGM from 15 minutes prior to the commencement of the AGM until the conclusion thereof. No Director has any service contract with the Company.

Investors whose holdings are in nominee names and who wish to attend and vote are advised to contact their nominee before 26 January 2018.

The final and special dividends, if approved, will be paid on 9 February 2018 to shareholders registered at the close of business on 12 January 2018.

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

6 ALBYN PLACE | EDINBURGH | EH2 4NL
T: 0131 225 7781 | E: info@thescottish.co.uk
www.thescottish.co.uk