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The Edinburgh Investment Trust plc  
**ANNUAL FINANCIAL REPORT**  
**YEAR ENDED 31 MARCH 2011**

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## The Company

The Edinburgh Investment Trust plc (the 'Company') is an investment trust, quoted on the London Stock Exchange, which invests primarily in UK securities.

## Investment Objective

The Company invests primarily in UK securities with the long term objective of achieving:

1. an increase of the Net Asset Value per share by more than the growth in the FTSE All-Share Index; and
2. growth in dividends per share by more than the rate of UK inflation.

## Share Capital

The Company's share capital consisted of 195,116,734 ordinary shares of 25p each at 31 March 2011. No shares were bought back during the year.

## Gearing

Gearing is provided by two debentures:

- £100 million 11½% 2014; and
- £100 million 7¾% 2022.

## ISA Eligibility

The ordinary shares of the Company are qualifying investments under applicable ISA regulations.

## Glossary of Terms

There is a glossary of terms on page 56 which defines some of the more technical references used in this annual financial report.

The Company is a member of

**aic**

The Association of  
Investment Companies

## Performance Statistics

Terms marked † are defined in the Glossary of Terms on page 56

<sup>(1)</sup> Source: Thomson Reuters Datastream

|   | AT<br>31 MARCH<br>2011 | AT<br>31 MARCH<br>2010 | %<br>CHANGE |
|---|------------------------|------------------------|-------------|
| <b>Capital Return<sup>†</sup></b>   |                        |                        |             |
| Net asset value <sup>†</sup> ('NAV') per share:   |                        |                        |             |
| – debt at par   | 456.66p                | 422.41p                | +8.1        |
| – debt at market value  | 434.02p                | 398.92p                | +8.8        |
| FTSE All-Share Index <sup>(1)</sup>   | 3067.73                | 2910.19                | +5.4        |
| Share price <sup>(1)</sup>  | 444.00p                | 396.30p                | +12.0       |
| (Premium)/discount <sup>†</sup> :   |                        |                        |             |
| – debt at par   | 2.8%                   | 6.2%                   |             |
| – debt at market value  | (2.3%)                 | 0.7%                   |             |
| Gearing <sup>†</sup> :  |                        |                        |             |
| – actual gearing  | 22.4%                  | 24.1%                  |             |
| – potential gearing   | 22.4%                  | 24.2%                  |             |
| <br>  |                        |                        |             |
| FOR THE YEAR TO 31 MARCH  |                        |                        |             |
|   | 2011                   | 2010                   | %<br>CHANGE |
| <b>Revenue Return</b>   |                        |                        |             |
| Revenue return per share:   |                        |                        |             |
| – excluding VAT recovered on management fees and interest   | 20.81p                 | 19.82p                 | +5.0%       |
| – VAT and interest recovered on management fees   | 2.19p                  | –                      |             |
| – basic return  | 23.00p                 | 19.82p                 | +16.0%      |
| Retail Price Index <sup>(1)</sup>   | 5.3%                   | 4.4%                   |             |
| Dividends:  |                        |                        |             |
| – first interim   | 4.75p                  | 4.75p                  |             |
| – first special   | 0.93p                  | –                      |             |
| – second interim  | 4.75p                  | 4.75p                  |             |
| – third interim   | 4.75p                  | 4.75p                  |             |
| – second special  | 1.26p                  | –                      |             |
| – final proposed  | 6.55p                  | 6.35p                  |             |
| – total dividend  | 22.99p                 | 20.60p                 | +11.6%      |
| – total dividend, excluding special dividends arising from repayment of VAT on management fees and related interest | 20.80p                 | 20.60p                 | +1.0%       |
|   | 2011<br>%<br>CHANGE    | 2010<br>%<br>CHANGE    |             |
| <b>Total Return<sup>†</sup> (capital growth with income reinvested)</b>   |                        |                        |             |
| NAV per share:  |                        |                        |             |
| – debt at par   | +12.3                  | +38.0                  |             |
| – debt at market value  | +13.3                  | +46.0                  |             |
| FTSE All-Share Index <sup>(1)</sup>   | +8.7                   | +52.3                  |             |
| Share price <sup>(1)</sup>  | +16.5                  | +45.7                  |             |
| <b>Total Expense Ratio<sup>†</sup></b>  | 0.7%                   | 0.7%                   |             |

## Historical Record – Last 10 Years

| Year ended<br>31 March | Ordinary<br>shareholders'<br>funds<br>£m | Shares<br>bought<br>back<br>m | Per ordinary share at 31 March |                       |                         |                     | Discount<br>(debt at<br>par)<br>% | Actual<br>gearing<br>ratio<br>% | Potential<br>gearing<br>ratio<br>% |
|------------------------|--|-------------------------------|--------------------------------|-----------------------|-------------------------|---------------------|-----------------------------------|---------------------------------|------------------------------------|
|                        |  |                               | Revenue<br>return<br>p         | Dividend<br>rate<br>p | Net asset<br>value<br>p | Share<br>price<br>p |                                   |                                 |                                    |
| 2002                   | 1,202                                    | 6.0                           | 12.50                          | 12.75                 | 484.7                   | 422.5               | 12.8                              | 11.1                            | 16.7                               |
| 2003                   | 681                                      | 4.0                           | 11.05                          | 13.15                 | 278.6                   | 231.0               | 17.1                              | 19.0                            | 29.4                               |
| 2004                   | 884                                      | —                             | 12.26                          | 13.15                 | 362.0                   | 300.5               | 17.0                              | 13.4                            | 22.6                               |
| 2005 <sup>(1)</sup>    | 1,003                                    | 3.4                           | 12.36                          | 13.15                 | 417.1                   | 329.8               | 20.9                              | 10.3                            | 19.9                               |
| 2006                   | 1,215                                    | 5.5                           | 15.28                          | 15.25                 | 517.4                   | 429.5               | 17.0                              | 11.4                            | 16.5                               |
| 2007                   | 1,205                                    | 18.4                          | 18.13                          | 18.85                 | 557.5                   | 481.0               | 13.7                              | 14.3                            | 16.6                               |
| 2008                   | 945                                      | 17.2                          | 21.41                          | 19.90                 | 474.7                   | 403.3               | 15.1                              | 12.9                            | 21.2                               |
| 2009                   | 641                                      | 3.2                           | 21.02                          | 20.40                 | 327.0                   | 292.5               | 10.5                              | 31.2                            | 31.2                               |
| 2010                   | 827                                      | —                             | 19.82                          | 20.60                 | 422.4                   | 396.3               | 6.2                               | 24.1                            | 24.2                               |
| 2011                   | 894                                      | —                             | 23.00                          | 22.99 <sup>(2)</sup>  | 456.7                   | 444.0               | 2.8                               | 22.4                            | 22.4                               |

Notes: (1) 2005 numbers have been restated following the changes in the amount of equity shareholders' funds arising from changes to UK GAAP.

(2) 2011 dividend includes 2.19p of special dividends arising from repayments of VAT on management fees and related interest.

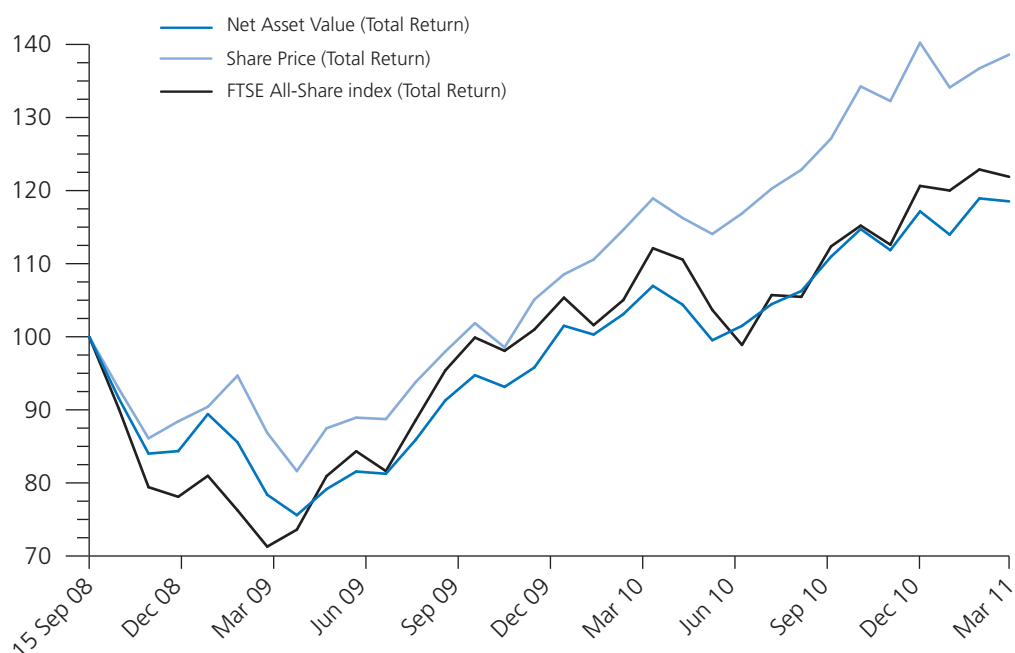
## Total Return to 31 March

|  | 2002 | 2003  | 2004 | 2005 | 2006 | 2007 | 2008  | 2009  | 2010 | 2011 | FIVE<br>YEARS | TEN<br>YEARS |
|--|------|-------|------|------|------|------|-------|-------|------|------|---------------|--------------|
| NAV per<br>ordinary share<br>(debt at par) % | -8.2 | -40.1 | 33.8 | 16.2 | 27.9 | 12.0 | -11.7 | -27.8 | 38.0 | 12.3 | 10.7          | 22.8         |
| Share Price %                                | -8.6 | -43.1 | 36.2 | 14.7 | 35.3 | 17.4 | -12.6 | -23.5 | 45.7 | 16.5 | 33.2          | 47.6         |
| FTSE All-Share %                             | -3.2 | -29.8 | 31.0 | 15.6 | 28.0 | 11.1 | -7.7  | -29.3 | 52.3 | 8.7  | 20.0          | 58.0         |

Source: Thomson Reuters Datastream, Fidelity and Invesco.

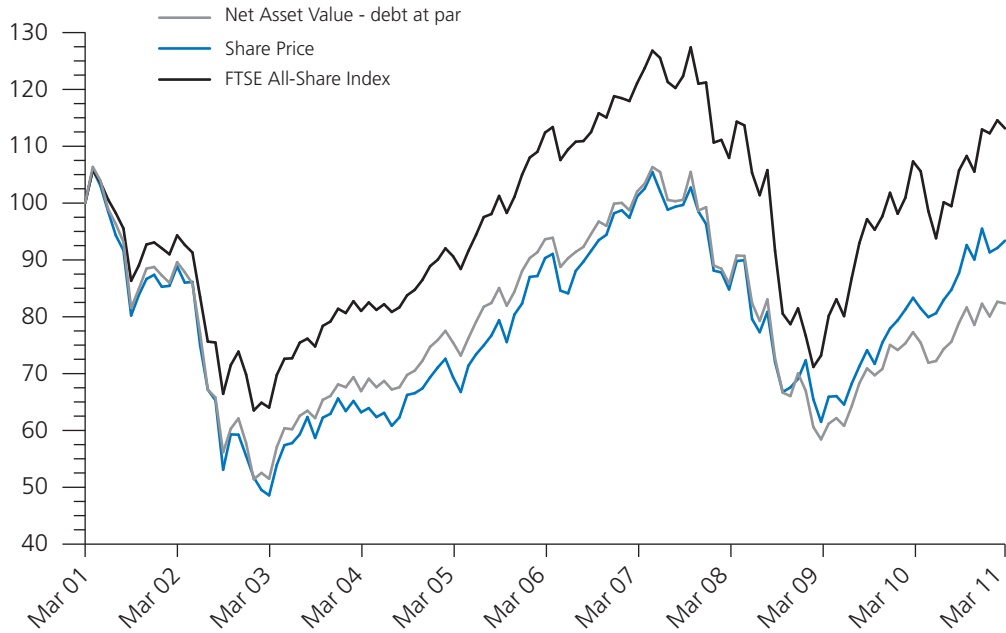
## Total Returns Since Appointment of New Manager on 15 September 2008

Figures rebased to 100 at 15 September 2008.



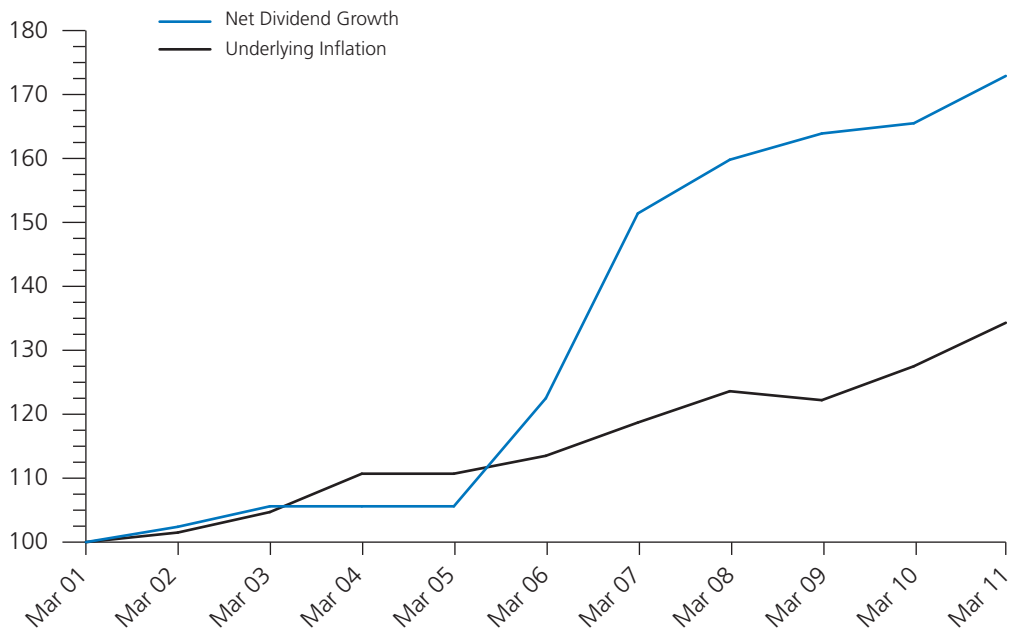
## Capital Returns Over Ten Years

Figures rebased to 100 at 31 March 2001



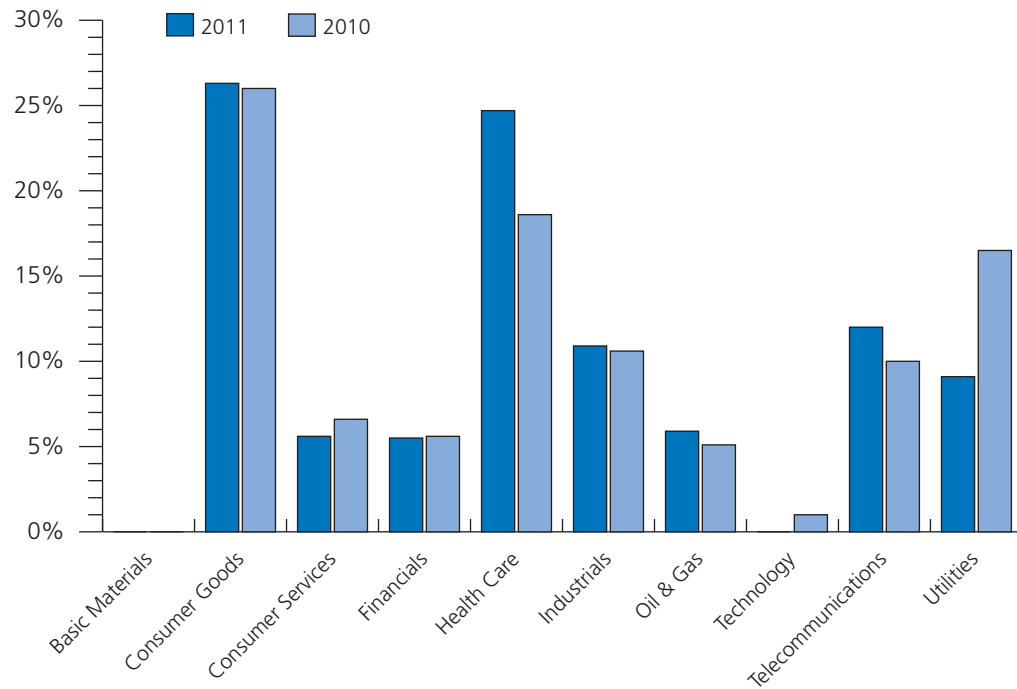
## Comparison of Net Dividend Growth to Retail Price Index

Figures rebased to 100 at 31 March 2001



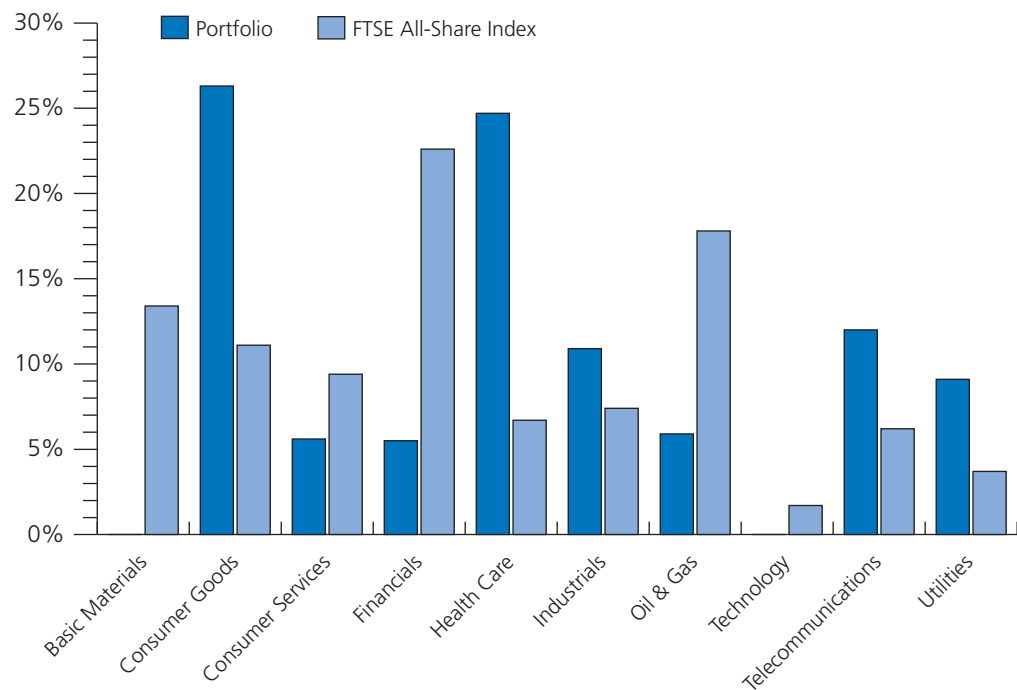
## Analysis of Portfolio by Sector

As at 31 March 2011 and 2010



## Comparison of Portfolio to FTSE All-Share Index by Sector

At 31 March 2011



## CHAIRMAN'S STATEMENT

### Introduction

When Neil Woodford took responsibility for the Company's portfolio in September 2008 he and his colleagues had concern that global economic recovery would not be as straightforward and consistent as market consensus was at that time implying. These considerations led to the construction of a defensive portfolio which was designed to be resilient in the face of a turbulent economic environment yet to have the potential for substantial long term growth by offering fundamental value. This investment approach has remained unchanged.

### The UK Equity Market

As described in the Manager's Report the UK Equity market made little progress during most of the year to 31 March 2011 as the generally positive attitude held by investors at the start of the year was dented by fiscal and economic pressures on sovereign states and by more specific difficulties in parts of the corporate sector. The end of the period was however marked by a short period of positive sentiment and the FTSE All-Share Index ('the Index'), the Company's capital benchmark, rose over the year as a whole by 5.4%.

### Company Performance

**Investment Returns:** The defensive nature of the Company's portfolio has been helpful in the uncertain environment and the Net Asset Value ('NAV') has increased by 8.8% with debt at market value – the increase with debt at par value was 8.1%. This result benefitted to the extent of 1.8% from the early payment of a dividend in 2010 and from VAT repayments in 2011, but is felt by the Board to have exceeded the 5.4% growth of the benchmark Index by a satisfactory margin. Dividend income from the Company's portfolio increased by 6.5%, and the NAV Total Return (which is a measure of both income and capital growth) increased, with debt at market value, by 13.3% – substantially ahead of the Index equivalent, 8.7%.

**Shareholders' Returns:** The Company continues to meet demand from investors and its share price rose by 12.0 % – more than twice the rate of growth in the Index – in the year to 31 March 2011. Shareholders' Total Return (dividends and share price increase) was 16.5% – the Index comparison was 8.7%.

### VAT

Shareholders will recall my reporting at the interim stage that the Company had received repayment of VAT from HMRC in respect of the period 1990-96, together with an additional amount due for a subsequent period. The Board determined at that time that all receipts of this nature by the Company's Revenue Account should be given immediately to shareholders and a special dividend of 0.93 pence per share was paid in November, this was in addition to the first interim dividend normally paid at this time. My interim report also anticipated further payment from HMRC in respect of the interest due on the repayments which had been made. I am pleased to say that this interest payment, £2.46m. which accrues to the Company's Revenue account, was received shortly before the year end, and was paid to shareholders as a second special dividend of 1.26 pence per share on 20 May 2011. There remains some possibility that on-going litigation and other claims could lead to further repayments of VAT at some future date. Given the uncertainty surrounding this matter, the Company has taken no account of any possible outcome.

### Company Dividend

The Board is recommending a final dividend of 6.55 pence per share which if approved at the Annual General Meeting will be paid on 29 July 2011 to shareholders on the Company's register on 17 June 2011. If this payment is approved the total dividend payable in respect of the year to 31 March 2011 will be 22.99 pence per share, of which 2.19 pence per share represent the repayments of VAT and related interest. Payments excluding the special dividends total 20.8 pence per share, 1% higher than the total dividend paid in respect of the previous year. Although this year's increase in the core dividend is below the 5.3% increase in the Retail Price Index in the comparable period the Company continues, on the basis of its five-year performance, to meet its long term objective of providing income growth which exceeds the rate of inflation. Including the special dividends, total payments in respect of this year will be 11.6% higher than in the previous one.

## CHAIRMAN'S STATEMENT

continued

### Investment Policy – Overseas Securities

Prior to 2009 the Company's policy was to restrict investment to companies quoted on a recognised stock exchange within the UK. At the Annual General Meeting in that year shareholders approved a change to permit investment of up to 15% of the value of the investment portfolio, measured at the time of acquisition, in securities listed on overseas exchanges. A number of such investments have been made in the subsequent two years, they have performed well, and the manager has no flexibility to add to these holdings or to purchase others which he believes to be attractive. The Board believes it is in the Company's interest to increase the overseas limit from 15% to 20% and will propose an appropriate resolution, which shareholders are recommended to endorse, at the Annual General Meeting.

### The Board

I am pleased to be able to inform you that Gordon McQueen has today been appointed to the Board. Mr McQueen spent the bulk of his career with the Bank of Scotland where he was latterly Finance Director, retiring in 2003 as an Executive Director of HBOS plc. He currently serves as a director of a number of companies in the investment trust and property sectors, and will become Chairman of the Audit Committee after the Annual General Meeting when Jim Pettigrew will, as already announced, succeed me as Company Chairman.

### Outlook

The Board and Manager continue to believe that equity markets generally have been too ready to forget the difficulties of the past few years, and to assume smooth progress to a world of future stability and growth. Recent disappointing projections for the domestic economy, and the remaining instability in a number of Euro economies suggest that such progress cannot be taken for granted, and give us no compelling grounds to change our defensive posture. The Company's investment portfolio is not, by historic standards, highly rated. Although concentrated in a small number of sector and hence not without risk, our underlying investments are achieving relative growth in earnings and dividends, and give us confidence that they will continue to demonstrate resilience in a weak environment, with every prospect of continuing strength when conditions improve.

Having worked with The Edinburgh Investment Trust since the early 1970s, initially as a supplier of professional services, it has been for me a privilege to serve as a Director then Chairman of the Company. I am very confident that the Company under Jim Pettigrew's leadership, and with the able management of Neil Woodford and his team, will further enhance its strong position as an effective vehicle for the accumulation and retention of individual wealth.

**Scott Dobbie**  
*Chairman*

31 May 2011



## MANAGER'S REPORT

### Market Review

After the very strong rise seen in the previous 12 months, the UK stock market marked time for much of the year to 31 March 2011. The first half of the period saw the positive impact of mostly upbeat corporate earnings largely ignored by investors, who focused instead on signs of slowing economic growth domestically and fretted over sovereign debt worries in the peripheral eurozone. This was further compounded as the full implications of the BP oil spillage in the Gulf of Mexico began to unfold.

However, as 2010 drew to a close the market made straight forward progress, spurred on by improving economic data and further monetary and fiscal stimulus in the US. 2011 then started more quietly for UK equities, with occasional bouts of optimism negated by events on the international stage, including concerns over political unrest in the Middle East, a spiralling oil price and the impact of the earthquake in Japan.

Inflation remained high over the period and well above the 2% target the Bank of England has been set by the government. This raised concerns that interest rates might be increased sooner rather than later; these were assuaged by the minutes from the Bank of England's March meeting which showed no new support for an increase despite the Bank warning that inflation was likely to remain above its target for the remainder of the year.

### Portfolio Strategy and Review

The Company's net asset value, including reinvested dividends, rose by 12.3% during the period, compared to a rise of 8.7% (total return) for the FTSE All-Share index.

The portfolio has significant exposure to the pharmaceuticals and telecommunications sectors; two sectors which are both perceived as defensive, but which provided a very different impact on the Company's performance over the year. The most significant positive contribution over the year came from the holding in BT Group, with the company confirming both its ability to produce double digit growth in earnings and an improving free cash flow outlook. Another telecoms holding, Vodafone, also provided a positive impact; the price agreed by AT&T for T Mobile, which it purchased from Deutsche Telekom, highlighted the undervaluation of the mobile telecoms sector.

Investments in the pharmaceuticals sector, on the other hand, impacted negatively on performance, despite some improving news on patent disputes, drug disputes and litigation in the USA. The Manager believes the market to be focusing only on the challenges facing the sector, which are well known and well rehearsed, and not on the opportunities the sector offers. These come in both the emerging world, where there is major under provision of drugs, and in the developed world, where ageing demographics are driving increased demand for drugs. The Manager also regards the sector as outstanding value based solely on the patent lives of the drugs the companies already have on the market, with current share prices discounting no expectation of further innovation or new drugs being approved.

The Manager further increased the portfolio's exposure to the pharmaceutical sector, adding to holdings in GlaxoSmithKline and AstraZeneca. This reflects the degree of conviction that he has about the undervaluation of this sector.

The Company's portfolio benefited from a strong performance from oil and gas business, BG Group; good full year results were accompanied by news of further oil field discoveries while the company is a likely beneficiary of an increasingly positive outlook for gas demand. The tobacco sector also continued to generate positive returns for the Company, with the holdings in both Reynolds American and British American Tobacco particularly benefiting performance.

The Manager continued to build the portfolio's position in supermarket group Wm. Morrison, believing that the company can generate strong and stable earnings growth even against a tough economic backdrop. This was confirmed during the final quarter of the period, when the company beat stock market expectations with its full year results and further pleased the market with the announcement of a £1bn share buy back and a commitment to double digit growth in its dividend over the next three years. A new investment was made in business services company Rentokil Initial, where the Manager sees a significant restructuring opportunity.

## MANAGER'S REPORT

continued

The Company reduced its exposure to the utilities sector over the 12 months, disposing of holdings in National Grid, Severn Trent, United Utilities and Northumbrian Water. The Manager is concerned that a more onerous UK regulatory outlook will hamper these companies' ability to generate adequate returns on equity, while also seeing more attractive investment opportunities elsewhere.

### Outlook

The Manager expects recent concerns about the underlying strength of the UK economy to remain a feature throughout 2011, and continues to expect anaemic growth through late 2011 and beyond. The full extent of public spending cuts have yet to be felt; the squeeze on household incomes will continue; and although many companies are taking advantage of the strength of overseas markets, it is doubtful this can fully compensate for weaknesses in other areas of the economy.

But while these economic headwinds have been increasing in strength, those companies which the Manager believes are best placed to handle such turbulence are the very ones whose share prices have been left behind in the stock market rally of the past two years. The market has been geared into expecting an economic recovery and has been bidding up the share prices of companies that are focused on such an economic recovery, and to a large extent has been ignoring companies that fall outside of that sphere.

There are always valuation anomalies in the stock market and the Manager's job is to try and exploit those, by exposing portfolios to undervalued stocks. The extent to which fundamental value diverges from the stock price flexes over time; he does not always see the same scale of valuation opportunity in the stock market. During the technology bubble the disparity between price and fundamental value was stretched astronomically in both directions, and the Manager sees an opportunity of that scale again now in the stock market – a "once in a decade opportunity". This has presented the Manager an opportunity to invest in high quality businesses at what he believes are very attractive levels, leaving the Company well positioned to achieve its investment goals over the medium to long-term.

### **Neil Woodford**

*Investment Manager*

31 May 2011

## INVESTMENTS IN ORDER OF VALUATION

AT 31 MARCH 2011

UK listed and ordinary shares unless stated otherwise

<sup>AIM</sup> Alternative Investment Market

| INVESTMENT   | SECTOR                          | MARKET<br>VALUE<br>£'000 | % OF<br>PORTFOLIO |
|--|---------------------------------|--------------------------|-------------------|
| GlaxoSmithKline  | Pharmaceuticals & Biotechnology | 100,291                  | 9.2               |
| AstraZeneca  | Pharmaceuticals & Biotechnology | 100,012                  | 9.2               |
| British American Tobacco   | Tobacco                         | 76,577                   | 7.1               |
| BT   | Fixed Line Telecommunications   | 65,814                   | 6.0               |
| Vodafone   | Mobile Telecommunications       | 65,352                   | 6.0               |
| BG   | Oil & Gas Producers             | 64,005                   | 5.9               |
| Reynolds American – US common stock                                    | Tobacco                         | 63,919                   | 5.9               |
| Imperial Tobacco   | Tobacco                         | 51,222                   | 4.7               |
| Altria – US common stock   | Tobacco                         | 39,284                   | 3.6               |
| Tesco  | Food & Drug Retailers           | 38,575                   | 3.6               |
| <b>Ten Top Holdings</b>  |                                 | <b>665,051</b>           | <b>61.2</b>       |
| Roche – Swiss common stock   | Pharmaceuticals & Biotechnology | 37,608                   | 3.5               |
| Reckitt Benckiser  | Household Goods                 | 36,035                   | 3.3               |
| BAE Systems  | Aerospace & Defence             | 35,567                   | 3.3               |
| Capita   | Support Services                | 32,296                   | 3.0               |
| Rolls Royce  | Aerospace & Defence             | 27,308                   | 2.5               |
| Centrica   | Gas & Water Multiutilities      | 27,216                   | 2.5               |
| Scottish & Southern Energy   | Electricity                     | 25,059                   | 2.3               |
| Novartis – Swiss common stock  | Pharmaceuticals & Biotechnology | 21,183                   | 1.9               |
| Morrison (W) Supermarkets  | Food & Drug Retailers           | 20,604                   | 1.9               |
| Tate & Lyle  | Food Producers                  | 18,445                   | 1.7               |
| <b>Twenty Top Holdings</b>   |                                 | <b>946,372</b>           | <b>87.1</b>       |
| Drax   | Electricity                     | 16,447                   | 1.5               |
| International Power  | Electricity                     | 14,394                   | 1.3               |
| Provident Financial  | General Financial               | 13,401                   | 1.2               |
| Amlin  | Non-life Insurance              | 12,642                   | 1.2               |
| Raven Russia <sup>AIM</sup> – preference                               | Real Estate                     | 5,548                    |                   |
| – ordinary   |                                 | 4,229                    |                   |
| – warrants   |                                 | 1,272                    |                   |
|  |                                 | 11,049                   | 1.0               |
| Pennon   | Gas & Water Multiutilities      | 11,022                   | 1.0               |
| Hiscox   | Non-life Insurance              | 10,495                   | 1.0               |
| Homeserve  | Support Services                | 8,813                    | 0.8               |
| Catlin   | Non-life Insurance              | 7,881                    | 0.7               |
| BTG  | Pharmaceuticals & Biotechnology | 7,400                    | 0.7               |
| <b>Thirty Top Holdings</b>   |                                 | <b>1,059,916</b>         | <b>97.5</b>       |
| Rentokil Initial   | Support Services                | 6,384                    | 0.6               |
| Barclays Bank - Nuclear Power Notes<br>28 February 2019 <sup>(1)</sup> | Electricity                     | 5,134                    | 0.5               |
| Burford Capital <sup>AIM</sup>   | Equity Investment Instruments   | 4,848                    | 0.4               |
| Paypoint   | Support Services                | 3,702                    | 0.4               |
| Stobart  | Industrial Transportation       | 3,610                    | 0.3               |
| Proximagen <sup>AIM</sup>  | Pharmaceuticals & Biotechnology | 2,556                    | 0.2               |
| Yell   | Media                           | 1,514                    | 0.1               |
| Helphire   | Financial Services              | 352                      | –                 |
| Eurovestech <sup>AIM</sup>   | Financial Services              | 336                      | –                 |
| ENI Lasmio   | Oil & Gas Producers             | 126                      | –                 |
| <b>Total (40) Holdings</b>   |                                 | <b>1,088,478</b>         | <b>100.0</b>      |

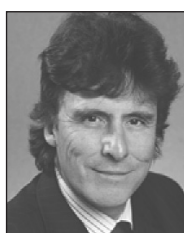
(1) Contingent Value Rights ('CVRs') referred to as Nuclear Power Notes ('NPNs') were offered by EDF as a partial alternative to its cash bid for British Energy ('BE'). The NPNs were issued by Barclays Bank. The CVRs participate in BE's existing business.

## DIRECTORS

**Scott Dobbie<sup>(1)</sup>**

Scott Dobbie CBE was appointed to the Board in 1998 and became Chairman in 2003. He joined Wood Mackenzie & Co. in 1971 and has worked since then with this and successor companies, remaining a Senior Advisor to Deutsche

Bank. He is the Chairman of Standard Life European Private Equity Trust and is a Director of the Qualifications and Curriculum Authority.

**Jim Pettigrew<sup>(2)</sup>**

Jim Pettigrew was appointed to the Board on 27 October 2005 and is Chairman of the Audit Committee. He is a Chartered Accountant and he is also a member of the Association of Corporate Treasurers. Following a number of finance function positions in Scotland and in London including Group Treasurer of Sedgwick Group plc, he was Group Finance Director, ICAP plc, a FTSE 100 company and the world's largest specialist inter-dealer broker from January 1999 to June 2006. He was Chief Operating and Financial Officer of Ashmore Group plc from 2006 to 2007 and was Chief Executive Officer of CMC Markets plc from 2007 to 2009. He is a Non-Executive Director of Hermes Fund Managers Limited, Royal Bank of Canada Europe Limited and Aberdeen Asset Management plc.

**Richard Barfield<sup>(2)</sup>**

Richard Barfield was appointed to the Board in August 2001 and is Senior Independent Director. He was previously Chief Investment Manager at Standard Life. He is Chairman of The Baillie Gifford Japan Trust and is a Director of the Standard Life Property Income Trust. He is a member of the Board of the Pension Protection Fund and a Director of Coal Staff Superannuation Scheme Trustees Limited.

**Gordon McQueen<sup>(2)</sup>**

Gordon McQueen was appointed to the Board on 31 May 2011. He is a Chartered Accountant and a Fellow of the Chartered Institute of Bankers of Scotland. He is a former Finance Director of Bank of Scotland and, until 2003, he was an Executive Director of HBOS plc, where his main role was Chief Executive, Treasury. He is a Director and Audit Committee Chairman of Shaftesbury PLC, Scottish Mortgage Investment Trust Plc and JPMorgan Midcap Investment Trust Plc.

**Nicola Ralston<sup>(2)</sup>**

Nicola Ralston was appointed to the Board in 2003. She started her financial career in 1977 before moving to Schroders in 1979. During her time with the Schroder Group, Nicola undertook a variety of analytical, fund management and business management roles, becoming Head of Investment Management for the Schroder Group in 1999. After leaving Schroders in 2001, Nicola worked with a management consulting firm and was a Director of several hedge funds. From 2005 to 2006 she was Head of Global Investment Consulting at Hewitt. She is now a Director of PiRho Investment Consulting, which she co-founded in 2008. She is also a member of the FTSE Policy Committee.

**William Samuel<sup>(2)</sup>**

William Samuel was appointed to the Board in 2003. He is currently a vice chairman of Lazard in London having formerly been Vice Chairman of European Investment Banking at Citigroup, chairman of HP Bulmer Holdings and Group Managing Director – Investment Bank at Schroders and a director of Schroders PLC. He is also



Chairman of Howden Joinery Group and Chairman of the Ecclesiastical Insurance Office and is Deputy Chairman and Senior Independent Director of Inchcape plc. He joined Schroders Investment Management Department in 1977 having qualified as a Chartered Accountant and was Head of Investment Banking when Schroders sold its investment banking business to Salomon, Smith, Barney, part of Citigroup in 2000.

**Sir Nigel Wicks<sup>(2)</sup>**

Sir Nigel Wicks, GCB, CVO, CBE was appointed to the Board in 2005. After working for The British Petroleum Company, Sir Nigel joined HM Treasury in 1968. He worked for Prime Ministers Harold Wilson, James Callaghan and Margaret Thatcher. He has been the United Kingdom's Executive Director at the



International Monetary Fund and World Bank and the Prime Minister's representative ('Sherpa') for the Economic Summits of the Group of Seven Industrialised Nations. From 1989 to 2000, he was the Treasury's Second Permanent Secretary responsible for international financial matters. The Prime Minister appointed him as Chair of the Committee on Standards in Public Life for the period March 2001 to April 2004. He is Chairman of Euroclear plc and a Commissioner of the Jersey Financial Services Commission.

(1) Member of the Management Engagement and Nomination Committees.

(2) Member of the Audit, Management Engagement and Nomination Committees.

## ADVISERS AND PRINCIPAL SERVICE PROVIDERS

### Manager and Company Secretary

Invesco Asset Management Limited  
30 Finsbury Square  
London EC2A 1AG  
☎ 020 7065 4000  
Company Secretarial Contacts: Kelly Nice  
and Carolyn Ladd

### Registered Office

Quatermile One  
15 Lauriston Place  
Edinburgh EH3 9EP

### Company Number

Registered in Scotland.  
Number: SC1836

### Invesco Perpetual Investor Services

Invesco Perpetual has an Investor Services Team, available to assist you from 8.30 am to 6 pm each working day. Please feel free to take advantage of their expertise.  
☎ 0800 085 8677  
[www.invescoperpetual.co.uk/investmenttrusts](http://www.invescoperpetual.co.uk/investmenttrusts)

### Custodian

The Bank of New York Mellon  
160 Queen Victoria Street  
London EC4V 4LA

### Auditors

KPMG Audit Plc  
Saltire Court  
20 Castle Terrace  
Edinburgh EH1 2EG

### Broker

Collins Stewart Europe Limited  
88 Wood Street  
London EC2V 7QR

### Lawyer

Maclay Murray & Spens LLP  
Quatermile One  
15 Lauriston Place  
Edinburgh EH3 9EP

### Registrars

Capita Registrars  
The Registry  
34 Beckenham Road  
Beckenham  
Kent BR3 4TU

If you hold your shares direct and not through a Savings Scheme or ISA and have queries relating to your shareholding you should contact the Registrars on:

☎ 0871 664 0300.

Calls cost 10p per minute plus network charges. Lines are open from 8.30 am to 5.30 pm each working day.

Shareholders can also access their holding details via Capita's website [www.capitaregistrars.com](http://www.capitaregistrars.com) or [www.capitashareportal.com](http://www.capitashareportal.com).

Capita Registrars provide an on-line and telephone share dealing service to existing shareholders who are not seeking advice on buying or selling. This service is available at [www.capitadeal.com](http://www.capitadeal.com) or

☎ 0871 664 0454.

Calls cost 10p per minute plus network charges. Lines are open from 8 am to 4.30 pm each working day.

### Savings Scheme and ISA Administration

for both the Invesco Perpetual Investment Trust Savings Scheme and ISA:  
Invesco Perpetual  
Perpetual Park  
Perpetual Park Drive  
Henley-on-Thames  
Oxfordshire RG9 1HH  
☎ 0800 085 8677

## SHAREHOLDER INFORMATION

The shares of The Edinburgh Investment Trust plc are quoted on the London Stock Exchange.

### Savings Plan and ISA

The Edinburgh Investment Trust plc is a member of the Invesco Perpetual Investment Trust Savings Scheme and the Invesco Perpetual Investment Trust ISA. Shares in the Company can be purchased and sold via these two schemes.

#### **Invesco Perpetual Investment Trust Savings Scheme**

The Invesco Perpetual Investment Trust: Savings Scheme allows an investor to make monthly purchases from as little as £20 per month or through lump sum investments of £500 or above in the shares of The Edinburgh Investment Trust plc in a straightforward and low cost way.

#### **Invesco Perpetual Investment Trust ISA**

The Invesco Perpetual Investment Trust ISA allows investments up to £10,680 in shares of The Edinburgh Investment Trust plc in each tax year. Investors can also choose to make lump sum investments from £500, or regular investments from as little as £20 per month.

For full details of these Invesco Perpetual investment schemes please contact Invesco Perpetual's Investor Services Team free on 0800 085 8677.

### NAV Publication

The net asset value ('NAV') of the Company's ordinary shares is calculated by the Manager on a daily basis and is notified to the Stock Exchange on the next business day. It is published daily in the newspapers detailed below.

### Share Price Listings

The price of your shares can be found in the following places:

|                                     |   |
|-------------------------------------|---|
| <b>Financial Times</b>              | Investment Companies                            |
| <b>Daily Telegraph</b>              | Investment Trusts                               |
| <b>The Times</b>                    | Investment Companies                            |
| <b>The Scotsman</b>                 | Equity Inv Instruments                          |
| <b>Reuters</b>                      |   |
| ordinary shares                     | EDIN.L  |
| <b>Bloomberg</b>                    |   |
| ordinary shares                     | EDIN LN   |
| <b>Internet addresses</b>           |   |
| TrustNet                            | www.trustnet.com                                |
| Interactive Investor                | www.iii.co.uk                                   |
| Invesco Perpetual                   | www.invescoperpetual.co.uk/<br>investmenttrusts |
| Association of Investment Companies | www.theaic.co.uk                                |

### Manager's Website

Information relating to the Company can be found on the Manager's website, which can be located at [www.invescoperpetual.co.uk/investmenttrusts](http://www.invescoperpetual.co.uk/investmenttrusts).

The contents of websites referred to in this document, or accessible from links within those websites, are not incorporated in to, nor do they form part of this annual financial report.

### Financial Calendar

In addition, the Company publishes information according to the following calendar:

#### **Announcements**

|                               |                  |
|-------------------------------|------------------|
| Half-yearly unaudited results | November         |
| Interim Management Statements | July and January |
| Final results                 | May/June         |

#### **Ordinary Share Dividends**

|  |          |
|--|----------|
| 1st interim payable                                      | November |
| 2nd interim payable                                      | February |
| 3rd interim payable                                      | May      |
| (payment was brought forward last year to 31 March 2010) |          |
| Final payable  | July     |

#### **Debenture Stock**

|                   |                     |
|-------------------|---------------------|
| Interest payable: |                     |
| 11½% 2014         | June and December   |
| 7¾% 2022          | September and March |

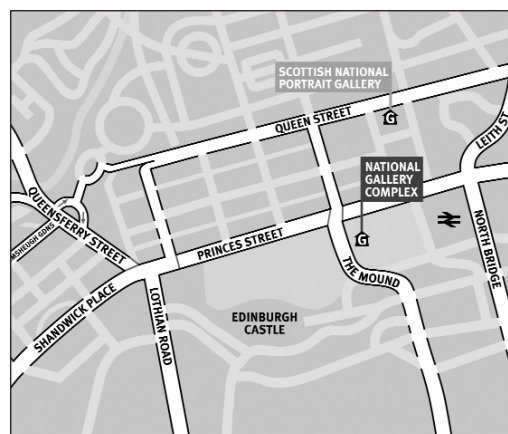
**AGM** July

**Year End** 31 March

### Location of AGM

The one hundred and twenty second Annual General Meeting of the Company will be held at the Weston Link, National Galleries of Scotland, Princes Street, Edinburgh on 22 July 2011 at 11 am.

The investment manager, Neil Woodford, will be making a presentation about the Company after the AGM.



## REPORT OF THE DIRECTORS

### FOR THE YEAR ENDED 31 MARCH 2011

#### Introduction

The Directors present their report together with the audited financial statements of The Edinburgh Investment Trust plc (the 'Company') for the year ended 31 March 2011.

The Report of the Directors incorporates the Business Review and the Corporate Governance Statement. It expands on the following main areas:

|         |  |
|---------|--|
| page 14 | Nature of the Company                                  |
| page 14 | Objective and Investment Policy                        |
| page 15 | Company Business, Results and Share Capital            |
| page 16 | Share Valuations                                       |
| page 16 | Key Performance Indicators                             |
| page 17 | Invesco Perpetual's Investment Process and Performance |
| page 17 | Principal Risks and Uncertainties                      |
| page 20 | Resources, Relationships and Advisers                  |
| page 20 | Financial Position                                     |
| page 21 | Social and Environmental Policies                      |
| page 21 | Substantial Holdings in the Company                    |
| page 21 | Special Business at the Annual General Meeting         |
| page 22 | The Manager  |
| page 23 | Directors  |
| page 26 | Corporate Governance Statement                         |

#### Nature of the Company

The Company was incorporated and registered in Scotland as a public limited company on 1 March 1889, registered number SC1836.

The Company is an investment company as defined by section 833 of the Companies Act 2006 and operates as an investment trust in accordance with s1158-1165 of the Corporation Tax Act 2010 ('CTA') (previously section 842 of the Income and Corporation Taxes Act 1988). HM Revenue & Customs have approved the Company's status as an investment trust, subject to there being no subsequent enquiry under Corporation Tax Self Assessment, in respect of the year ended 31 March 2010. In the opinion of the Directors, the Company has subsequently conducted its affairs so as to enable it to maintain such approval.

#### Objective and Investment Policy

The Company invests primarily in UK securities with the long term objective of achieving:

1. an increase of the Net Asset Value per share by more than the growth in the FTSE All-Share Index; and
2. growth in dividends per share by more than the rate of UK inflation.

The Company will generally invest only in companies quoted on a recognised stock exchange in the UK or in those which are about to enter the FTSE All-Share Index. The Company may invest up to 15% of the market value of the Company's investment portfolio, measured at the time of any acquisition, in securities listed on stock exchanges outside the UK. At the Annual General Meeting the Company is seeking permission from shareholders to increase this limit to 20%. The portfolio is selected by the Manager on the basis of its assessment of the fundamental value available in individual securities. Whilst the Company's overall exposure to individual securities is monitored carefully by the Board, the portfolio is not primarily structured on the basis of industry weightings. The securities of no one company may, as determined at the time of acquisition, represent more than 10% of the market value of the Company's equity portfolio. Similarly, the Company will not hold more than 5% of the issued share capital (or voting shares) in any one company. Investment in convertibles is subject to normal security limits. Should these or any other limit be exceeded by subsequent market movement, each resulting position is specifically reviewed by the Board.

The Company borrows money to provide gearing to the equity portfolio up to a maximum of £200 million.

Use of derivative instruments is permitted within the following constraints and is monitored carefully by the Board. The writing of covered calls, to a maximum of 10% of the value of the portfolio, is permitted and a maximum of 15% may be invested in FTSE 100 futures. Other derivative contracts may be employed subject to an aggregate of the above limits and to the prior approval of the Board.

## Company Business

A review of the Company's business is provided in the Chairman's Statement and the Manager's Report. The Board does not at present envisage any significant change in the business of the Company. No important events affecting the Company have occurred since the end of its financial year.

## Issued Share Capital and Rights Attaching to the Company's shares

At the year end, the Company's issued share capital consisted of 195,116,734 ordinary shares of 25p each. During the year, no shares were repurchased.

Under the Company's Articles of Association, any share in the Company may be issued with such rights or restrictions, whether in regard to dividend, voting, return of capital or otherwise as the Company may from time to time by ordinary resolution determine (or, in the absence of any such determination, as the Directors may determine).

At a general meeting of the Company every shareholder has one vote on a show of hands and on a poll one vote for each share held. The notice of general meeting specifies deadlines for exercising voting rights either by proxy or present in person in relation to resolutions to be passed at a general meeting.

If any shareholder has been duly served with a notice pursuant to section 793 of the Companies Act 2006 (which confers the power to require information with respect to interests in voting rights) and has failed in relation to any ordinary shares ('default shares') to give the Company the information thereby required within 14 days from the service of the notice, then unless the Board otherwise determine, the member shall not, for so long as the default continues, be entitled (in respect of the default shares) to attend or vote at any general meeting or on any poll. Where the default shares represent 0.25% or more in nominal value of the issued ordinary shares (excluding any treasury shares), the Board may in their absolute discretion by notice to such member direct any dividend or part thereof or other money which would otherwise be payable in respect of the default shares to be retained by the Company. When such money is finally paid to the shareholder, he shall not be entitled to receive interest or elect to receive shares in lieu of dividend. The Board may also decide that no transfer in respect of any default shares shall be registered (unless certain conditions are met). These restrictions cease to have effect seven days after the receipt by the Company that the default shares have been transferred or all the information required by the section 793 notice has been notified to the Company, whichever is earlier.

The Directors may refuse to register any transfer of any share which is not a fully-paid share, although such discretion may not be exercised in a way which the Financial Services Authority regards as preventing dealings in the shares of the relevant class or classes from taking place on an open or proper basis. As at 31 March 2011, the Company's issued share capital did not include any ordinary shares that were not fully paid. The Directors may likewise refuse to register any transfer of a share in favour of more than four persons jointly.

The Company is not aware of any other restrictions on the transfer of shares in the Company other than certain restrictions that may from time to time be imposed by laws and regulations (for example, insider trading laws).

The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities or voting rights.

The Company is seeking to renew the existing authority for the Directors to allot new shares and to buy back shares at the forthcoming AGM. Additional details are given in the section on Special Business at the AGM further on in this Report.

## Revenue and Dividends

The results for the year are shown in the income statement.

Subject to approval at the Annual General Meeting, the final proposed dividend for the year ended 31 March 2011 of 6.55p (2010: 6.35p) per ordinary share will be payable on 29 July 2011 to shareholders on the register on 17 June 2011. This will give total dividends for the year of 22.99p per share. Excluding special dividends of 2.19p, that arose from VAT recovered on management fees together with interest, dividends of 20.8p will be payable for the year, a small increase of 1% on the previous year's dividend of 20.60p. The revenue return per share for the year was 23p; excluding 2.19p arising from VAT recovered and related interest receipts, the return on a like-for-like basis with 2010 was 20.81p, an increase of 5% from 19.82p.



## REPORT OF THE DIRECTORS

continued

## Share Valuations

On 31 March 2011 the mid-market price was 444p per ordinary share (2010: 396.3p). The net asset value (debt at par) and net asset value (debt at market value) per ordinary share were 456.66p and 434.02p respectively. The comparative figures on 31 March 2010 were 422.41p and 398.92p.

## Key Performance Indicators

The key performance indicators ('KPIs') used to determine the progress and performance of the Company over time and which are comparable to those reported by other investment trusts are set out below.

| YEAR TO 31 MARCH  | 2011   | 2010   |
|---|--------|--------|
| Net asset value (per share debt at par) <sup>(1)</sup>    | +12.3% | +38.0% |
| Net asset value (per share debt at market) <sup>(1)</sup> | +13.3% | +46.0% |
| FTSE All-Share Index <sup>(2)</sup>                       | +8.7%  | +52.3% |
| Share price <sup>(2)</sup>                                | +16.5% | +45.7% |
| Discount to NAV (debt at par) <sup>(1)</sup>              | 2.8%   | 6.2%   |
| (Premium)/discount to NAV (debt at market) <sup>(1)</sup> | (2.3%) | 0.7%   |
| Revenue return per share                                  | 23.0p  | 19.8p  |
| Actual gearing ratio                                      | 22.4%  | 24.1%  |
| Potential gearing ratio                                   | 22.4%  | 24.2%  |
| Total expense ratio                                       | 0.7%   | 0.7%   |

(1) Calculated in accordance with AIC guidelines

(2) Source: Thomson Reuters Datastream

All performance figures are calculated on a total return basis. Past performance is not a guide to future returns.

Notwithstanding that some KPIs are beyond its control, they are measures of the Company's absolute and relative performance. The KPIs assist in managing performance and compliance and are regularly reviewed by the Board at each meeting.

The Board also regularly reviews the performance of the Company in relation to 22 investment trusts in the UK Growth and Income sector. As at 31 March 2011, the Company was ranked 14th by NAV performance in this sector over one year, 11th over three years and 12th five years (source: JPMorgan Cazenove).

Expenses are reviewed at each Board meeting enabling the Board, amongst other things, to review costs and consider any expenditure outside that of its normal operations.

The principal risks and uncertainties section includes descriptions of performance indicators and their monitoring and management which are key to the business of the Company.

## Performance Attribution for the Year Ended 31 March 2011

|   | FOR YEAR<br>ENDED<br>31 MARCH 2011<br>% |
|---|---|
| <b>TOTAL RETURN BASIS</b>               |   |
| Net asset value total return            | 12.3                                    |
| Benchmark total return                  | 8.7                                     |
| Relative performance                    | 3.6                                     |
| <i>Analysis of Relative Performance</i> |   |
| Portfolio total return                  | 12.4                                    |
| Less Benchmark total return             | 8.7                                     |
| Portfolio performance                   | 3.7                                     |
| Debenture borrowings:                   |   |
| Net gearing effect                      | 2.4                                     |
| Interest                                | (2.3)                                   |
| Base management fees                    | (0.6)                                   |
| Other expenses                          | (0.1)                                   |
| Tax                                     | (0.2)                                   |
| Refund of VAT                           | 0.7                                     |
| Total                                   | 3.6                                     |

The capital net asset value used below is the capital net asset value at par, less dividends paid and proposed after the year end.

| <b>CAPITAL RETURN BASIS</b>    | FOR YEAR<br>ENDED<br>31 MARCH 2011<br>% |
|--------------------------------|---|
| Net asset value capital return | 6.8                                     |
| Benchmark capital return       | 5.4                                     |
| Relative performance           | 1.4                                     |

|   |  |
|---|--|
| <i>Performance attribution</i>          | – analyses the Company's performance relative to its benchmark.  |
| <i>Portfolio (under)/outperformance</i> | – measures the relative effect of the Company's investment portfolio against that of its benchmark.                        |
| <i>Net gearing effect</i>               | – measures the impact of the debenture stocks and cash on the Company's relative performance.                              |
| <i>Interest</i>                         | – arising from the debenture stocks reduces the assets available to invest, resulting in a negative impact on performance. |
| <i>Management fees</i>                  | – including both the base fee and any performance fee, reduce the Company net assets and decrease performance.             |
| <i>Refund of VAT and interest</i>       | – on management fees will add to net assets and thus performance.  |
| <i>Other expenses and Tax</i>           | – reduce the level of assets and therefore result in a negative effect for relative performance.                           |

### Invesco Perpetual's Investment Process and Performance

At the core of Invesco Perpetual's investment philosophy is a belief in active investment management. Fundamental principles drive a genuinely unconstrained investment approach, which aims to deliver attractive total returns over the long term. These fundamental principles place an emphasis on sound balance sheets, good cash flows, the ability to pay and sustain dividends, strong asset bases and market conditions. The investment manager and the UK Equities team employ a pragmatic, valuation-orientated approach that allows investment freedom, such that the investment manager can select stocks free from the constraint of the weighting within the benchmark. The investment manager's focus is on absolute rather than relative returns, as he chooses to take a long term view in the companies he invests in and to invest where he sees value and opportunity.

The aim of the investment process is to identify companies whose outlook or growth prospects are not reflected in their valuations. To identify these companies the investment manager combines bottom-up research with a top-down macro-economic view. Stocks are then subjected to detailed fundamental analysis augmented by a qualitative assessment of the company. The output from this analysis is then used to construct and review the portfolio with the aim of maximising exposure to the most attractive opportunities within its risk parameters.

### Principal Risks and Uncertainties

The Company's key long-term investment objectives are an increase in the capital net asset value per share by more than the growth in the FTSE All-Share Index (the 'benchmark' or 'index') and growth in dividends by more than inflation, currently measured using the RPI. The principal risks and uncertainties of the Company are an integral consideration when assessing the operations in place to monitor these objectives, including the performance of the portfolio, share price and dividends. The Board is ultimately responsible for the risk control systems but the day to day operation and monitoring is delegated to the Manager.

#### Market Risk

The uncertainty over future equity market price movements is an inherent part of the rationale for the Company's existence. The Company's assets principally consist of quoted securities. The prices of these securities and the income derived from them are influenced by many factors such as general economic conditions, interest rates, inflation, political events, and government policies as well as by supply and

## REPORT OF THE DIRECTORS

continued

demand reflecting investor sentiment. Such factors are outside the control of the Board and Manager and may give rise to high levels of volatility in the prices of investments held by the Company. The asset value and price of the Company's shares and its earnings and dividends may consequently also experience volatility and may decline.

### **Investment Performance Risk**

The Board sets performance objectives and it delegates the investment management process to the Manager. The achievement of the Company's performance objectives relative to the market requires active management of the portfolio of assets and securities. The Manager's approach is to construct a portfolio which is compatible with the Manager's view of future trends in the UK and global economies. The Manager is a long term investor, prepared to take substantial positions in securities and sectors which may well be out of fashion, but which the Manager believes will have potential for material increases in earnings and, in due course, dividends and share prices. Strategy, asset allocation and stock selection decisions by the Manager can lead to underperformance of the benchmark index and/or income targets. The Manager's style may result in a concentrated portfolio with significant overweight or underweight positions in individual stocks or sectors compared to the index and consequently the Company's performance may deviate significantly, possibly for extended periods, from that of the benchmark index. However the Board and Manager believe that the investment process and policy outlined above should, over the long term, meet the Company's objectives of capital growth in excess of the benchmark index and real dividend growth.

Investment selection is delegated to the Manager. The Manager manages the portfolio and the Board does not specify asset allocations. Information on the Company's performance against the benchmark and peer group is provided to the Board on a quarterly basis. The Board uses this to review the performance of the Company, taking into account how performance relates to the Company's objectives. The Manager is responsible for monitoring the portfolio selected and seeks to ensure that individual stocks meet an acceptable risk-reward profile.

### **Gearing Risk**

The Company has the ability to invest up to £200 million from its Debenture Stocks in the equity market. The principal gearing risk is that the level of gearing may have an adverse impact on performance. Secondary risks relate to whether the cost of gearing is too high and whether the length of gearing is appropriate. The Manager has full discretion over the amount of cash from the Company's Debenture Stocks to be invested in the equity market whilst the issuance, repurchase or restructuring of debt are for the Board to decide. Information related to gearing is provided to the Directors as part of the Board papers. The Board regularly reviews the level of gearing. Additionally, the Board keeps under review the cost of buying back debt.

### **Income/Dividend Risk**

The Company is subject to the risk that income generation from its investments fails to reach the level of income required to meet its objectives.

The Board monitors this risk through the review of detailed income forecasts and comparison against budget. These are contained within the Board papers. The Board considers the level of income at each meeting.

### **Share Price Risk**

There is a risk that the Company's prospects and NAV may not be fully reflected in the share price from time to time.

The share price is monitored on a daily basis. The Board is empowered to repurchase shares within agreed parameters. The discount at which the shares trade to NAV can be influenced by share repurchases. The Company has not repurchased shares in the last year.

### **Control Systems Risk**

The Board delegates a number of specific risk control activities to the Manager including:

- best practice standards in fund management operations;
- financial controls;

- meeting regulatory requirements;
- the management of the relationship with the Custodian in respect of the custody and security of the Company's assets; and
- the management of the relationship with the Registrar.

Consequently in respect of these activities the Company is dependent on the Manager's control systems and those of its Custodian and Registrars, both of which are monitored by the Manager in the context of safeguarding the Company's assets and interests. There is a risk that the Manager fails to ensure that these controls are performed in a satisfactory manner.

A risk-based programme of internal audits is carried out by the Manager regularly to test the controls environment. An internal controls report providing an assessment of these risks is prepared by the Manager and considered by the Audit Committee, and is formally reported to and considered by the Board.

### **Reliance on Third Party Providers**

The Company's most significant contract is with the Manager, to whom responsibility both for the management of the Company's portfolio and for the provision of company secretarial and administrative services are delegated. The Company also has contractual arrangements with third parties to act as Custodian and Registrars.

Failure by any service provider to carry out its obligations in accordance with the terms of its appointment could have a materially detrimental impact on the effective operation of the Company and on the ability of the Company to pursue its investment policy successfully. Such failure could also expose the Company to reputational risk. In particular, the Manager may be exposed to the risk that litigation, misconduct, operational failures, negative publicity and press speculation, whether valid or not, will harm its reputation. Any damage to the reputation of the Manager could result in potential counterparties and third parties being unwilling to deal with the Manager and by extension the Company. That could also have an adverse impact on the ability of the Company to pursue its investment policy successfully.

The Board seeks to manage these risks in a number of ways. In particular the Board reviews the performance of the Manager formally at every board meeting and otherwise as appropriate. The day to-day management of the portfolio is the responsibility of the portfolio manager to whom the Board has given discretion to operate within set guidelines. Any proposed variation outside those guidelines is referred to the Board and the guidelines themselves are reviewed at every board meeting. The risk that the portfolio manager might be incapacitated or otherwise unavailable is mitigated by the fact that he works within and is supported by the wider Invesco Perpetual UK Equity team. The Board has power to replace the Manager and reviews the management contracts formally once a year.

The Manager reviews the performance of all other third party providers regularly through formal and informal meetings, the results of which are reported to and reviewed by the Board. The contractual arrangements which govern relationships with third party providers, including the Registrars and the Custodian, and with the Corporate Broker are also reviewed by the Board in relation to agreed service standards on a regular basis and, more formally, on an annual basis.

### **Other Risks**

The Company may be exposed to other business and strategic risks in the future, including fiscal, legal or regulatory changes, and the perceived impact of the designated Investment Manager ceasing to be involved with the Company.

The instruments in which the Company's cash positions are invested are reviewed by the Board to ensure liquidity and concentration risks are adequately managed. Where an Invesco Group vehicle is utilised, it is assessed for suitability against other similar investment options.

The Company is subject to laws and regulations by virtue of its status as an investment trust and is required to comply with certain regulatory requirements that are applicable to listed closed-ended investment companies. The Company is subject to the continuing obligations imposed by the UK Listing Authority on all companies whose shares are listed on the Official List. A breach of s1158-1165 CTA could lead to the Company being subject to capital gains tax on the sale of the investments in the Company's portfolio. A serious breach of other regulatory rules may lead to suspension from listing on the Stock Exchange or a qualified Audit Report.

The Manager reviews compliance with s1158-1165 CTA and other financial and regulatory requirements on a daily basis.

## REPORT OF THE DIRECTORS (INCORPORATING THE BUSINESS REVIEW)

continued

There is an ongoing process for the Board to consider these other risks. In addition, the composition of the Board is regularly reviewed to ensure the membership offers sufficient knowledge and experience to assess and anticipate these risks, as far as possible.

### Main trends and factors likely to affect the future development, performance and position of the Company's business

As the Company is an investment trust, details of the main trends and factors likely to affect the future development, performance and position of the Company's business can be found in the Investment Manager's Report on pages 8 and 9. Further details as to the risks affecting the Company are set out under 'Principal Risks and Uncertainties'.

### Resources

The Company is an investment trust and has no employees. All the Directors are non-executive. However, through the contractual arrangements in place, a full range of services is available to the Company. The most significant contract is the Investment Management Agreement ('IMA') with the Manager, Invesco Asset Management Limited, to whom responsibility for the management of the portfolio is delegated. The Board reviews the performance of the Manager at every Board meeting.

The day-to-day management of the portfolio is the responsibility of Neil Woodford, Head of Investment at Invesco Perpetual based in Henley-on-Thames. Neil has worked in equity markets since 1981, joining Perpetual in 1988 and has been the Fund Manager of the Company since September 2008, when Invesco Asset Management Limited was appointed as Manager of the Company.

The Board has adopted guidelines within which the Manager is permitted wide discretion; any proposed variations outside these parameters are referred to the Board. The Board has the power to replace the Manager and reviews the management contract formally once a year. The outcome of this review is discussed on page 23.

Other contractual arrangements govern relationships with the Auditors, Registrar, Custodian and Broker. The performance of the service providers is reviewed formally by the Board on an annual basis.

### Relationships

Through the annual and half-yearly financial reports, interim management statements and the publication of a daily net asset value, the Board endeavours to ensure that shareholders understand the Company's investment objectives and policies. The Board monitors and reviews shareholder communications on a regular basis and, both independently and through the Manager, reviews the Company's objectives and policies in the light of feedback from shareholders.

The Company's main supplier of services is the Manager which provides both investment management services and company secretarial and administrative support.

### Advisers and Principal Service Providers

The Company has the following additional advisers and principal service providers:

- KPMG Audit Plc as Auditors;
- The Bank of New York Mellon as Custodian;
- Capita Registrars as Registrar;
- Collins Stewart Europe Limited as Broker; and
- Maclay Murray & Spens LLP as Lawyer.

### Financial Position

#### Assets and Liabilities

At 31 March 2011, the Company's total assets less current liabilities were valued at £1.093 million (2010: £1.026 million). These comprised a portfolio of mainly equity investments and net current assets.

The Company has £200 million of borrowings in the form of two £100 million debentures. The 11½% debenture matures in 2014 and the 7¾% debenture in 2022. The weighted average interest rate is 9.625%. For details see note 12. The Company also has a bank overdraft facility of 10% of assets held by

the Custodian which was undrawn at 31 March 2011; this facility was largely unused during the year and is available to facilitate settlement of short-term cash timing differences.

Due to the readily realisable nature of the Company's assets, cash flow does not have the same significance as for an industrial or commercial company. The Company's principal cash flows arise from the purchase and sales of investments and the income from investments against which must be set the costs of borrowing and management expenses.

### Social and Environmental Policies

As an investment trust with no employees, property or activities outside investment management, environmental policy has limited application.

The Manager considers various factors when evaluating potential investments. Some are financial ratios and measures, such as free cash flow, earnings per share and price-to-book value. Others are more subjective indicators which rely on first hand research; for example quality of management, innovation and product strength.

The Company's policy is that, subject to an overriding requirement to pursue the best financial interests of the Company, the Manager should take account of social, environmental and ethical factors in making and holding investments and in the use of voting powers conferred by such investments.

At the AGM in 2008, shareholders adopted revised Articles of Association which allow the Company to send or supply documents or information to shareholders in electronic forms (e.g. by email) or by means of a website. This will deliver environmental benefits through reduced use of paper and the energy required for its production and distribution.

### Substantial Holdings in the Company

At 30 April 2011, the Company had been notified of the following holdings of 3% and over of the Company's share capital carrying unrestricted voting rights:

|  | HOLDING    | %   |
|--|------------|-----|
| Brewin Dolphin, stockbrokers             | 14,311,821 | 7.3 |
| Charles Stanley, stockbrokers            | 9,727,580  | 5.0 |
| AAM retail plans                         | 9,610,348  | 4.9 |
| Rathbones                                | 9,466,520  | 4.9 |
| AXA Investment Managers                  | 7,589,860  | 3.9 |
| Legal & General Investment Management    | 7,055,933  | 3.6 |
| Rensburg Sheppards Investment Management | 6,896,676  | 3.5 |
| Alliance Trust Savings                   | 6,552,744  | 3.4 |

### Special Business at the Annual General Meeting

The notice of the Annual General Meeting ('AGM') of the Company to be held on 22 July 2011 at 11.00 am is on pages 52 to 55. In addition to the ordinary business, five resolutions are proposed as special business, one as an ordinary resolution and four as special resolutions.

#### Ordinary Resolution 12 and Special Resolution 13: Authority to Allot Shares

Resolution 12 is an Ordinary Resolution to seek authority for the Directors' to allot up to 10% of the issued ordinary share capital, this being an aggregate nominal amount of £4,877,918 as at 31 May 2011.

Resolution 13 is a Special Resolution which seeks authority to issue up to 10% of the issued ordinary share capital pursuant to a rights issue or otherwise than in connection with a rights issue, dis-applying pre-emption rights. This will allow shares to be issued to new shareholders, within the prescribed limits, without having to be offered to existing shareholders first, thus broadening the shareholder base of the Company. The Directors will not use the authority to dilute the interests of existing shareholders by issuing shares at a price which is less than the Net Asset Value of the existing shares in issue at that time. These authorities will expire at the next AGM of the Company or fifteen months after the passing of the resolutions, whichever is the earlier.

#### Special Resolution 14: Authority to Buy Back Shares

Resolution 14 seeks to renew the Directors' authority to purchase up to 14.99% of the Company's issued share capital, this being 29,247,998 ordinary shares as at 31 May 2011. The authority will expire at the Company's next AGM or on 20 January 2013, if earlier. The principal purpose of share buy backs is to

## REPORT OF THE DIRECTORS

continued

enhance the net asset value for remaining shareholders and purchases will only be made if they enhance the net asset value for the remaining shareholders.

In accordance with the Financial Services Authority UK Listing Rules, the maximum price which can be paid is 5% above the average of the middle market values of the ordinary shares for the five business days before the purchase is made. The minimum price which may be paid will be 25p per share, this being the nominal value of a share. In making purchases, the Company will deal only with member firms of the London Stock Exchange.

The Company will finance the purchase of ordinary shares by using its existing cash balance or by selling securities in the Company's portfolio.

The Directors might consider holding repurchased shares as treasury shares with a view to possible resale.

### **Special Resolution 15: Investment Policy**

Resolution 15 seeks permission from shareholders for an amendment to the Company's Investment Policy. The Company may currently invest up to 15% of the market value of the Company's investment portfolio, measured at the time of any acquisition, in securities listed on stock exchanges outside the UK. The Company is seeking permission from shareholders to increase this limit to 20%.

### **Special Resolution 16: Notice Period for General Meetings**

The EU Shareholder Rights Directive, which was implemented in 2009, increased the notice period for general meetings of companies to 21 days unless certain conditions are met in which case it may be 14 days' notice. A shareholders' resolution is required to ensure that the Company's general meetings (other than Annual General Meetings) may be held on 14 days' notice. Accordingly, Special Resolution 16 will propose that the period of notice for general meetings of the Company (other than AGMs) shall be not less than 14 days' notice.

The Directors recommend that shareholders vote in favour of all the resolutions.

### **Investment Management Agreement ('IMA')**

Invesco Asset Management Limited ('IAML') acts as Manager and Secretary to the Company under an investment management agreement dated 15 September 2008. The agreement is terminable by either party by giving not less than 3 months' notice.

The management fee is payable monthly in arrears and is equal to 0.05% of the market capitalisation of the Company's ordinary shares at each month end.

IAML is also entitled to a performance fee in respect of each rolling three year period in which the Company outperforms its benchmark, the FTSE All-Share Index, plus a hurdle rate, this being the equivalent of 1.25% per annum, as adjusted for shorter periods. The IMA provides for transitional arrangements for the periods up to 31 March 2011, under which half of any performance fee for each period is paid at the end of the period and half deferred. The deferred portion of £1,711,000 from the year ended 31 March 2009 became payable on 31 March 2011.

Any performance fee earned will be the lower of 15% of the out-performance based on the average quarterly net asset value (with debt at par) of the Company over the relevant performance period and 1% of net asset value, as adjusted for shorter periods where required. No performance fee is due for the year ended 31 March 2011 (2010: none).

### **VAT on Management fees**

As previously reported, management fees paid by the Company are no longer subject to VAT. During the year the Company received a refund of VAT paid on management fees from Aberdeen Asset Management of £3,176,000 in respect of the period 1990-96, and a further amount in respect of the years 2001-02 which has been recognised in these accounts (2010: £963,000 was received in respect of the years 2001-02). In addition the Company also received interest on the refund of VAT of £2,459,000.

### **The Manager's Responsibilities**

The Directors have delegated to Invesco Asset Management Limited (the 'Manager') the responsibility for the day-to-day investment management activities of the Company. The Manager has full discretion to manage the assets of the Company in accordance with the Company's stated objectives and policies. The Manager has discretion to make purchases and sales, make and withdraw cash deposits, enter into underwriting commitments and exercise all rights over the investment portfolio. The Manager also advises on borrowings.

The Manager provides full administration and company secretarial services to the Company, ensuring that the Company complies with all legal and regulatory requirements and officiating at Board meetings and shareholders' meetings. The Manager additionally maintains complete and accurate records of the Company's investment transactions and portfolio and all monetary transactions from which the Manager prepares half-yearly and annual financial statements on behalf of the Company as well as interim management statements.

### Assessment of the Investment Manager

The Management Engagement Committee meets annually to review the investment management and secretarial arrangements. The Committee considers, among other matters investment performance, marketing activity, secretarial and administrative services, the finance and control environments, compliance, audit and terms of the Investment Management Agreement.

The Board, based on its recent review of activities, considers that the continuing appointment of Invesco Asset Management Limited is in the interests of shareholders as a whole.

### Directors

Directors are appointed by ordinary resolution at a general meeting of ordinary shareholders. The Directors have the power to appoint a Director during the year but any person so appointed must stand for election at the next Annual General Meeting. Gordon McQueen was appointed a Director of the Company on 31 May 2011 and will stand for election at the AGM on 22 July 2011.

Subject to its Articles of Association and relevant statutory law and to such direction as may be given by the Company in general meeting by special resolution, the business of the Company shall be managed by the Directors, who may exercise all powers of the Company which are not required to be exercised by the Company in a general meeting.

The present members of the Board are listed on page 11 together with their biographies. All served throughout the year with the exception of Gordon McQueen who was appointed on 31 May 2011.

In accordance with the UK Code of Corporate Governance, at every AGM, all Directors shall retire by rotation and offer themselves for re-election at the forthcoming AGM.

As already mentioned in the Chairman's Statement, Scott Dobbie will retire from the Board of the Company at the end of this year's AGM.

The following table sets out the number of scheduled Directors' meetings (including committees) held during the year and the number of meetings attended by each Director:

|                             | BOARD MEETINGS |          | AUDIT COMMITTEE MEETINGS |          | MANAGEMENT ENGAGEMENT COMMITTEE MEETINGS |          | NOMINATION COMMITTEE MEETINGS |          |
|-----------------------------|----------------|----------|--------------------------|----------|--|----------|-------------------------------|----------|
|                             | HELD           | ATTENDED | HELD                     | ATTENDED | HELD                                     | ATTENDED | HELD                          | ATTENDED |
| Scott Dobbie <sup>(1)</sup> | 4              | 4        | 3                        | n/a      | 1  | 1        | 3                             | 3        |
| Jim Pettigrew               | 4              | 4        | 3                        | 3        | 1  | 1        | 3                             | 3        |
| Richard Barfield            | 4              | 4        | 3                        | 3        | 1  | 1        | 3                             | 3        |
| Nicola Ralston              | 4              | 3        | 3                        | 2        | 1  | 1        | 3                             | 2        |
| William Samuel              | 4              | 4        | 3                        | 3        | 1  | 1        | 3                             | 3        |
| Sir Nigel Wicks             | 4              | 4        | 3                        | 3        | 1  | 1        | 3                             | 3        |

(1) The Chairman is not a member of the Audit Committee but was in attendance at the meetings.

Board members attended a significant number of informal meetings to discuss other *ad hoc* matters.

As Gordon McQueen was appointed after the year end, he has not been included in the above table.

All Directors have letters of appointment which are available for inspection at the Registered Office of the Company. All Directors are independent of the investment manager.



## REPORT OF THE DIRECTORS

continued

### Directors' Interests

The beneficial interests of the Directors in the ordinary share capital of the Company are set out below:

|  | 31 MARCH<br>2011 | 1 APRIL<br>2010 |
|--|------------------|-----------------|
| Scott Dobbie                           | 216,245          | 214,937         |
| Jim Pettigrew                          | 20,000           | 20,000          |
| Richard Barfield                       | 13,984           | 13,984          |
| Gordon McQueen (appointed 31 May 2011) | –                | –               |
| Nicola Ralston                         | 15,000           | 15,000          |
| William Samuel                         | 23,170           | 23,170          |
| Sir Nigel Wicks                        | 3,500            | 3,500           |

Scott Dobbie also has a non-beneficial interest in 422,416 (2010: 422,416) ordinary shares. This largely arises as a result of Mr Dobbie's membership of the Board of Trustees of the Cambridge Endowment for Research in Finance.

Save as aforesaid, no Director had any interests, beneficial or otherwise, in the shares of the Company during the year. No Director held any of the Company's debenture stocks at either date. No changes to these holdings had been notified up to the date of this report.

### Disclosable Interests

No Director was a party to, or had any interests in, any contract or arrangement with the Company at any time during the year or at the year end. The Company has entered into a Deed of Indemnity with each Director under which the Directors are indemnified by the Company for, inter alia, costs incurred in defending claims made by third parties.

### Conflicts of Interest

A Director must avoid a situation where he has, or can have, a direct or indirect interest that conflicts, or has the potential to conflict with the company's interests. The Articles of Association of the Company give the Directors authority to authorise potential conflicts of interest and there are safeguards which apply when Directors decide whether to do so. Firstly, only Directors who have no interest in the matter being considered are able to take the relevant decision, and secondly, in taking the decision the Directors must act in a way they consider, in good faith, will be most likely to promote the Company's success. The Directors can impose limits or conditions when giving authorisation if they think this is appropriate.

The Directors have declared any potential conflicts of interest to the Company. The Register of Potential Conflicts of Interests is kept at the Registered Office of the Company. It is reviewed regularly by the Board and the Directors will advise the Company Secretary as soon as they become aware of any potential conflicts of interest.

### Deeds of Indemnity

A Deed of Indemnity was executed between the Company and each Director.

Under the terms of the indemnities, a Director may be indemnified out of the assets of the Company against all costs, charges, losses, expenses and liabilities which the Director may sustain or incur in the execution or purported execution or discharge of his or her duties or the exercise of his powers or discretions as a Director of the Company. This includes any liability incurred by the Director in disputing, defending, investigating or providing evidence in connection with any actual or threatened or alleged claims, demands, investigations or proceedings whether civil or criminal, and any settlement in respect thereof. Directors will continue to be indemnified under the terms of the indemnities notwithstanding that they may have ceased to be Directors of the Company.

However, Directors will not be entitled to be indemnified for any liability to the Company for fines payable to regulatory authorities, for defending any criminal proceedings in which they are convicted or in defending any civil proceedings brought by the Company in which judgment is given against a Director. In these circumstances, the Director will repay to the Company any amount received from the Company under his indemnity. The indemnity does not apply to the extent that a liability is recoverable from any insurers, if it is prohibited by the Companies Act 2006 (previously section 309A of the Companies Act 1985 (as

amended)) or otherwise prohibited by law or if a liability arises from an act or omission of the Director which is shown to have been in bad faith or arising from gross negligence.

### Audit Information

The Directors who held office at the date of the approval of the Directors' Report confirm that, so far as they are aware, there is no relevant audit information of which the Company's Auditors are unaware; and each Director has taken steps that he or she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Company's Auditors are 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.

### Auditors

The Audit Committee has considered the independence of the auditors and the objectivity of the audit process and is satisfied that KPMG Audit Plc has fulfilled its obligations to shareholders as independent auditor to the Company.

Resolutions proposing the re-appointment of KPMG Audit Plc as the Company's Auditors and authorising the Directors to determine their remuneration will be put to the forthcoming AGM.

### Individual Savings Account ('ISA')

The ordinary shares of the Company are qualifying investments under applicable ISA regulations.

### Supplier Payment Policy

It is the Company's policy to obtain the best terms for all business, including purchases of investments, and to abide by those agreed terms. The Company had no trade creditors at 31 March 2011 (2010: nil).

### Donations

The Company made no political or charitable donations during the year (2010: nil).

### Going Concern

The financial statements have been prepared on a going concern basis. The Directors consider this is the appropriate basis as the Company has adequate resources to continue in operational existence for the foreseeable future. In considering this, the Directors took into account the diversified portfolio of readily realisable securities which can be used to meet funding commitments, and the ability of the Company to meet all of its liabilities and ongoing expenses from its assets.

## REPORT OF THE DIRECTORS

continued

### CORPORATE GOVERNANCE STATEMENT

#### The Principles

The Board is committed to maintaining the highest standards of Corporate Governance and is accountable to shareholders for the governance of the Company's affairs.

In February 2006, the Financial Reporting Council confirmed that AIC member companies which report against the AIC Code and which follow the AIC Guide meet their obligations in relation to the Combined Code on Corporate Governance and paragraph 9.8.6 of the Listing Rules. On 20 February 2009 the FRC provided the AIC with an updated endorsement to cover the 2009 edition of the AIC Code relating to additional items to be included in the annual financial report. This statement describes how the principles of the AIC Code and Guide have been complied with in the affairs of the Company.

Any reference to the AIC Code in this statement includes references to the AIC Guide.

The Board considers that reporting against the principles and recommendations of the AIC Code, and by reference to the AIC Guide (which incorporates the Combined Code), will provide better information to shareholders. Copies of the AIC Code and AIC Guide can be found on the AIC's website at [www.theaic.co.uk](http://www.theaic.co.uk).

The Company has complied with the recommendations of the AIC Code and the relevant provisions of Section 1 of the Combined Code, except as set out below.

The Combined Code includes provisions relating to the role of the chief executive, executive directors' remuneration and the need for an internal audit function. For the reasons set out in the AIC Guide, and in the preamble to the Combined Code, the Board considers these provisions are not relevant to the Company, which is an externally managed investment company. The Company has therefore not reported further in respect of these provisions.

The terms of reference for the Board and the Audit Committee are reviewed and updated periodically to bring them in line with latest best practice and to ensure compliance with the AIC Code. The Company's Corporate Governance procedures are considered regularly by the Board and amended as necessary.

In October 2010, a new edition of the AIC Code was published, which addresses the governance issues relevant to investment companies and enables boards to satisfy any requirements they may have under the new UK Corporate Governance Code. Both the new UK Corporate Governance Code and the new 2010 AIC Code apply to companies whose financial year starts on or after 29 June 2010. The Edinburgh Investment Trust plc will report against these new Codes at the end of the next financial year.

#### Directors

##### Independence

The Board comprises seven non-executive Directors, each of whom the Board regards as wholly independent of the Company's Manager.

Some commentators have a view that length of service on a board can compromise independence from the manager. The AIC does not believe that this is the case for investment companies and therefore does not recommend that long serving directors be prevented from forming part of the independent majority.

##### Chairman

The Chairman of the Company is Scott Dobbie, a non-executive and independent Director who has no conflicting relationships. As the Company is an investment trust and sub-contracts its day-to-day investment management and administration, its Board consists exclusively of non-executive Directors and it does not have a Chief Executive Officer.

Scott Dobbie has been a member of the Board since 1998 and Chairman since 2003. He will retire as a Director at the conclusion of this year's AGM. As reported earlier, Jim Pettigrew will be appointed as Chairman.

The Chairman will be present at the AGM to answer questions.

##### Senior Non-Executive Director

The Company's Senior Non-Executive Director is Richard Barfield.

### Board Balance

The Directors have a range of business, financial and asset management skills as well as experience relevant to the direction and control of the Company. Brief biographical details of members of the Board are shown on page 11.

### Supply of Information

To enable the Directors of the Board to fulfil their roles, the Manager ensures that all Directors have timely access to all relevant management, financial and regulatory information.

On being appointed to the Board, Directors are fully briefed as to their responsibilities and are continually updated throughout their term in office on industry and regulatory matters. The Manager and the Board have formulated a programme of induction training for newly appointed Directors. They have also put arrangements in place to address ongoing training requirements of Directors which include briefings from key members of the Manager's staff and which ensure that Directors can keep up to date with new legislation and changing risks.

The Board meets on a regular basis at least four times each year. Additional meetings are arranged as necessary. Regular contact is maintained by the Manager with the Board between formal meetings.

Board meetings follow a formal agenda, which includes a review of the investment portfolio with a report from the Manager on the current investment position and outlook, strategic direction, performance against stock market indices and the Company's peer group, asset allocation, gearing policy, cash management, revenue forecasts for the financial year, marketing and shareholder relations, corporate governance, regulatory changes and industry and other issues.

### Appointment, Re-election, Tenure and the Nomination Committee

All Directors are members of the Nomination Committee which is chaired by Scott Dobbie. The Nomination Committee has written terms of reference which clearly define its duties and responsibilities. These include regularly evaluating the balance of skills, knowledge and experience on the Board and whether to recommend the re-election of those Directors seeking re-election at each AGM to shareholders. The Committee is also responsible for identifying and nominating for approval of the Board, candidates to fill board vacancies as and when they arise.

As mentioned earlier in the document, Scott Dobbie will retire at the conclusion of this year's AGM. In order that the Board continue to have a balance of skills, experience and length of service and knowledge of the Company, it was decided that a new Director be appointed. The Board instructed the Nomination Committee to carry out this process taking into consideration the above requirements as well as diversity of the Board and the ability of a new Director to devote sufficient time to the Company to carry out his or her duties effectively. The Nomination Committee appointed an external search consultancy to identify potential candidates. The Board was pleased that this process successfully identified a number of strong candidates and, after due consideration, the Board appointed Gordon McQueen a Director of the Company with effect from 31 May 2011. As the Board appointed Gordon McQueen since the last AGM, in accordance with the Company's Articles, he will stand for election at this year's AGM. The Board considers that, with his considerable knowledge and experience, Gordon will make a valuable contribution to the Board and, therefore, recommends that shareholders support resolution 8.

No Director has a contract of employment with the Company. Directors' terms and conditions of appointment are set out in letters of appointment which are available for inspection at the Registered Office of the Company. They will also be available at the AGM.

The Articles of Association require that a Director shall be subject to election at the first AGM after appointment and re-election at least every three years thereafter. In line with the new UK Corporate Governance Code, all Directors will stand for annual re-election. At each AGM one-third of the Directors may, by notice in writing, remove any Director from the Board without notice or compensation.

### Board, Committee and Directors' Performance Appraisal

The Directors recognise the importance of the AIC Code's recommendation in respect of evaluating the performance of the Board as a whole, the Committees and individual Directors.

During the year, the Directors undertook an extensive review of the Board structure, including an evaluation of the performance of the Board, the Committees and of individual Directors. This evaluation included intensive discussions between the Chairman, Senior Independent Director ('SID') and other Directors. Further discussions were also undertaken between the SID and other Directors as a part of identifying a new Chairman.

## REPORT OF THE DIRECTORS

continued

The result of this continuous evaluation process was that the performance of the Board as a whole, the Committees of the Board, the Chairman and individual Directors was deemed fully satisfactory.

### Directors' Remuneration

The Board as a whole reviews Directors' remuneration periodically. The Directors' Remuneration Report is set out on pages 32 and 33.

### Accountability and Audit

The Directors' responsibilities with regard to the financial statements are set out on page 34 and the Independent Auditors' Report is set out on page 35.

### Internal Financial and Non-Financial Controls

The Directors acknowledge that they are responsible for the Company's systems of internal financial and non-financial controls ('internal controls') which have been in place throughout the year and up to the date of this report in order to safeguard shareholders' investments and the Company's assets.

The Board reviews, at least annually, the effectiveness of the Company's system of internal controls, including financial, operational and compliance and risk management systems. The Company's system of internal control is designed to manage rather than eliminate risk of failure to achieve the Company's investment objective and/or adhere to the Company's investment policy and/or investment limits. This system can therefore provide only reasonable and not absolute assurance against material misstatement or loss. The Board confirms that the necessary actions are taken to remedy any significant failings or weaknesses identified from their review. There are no significant failings or weaknesses that have occurred throughout the year ended 31 March 2011 and up to the date of this annual financial report.

As stated above, the Board meets regularly, at least four times a year, and reviews financial reports and performance against approved forecasts, relevant stock market criteria and the Company's peer group. In addition, the Manager and Custodian maintain their own systems of internal controls and the Board and the Audit Committee receive regular reports from the Internal Audit and Compliance Departments of the Manager. Formal reports are also produced annually on the internal controls and procedures in place for the operation of secretarial and administrative, custodial, investment management and accounting activities. The programme of reviews is set up by the Manager and the reports are not necessarily directed to the affairs of any one client of the Manager.

### Internal Audit Function

The Audit Committee has reviewed the need for the Company to establish an internal audit function, but, in view of the extent of the Manager's executive responsibilities and, given that the Manager has internal audit functions, consider that such a function is not necessary.

### Matters Reserved for the Board

The Directors are equally responsible under United Kingdom law for the proper conduct of the Company's affairs and for promoting the success of the Company by directing and supervising its affairs within a framework of effective controls which enable risk to be assessed and managed. In addition, the Directors are responsible for ensuring that their policies and operations are in the interest of all of the Company's shareholders and that the interests of creditors and suppliers to the Company are properly considered.

The Board has a schedule of matters reserved for its consideration, which clearly define the Directors' responsibilities. The main responsibilities include: setting the Company's objectives, policies and standards; ensuring that the Company's obligations to shareholders and others are understood and complied with; approving accounting policies and dividend policy; managing the capital structure; setting long-term objectives and strategy; reviewing investment performance; assessing risk; approving loans and borrowing; and controlling risks.

Finally, the Board ensures that shareholders are provided with sufficient information in order to understand the risk:reward balance to which they are exposed by holding their shares, through the portfolio details given in the half-yearly and annual financial reports, interim management statements, factsheets and daily NAV disclosures.

The Board as a whole undertakes the responsibilities which would otherwise be assumed by a remuneration committee, determining the Company's remuneration policy. The Board takes into account all factors which are deemed necessary in order to ensure that members of the Board are provided with appropriate compensation and are, in a fair and responsible manner, rewarded for their individual contributions to the success of the Company. The remuneration of Directors is reviewed periodically and reported on in more detail in the Directors' Remuneration Report.

## The Manager's Responsibilities

The Manager is responsible for the day-to-day investment management decisions of the Company and for the provision of company secretarial and accounting services. A statement of the Manager's responsibilities is shown on page 22 in this Report of the Directors.

The Board has reviewed and accepted the Manager's 'whistleblowing' policy under which staff of Invesco Asset Management can, in confidence, raise concerns about possible improprieties or irregularities in matters affecting the Company.

## The Company Secretary

The Board has direct access to the advice and services of the Company Secretary, Invesco Asset Management Limited, which is responsible for ensuring that the Board and Committee procedures are followed and that applicable rules and regulations are complied with. The Company Secretary is also responsible to the Board for ensuring timely delivery of information and reports and that the statutory obligations of the Company are met. Finally, the Company Secretary is responsible for advising the Board through the Chairman on all governance matters.

There is an agreed procedure for the Directors, in the furtherance of their duties, to take legal advice at the Company's expense up to an initial cost of £10,000 having first consulted with the Chairman.

## The Audit Committee

The Board is supported by an Audit Committee consisting of all non-executive Directors with the exception of Scott Dobbie. The Chairman of the Audit Committee is Jim Pettigrew. At the conclusion of the Annual General Meeting on 23 July 2011, Gordon McQueen will be appointed Chairman of the Audit Committee. The Committee has written terms of reference which clearly define its responsibilities and duties. The terms of reference of the Audit Committee, including its role and authority, were updated during the year to ensure best practice and compliance with the AIC Code. They will be available for inspection at the AGM and can be inspected at the Registered Office of the Company or on the Manager's website.

The Audit Committee is responsible to the Board for reviewing each aspect of the financial reporting process, systems of internal control and the management of financial risks, the audit process, relationships with external auditors, the Company's processes for monitoring compliance with laws and regulations, its code of business conduct and for making recommendations to the Board.

Duties of the Audit Committee include discussing with the external Auditors the nature and scope of the audit and reviewing the external Auditors' quality control procedures; considering the scope of work undertaken by the Manager's internal audit and compliance department; reviewing the Company's procedures for detecting fraud; monitoring the integrity of the financial statements of the Company; reviewing the half-yearly and annual financial statements of the Company prior to their submission to the Board; and reviewing the effectiveness of the internal control systems (including financial, operational and compliance controls and risk management). They also include responsibility for reviewing and monitoring the effectiveness of the audit process and the external Auditors' independence and objectivity with particular regard to the provision of non-audit services. The provision of non-audit services is also subject to prior Board approval. The Audit Committee of the Board meets the external Auditors in the absence of representatives from the Manager at least once a year to review these and other appropriate matters. Shareholders have the opportunity at each Annual General Meeting to vote on the re-appointment of the external Auditors for the forthcoming year and to authorise the Directors to determine the level of Auditors' remuneration.

The Committee also reviews corporate governance issues, the existence and performance of all controls operating in the Company (including compliance with s1158-1165 CTA), the relationship with and the performance of third party service providers (such as the Registrars and Custodians). In the year to 31 March 2011 the Audit Committee discharged its responsibilities by, among other things:

- Reviewing the Company's draft annual and half-yearly financial reports prior to Board approval and reviewing the external Auditors' reports thereon;
- Reviewing the appropriateness of the Company's accounting policies;
- Reviewing the potential impact of any new Financial Reporting Standards;
- Reviewing and approving the audit fee and reviewing any non-audit fees payable to the Company's external Auditors;
- Reviewing the external Auditors' terms of engagement;

## REPORT OF THE DIRECTORS

continued

- Reviewing the external Auditors' plan for the audit of the Company's financial statements;
- Reviewing the external Auditors' quality control procedures;
- Reviewing and monitoring the effectiveness of the external audit process and the external Auditors' independence and objectivity;
- Recommending the re-appointment of the external Auditors to the Board;
- Review of the internal financial and non-financial controls and risk management systems with the Manager against risk parameters approved by the Board; and
- Considering the scope of work undertaken by the Manager's internal audit and compliance departments.

The Audit Committee meets at least three times a year in the performance of their duties. In addition, the Audit Committee Chairman meets with the Manager on a regular basis, and from time to time with the External Auditors.

The Audit Committee has received satisfactory reports on the Manager's internal operations from the Manager's Compliance and Internal Audit departments.

The Audit Committee has reviewed the financial statements for the year ended 31 March 2011 with the Manager and the Auditors at the conclusion of the audit process.

The Chairman of the Audit Committee will be present at the AGM to deal with questions relating to the accounts.

### Auditors Non-Audit Services

The Company's policy is not to seek substantial non-audit services from its Auditors. The Audit Committee considers whether the skills and experience of the Auditors make them a suitable supplier of the non-audit service and whether there are safeguards in place to ensure that there is no threat to objectivity and independence in the conduct of the audit resulting from the provision of such services.

Apart from the normal audit-related services, during the year the Company's Auditors also provided a review of the half-yearly financial report and a review of the Annual Certificate of Compliance to the Trustee of the debenture stock. Details are set out in note 4 to the financial statements.

### Relations with Shareholders

Shareholder relations are given high priority by both the Board and the Manager. The prime medium by which the Company communicates with shareholders is through the half-yearly and annual financial report, which aim to provide shareholders with a full understanding of the Company's activities and their results. This information is supplemented by the daily calculation and publication at the Stock Exchange of the net asset value of the Company's ordinary shares and by a monthly fact sheet produced by the Manager. At each AGM, a presentation is made by the investment manager following the business of the Meeting and shareholders have the opportunity to communicate directly with the whole Board.

There is a regular dialogue between the Manager and institutional shareholders to discuss aspects of investment performance, governance and strategy and to listen to shareholder views in order to help develop an understanding of their issues and concerns. General presentations to both institutional shareholders and analysts follow the publication of the annual results. All meetings between the Manager and institutional and other shareholders are reported to the Board. During the year, the Chairman, the Senior Independent Director and the other Directors also met representatives of those major shareholders who accepted an invitation from the Chairman to meet.

It is the intention of the Board that the annual financial report and Notice of the AGM be issued to shareholders so as to provide at least twenty working days' notice of the AGM. Shareholders wishing to lodge questions in advance of the AGM are invited to do so, either on the reverse of the proxy card or otherwise in writing to the Company Secretary at the address given on page 12. At other times, the Company responds to letters from shareholders on a range of issues.

Shareholders can also visit the Manager's investment trust website at [www.invescoperpetual.co.uk/investmenttrusts](http://www.invescoperpetual.co.uk/investmenttrusts) in order to access copies of half-yearly and annual financial reports; interim management statements; shareholder circulars; Company factsheets and Stock Exchange announcements. Shareholders can also access various Company reviews and information such as an overview of UK equities and the Company's share price. Shareholders are also able to access copies of the schedule of matters reserved for

the Board and the terms of reference of the Audit, Management Engagement and Nomination Committees and following any shareholders' general meetings, proxy voting results.

### Stewardship

The Manager, Invesco Asset Management Limited, has adopted a clear and considered policy towards its responsibility as a shareholder on behalf of the Company. As part of this policy, the Manager takes steps to satisfy itself about the extent to which the companies in which it invests look after shareholders' value and comply with local recommendations and practices, such as the UK Corporate Governance Code.

The Manager has a responsibility to optimise returns to shareholders of the Company. As a core part of the investment process, the Manager endeavours to establish a dialogue with management to promote company decision making that is in the best interests of shareholders, and is in accordance with good corporate governance principles. The Manager believes that, being a major shareholder in a company is more than simply expecting to benefit in its future earnings streams, but is also about helping to provide the capital it needs to grow being actively involved in its strategy, and helping to ensure that shareholder interests are always at the forefront of management's thoughts.

The Manager considers that shareholder activism is fundamental to good corporate governance. Although this does not entail intervening in daily management decisions, it does involve supporting general standards for corporate activity and, where necessary, taking the initiative to ensure those standards are met, with a view to protecting and enhancing value for the Company's shareholders. Engagement is proportionate and reflects the size of holdings, length of holding period and liquidity of the underlying company shares.

One important means of putting shareholder responsibility into practice is via the exercising of voting rights. In deciding whether to vote shares, the Manager will take into account such factors as the likely impact of voting on management activity, and where expressed, the preference of the Board of the Company. As a result of these two factors, the Manager will tend to vote on all shares held within the Company's portfolio. Voting rights will be exercised on an informed and independent basis, and will not simply be passed back to the company concerned for discretionary voting by the chairman.

A copy of the Manager's Policy on Corporate Governance and Stewardship can be found at [www.invescoassetmanagement.co.uk](http://www.invescoassetmanagement.co.uk).

#### **Invesco Asset Management Limited**

*Company Secretary*

30 Finsbury Square

London EC2A 1AG

31 May 2011



## DIRECTORS' REMUNERATION REPORT

FOR THE YEAR ENDED 31 MARCH 2011

The Board presents this Report which has been prepared under the requirements of Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and in accordance with the Directors' Remuneration Report Regulations 2002 and the Listing Rules of the Financial Services Authority. An ordinary resolution for the approval of this Report will be put to shareholders at the Annual General Meeting ('AGM').

The Company's Auditors are required to audit certain of the disclosures provided in this Report. Where disclosures have been audited, they are indicated in this Report. The Auditors' opinion is included in their Audit Report on page 35.

### Remuneration

The Board has resolved that a remuneration committee is not appropriate for a company of this size and nature. Remuneration is therefore regarded as part of the Board's responsibilities to be addressed regularly.

All Directors are non-executive and all participate in meetings of the Board at which Directors' remuneration is considered. The Board seeks advice, *inter alia*, from the Company Secretary, Invesco Asset Management Limited, when considering the level of Directors' fees.

Since 1 April 2007, Directors' remuneration has been as follows:

- Chairman £44,000 pa;
- Chairman of the Audit Committee £27,000 pa;
- Senior Non-Executive Director £27,500 pa; and
- Other Directors £24,200 pa.

### Policy on Directors' Remuneration

The Board's policy is that the remuneration of non-executive Directors should be fair and reasonable in relation to that of other investment trusts and to the time incurred and responsibility undertaken.

Fees for the Directors are determined by the Board within the limits stated in the Company's Articles of Association. The maximum currently dictated by the Company's Articles of Association is £250,000 in aggregate per annum. The Directors are not eligible for bonuses, pension benefits, share options or other incentives or benefits.

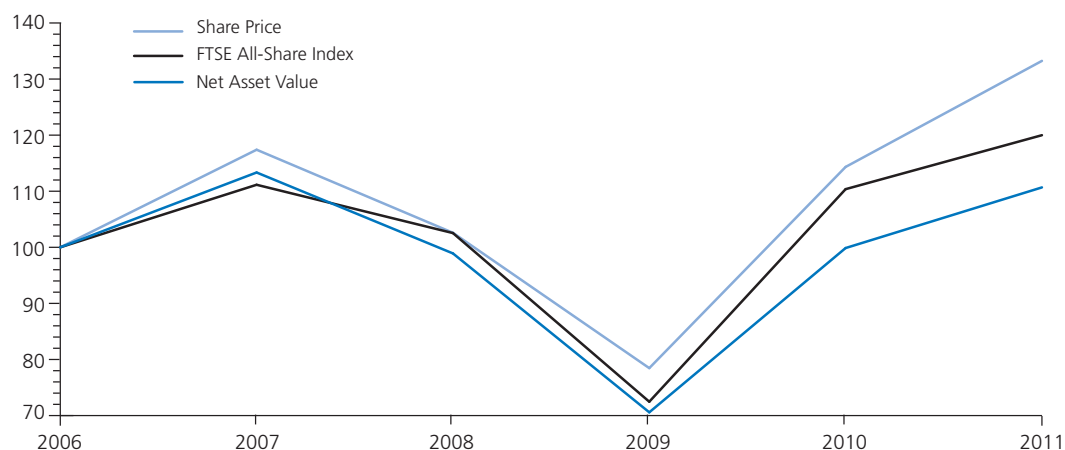
It is intended that this policy will continue for the year ending 31 March 2011 and subsequent years.

### Service Contracts

All Directors have letters of appointment which are available for inspection at the Registered Office of the Company. Under the Articles of Association of the Company, the terms of the Directors' appointment provide that a Director shall be subject to election at the first AGM after appointment and that, at every AGM, one third of the Directors shall retire by rotation and no Director shall hold office for more than three consecutive years without retiring by rotation. The terms of the appointment letters also provide that a Director may be removed from office by notice in writing.

## The Company's Performance

The graph plots the net asset value total return and share price total return to ordinary shareholders compared to the total return of the FTSE All-Share index over the 5 years to 31 March 2011. This index is the benchmark adopted by the Company for comparison purposes. Figures have been rebased to 100 at 31 March 2006. Graphs showing the performance over the last 10 years and since the appointment of the present Manager are shown on pages 3 and 4.



## Directors' Emoluments for the Year (Audited)

The Directors who served during the year received the following emoluments in the form of fees:

|  | 2011<br>£      | 2010<br>£      |
|--|----------------|----------------|
| Scott Dobbie (Chairman)                          | 44,000         | 44,000         |
| Jim Pettigrew (Chairman of the Audit Committee)  | 27,000         | 27,000         |
| Richard Barfield (Senior Non-Executive Director) | 27,500         | 27,500         |
| Nicola Ralston                                   | 24,200         | 24,200         |
| William Samuel                                   | 24,200         | 24,200         |
| Sir Nigel Wicks                                  | 24,200         | 24,200         |
| <b>Total</b>                                     | <b>171,100</b> | <b>171,100</b> |

## Approval

The Directors' Remuneration Report was approved by the Board of Directors on 31 May 2011.

### Scott Dobbie

*Chairman*

*Signed on behalf of the Board of Directors*

## DIRECTORS' RESPONSIBILITY STATEMENT

### IN RESPECT OF THE PREPARATION OF THE ANNUAL FINANCIAL REPORT

The Directors are responsible for preparing the annual financial report in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under the law the Directors have elected to prepare financial statements in accordance with applicable law and UK Accounting Standards (United Kingdom Generally Accepted Accounting Practice). 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 judgements and 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 which enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report, a Directors' Remuneration Report and a Corporate Governance Statement that comply with that law and those regulations.

In so far as each of the Directors is aware:

- there is no relevant audit information of which the Company's auditors are unaware; and
- the Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

The Directors of the Company each confirm to the best of their knowledge, that:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit of the Company; and
- this annual financial 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 that it faces.

**Scott Dobbie**

*Chairman*

*Signed on behalf of the Board of Directors*

31 May 2011

#### Electronic Publication

The annual financial report is published on [www.invescoperpetual.co.uk/investmenttrusts](http://www.invescoperpetual.co.uk/investmenttrusts) which is the Manager's website maintained by the Company's Manager. The work carried out by the Auditors does not involve consideration of the maintenance and integrity of this website and accordingly, the Auditors accept no responsibility for any changes that have occurred to the financial statements since they were initially presented on the website. Visitors to the website need to be aware that legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

## INDEPENDENT AUDITORS' REPORT

### TO THE MEMBERS OF THE EDINBURGH INVESTMENT TRUST

We have audited the financial statements of The Edinburgh Investment Trust for the year ended 31 March 2011 which comprise the Income Statement, the Reconciliation of Movements in Shareholders' Funds, the Balance Sheet, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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 Auditors' Report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

#### Respective Responsibilities of Directors and Auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 34, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

#### Scope of the Audit of the Financial Statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm).

#### Opinion on Financial Statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2011 and of its total return for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

#### Opinion 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;
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

#### Matters on which we are Required to Report by Exception

We have nothing to report in respect of the following:

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Directors' Statement in relation to going concern;
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

#### Salim Tharani (Senior Statutory Auditor)

*for and on behalf of KPMG Audit Plc, Statutory Auditor*  
Chartered Accountants  
Edinburgh

31 May 2011

## INCOME STATEMENT

FOR THE YEAR ENDED 31 MARCH

|   | NOTES | 2011             |                  |                | 2010             |                  |                |
|---|-------|------------------|------------------|----------------|------------------|------------------|----------------|
|   |       | REVENUE<br>£'000 | CAPITAL<br>£'000 | TOTAL<br>£'000 | REVENUE<br>£'000 | CAPITAL<br>£'000 | TOTAL<br>£'000 |
| Gains on investments  | 9(c)  | —                | 70,285           | 70,285         | —                | 212,356          | 212,356        |
| Foreign exchange losses   |       | —                | (131)            | (131)          | —                | (187)            | (187)          |
| Income  | 2     | 52,460           | —                | 52,460         | 46,958           | —                | 46,958         |
| Investment management fee   | 3     | (1,464)          | (3,417)          | (4,881)        | (1,224)          | (2,855)          | (4,079)        |
| VAT recovered on management fees                                      | 3     | 1,809            | 1,367            | 3,176          | 289              | 674              | 963            |
| Other expenses  | 4     | (775)            | (1)              | (776)          | (697)            | (6)              | (703)          |
| <b>Net return before finance costs and taxation</b>                   |       | <b>52,030</b>    | <b>68,103</b>    | <b>120,133</b> | <b>45,326</b>    | <b>209,982</b>   | <b>255,308</b> |
| Finance costs   | 5     | (5,851)          | (13,655)         | (19,506)       | (5,850)          | (13,652)         | (19,502)       |
| <b>Return on ordinary activities before tax</b>                       |       | <b>46,179</b>    | <b>54,448</b>    | <b>100,627</b> | <b>39,476</b>    | <b>196,330</b>   | <b>235,806</b> |
| Tax on ordinary activities  | 6     | (1,305)          | —                | (1,305)        | (809)            | —                | (809)          |
| <b>Return on ordinary activities after tax for the financial year</b> |       | <b>44,874</b>    | <b>54,448</b>    | <b>99,322</b>  | <b>38,667</b>    | <b>196,330</b>   | <b>234,997</b> |
| <b>Return per ordinary share</b>                                      |       |                  |                  |                |                  |                  |                |
| Basic   | 7     | 23.0p            | 27.9p            | 50.9p          | 19.8p            | 100.6p           | 120.4p         |

The total column of this statement represents the Company's profit and loss account, prepared in accordance with UK Accounting Standards. The supplementary revenue and capital columns are presented for information purposes in accordance with the Statement of Recommended Practice issued by the Association of Investment Companies. All items in the above statement derive from continuing operations and the Company has no other gains or losses therefore no statement of recognised gains or losses is presented. No operations were acquired or discontinued in the year.

## RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

FOR THE YEAR ENDED 31 MARCH

|                                   | SHARE            | SHARE            | CAPITAL                        | CAPITAL          | REVENUE          | TOTAL<br>£'000 |
|-----------------------------------|------------------|------------------|--------------------------------|------------------|------------------|----------------|
|                                   | CAPITAL<br>£'000 | PREMIUM<br>£'000 | REDEMPTION<br>RESERVE<br>£'000 | RESERVE<br>£'000 | RESERVE<br>£'000 |                |
| At 31 March 2009                  | 48,779           | 6,639            | 24,676                         | 501,670          | 59,636           | 641,400        |
| Dividends paid – note 8           | —                | —                | —                              | —                | (49,072)         | (49,072)       |
| Net return on ordinary activities | —                | —                | —                              | 196,330          | 38,667           | 234,997        |
| At 31 March 2010                  | 48,779           | 6,639            | 24,676                         | 698,000          | 49,231           | 827,325        |
| Dividends paid – note 8           | —                | —                | —                              | —                | (32,741)         | (32,741)       |
| Net return on ordinary activities | —                | —                | —                              | 54,448           | 44,874           | 99,322         |
| <b>At 31 March 2011</b>           | <b>48,779</b>    | <b>6,639</b>     | <b>24,676</b>                  | <b>752,448</b>   | <b>61,364</b>    | <b>893,906</b> |

The accompanying notes are an integral part of this statement.

## BALANCE SHEET

FOR THE YEAR ENDED 31 MARCH

|  | NOTES | 2011<br>£'000 | 2010<br>£'000 |
|--|-------|---------------|---------------|
| <b>Fixed assets</b>  |       |               |               |
| Investments held at fair value through profit or loss          | 9(a)  | 1,088,478     | 1,021,857     |
| <b>Current assets</b>  |       |               |               |
| Debtors  | 10    | 7,506         | 7,233         |
| Cash and cash funds  |       | 184           | 231           |
|  |       | 7,690         | 7,464         |
| <b>Creditors: amounts falling due within one year</b>          | 11    | (3,439)       | (3,426)       |
| <b>Net current assets</b>                                      |       | 4,251         | 4,038         |
| <b>Total assets less current liabilities</b>                   |       | 1,092,729     | 1,025,895     |
| <b>Creditors: amounts falling due after more than one year</b> |       |               |               |
| Provision  | 12    | (197,112)     | (196,859)     |
| Provision  | 13    | (1,711)       | (1,711)       |
| <b>Net assets</b>  |       | 893,906       | 827,325       |
| <b>Capital and reserves</b>                                    |       |               |               |
| Share capital  | 14    | 48,779        | 48,779        |
| Share premium  | 15    | 6,639         | 6,639         |
| Capital redemption reserve                                     | 15    | 24,676        | 24,676        |
| Capital reserve  | 15    | 752,448       | 698,000       |
| Revenue reserve  | 15    | 61,364        | 49,231        |
| <b>Shareholders' funds</b>                                     |       | 893,906       | 827,325       |
| <b>Net asset value per ordinary share</b>                      |       |               |               |
| Basic  | 16    | 456.66p       | 422.41p       |

These financial statements were approved and authorised for issue by the Board of Directors on 31 May 2011.

*Signed on behalf of the Board of Directors*

**Scott Dobbie**  
Chairman

*The accompanying notes are an integral part of this statement.*

## CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 MARCH

|  | NOTES | 2011<br>£'000 | 2010<br>£'000 |
|--|-------|---------------|---------------|
| Cash inflow from operating activities                                  | 17(a) | 47,725        | 37,919        |
| Servicing of finance   | 17(b) | (19,253)      | (19,250)      |
| Capital expenditure and financial investment                           | 17(b) | 4,353         | 30,816        |
| Equity dividends paid  | 8     | (32,741)      | (49,072)      |
| <hr/>  |       |               |               |
| Net cash inflow before management<br>of liquid resources and financing |       | 84            | 413           |
| <hr/>  |       |               |               |
| Increase in cash   |       | 84            | 413           |
| <hr/>  |       |               |               |
| Reconciliation of net cash flow to movement<br>in net debt             |       |               |               |
| Increase in cash   |       | 84            | 413           |
| Exchange movements   |       | (131)         | (187)         |
| Debenture stock non-cash movement                                      |       | (253)         | (252)         |
| <hr/>  |       |               |               |
| Movement in net debt in the year                                       |       | (300)         | (26)          |
| Net debt at beginning of year  |       | (196,628)     | (196,602)     |
| <hr/>  |       |               |               |
| Net debt at end of year  | 17(c) | (196,928)     | (196,628)     |

*The accompanying notes are an integral part of this statement.*

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Principal Accounting Policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied during the year and the preceding year, unless otherwise stated.

#### (a) Basis of preparation

##### *Accounting Standards Applied*

The financial statements have been prepared in accordance with applicable United Kingdom Accounting Standards and with the Statement of Recommended Practice ('SORP') 'Financial Statements of Investment Trust Companies and Venture Capital Trusts', issued by the Association of Investment Companies in January 2009. The financial statements are also prepared on a going concern basis.

#### (b) Foreign Currency

##### (i) *Functional and presentation currency*

The financial statements are presented in sterling, which is the Company's functional and presentation currency and the currency in which the Company's share capital and expenses, as well as its assets and liabilities, are denominated.

##### (ii) *Transactions and balances*

Transactions in foreign currency, whether of a revenue or capital nature, are translated to sterling at the rates of exchange ruling on the dates of such transactions. Foreign currency assets and liabilities are translated to sterling at the rates of exchange ruling at the balance sheet date. Any gains or losses, whether realised or unrealised, are taken to the capital reserve or to the revenue account, depending on whether the gain or loss is of a capital or revenue nature. All gains and losses are recognised in the income statement.

#### (c) Financial Instruments

##### (i) *Recognition of financial assets and financial liabilities*

The Company recognises financial assets and financial liabilities when the Company becomes a party to the contractual provisions of the instrument. The Company will offset financial assets and financial liabilities if the Company has a legally enforceable right to set off the recognised amounts and intends to settle on a net basis.

##### (ii) *Derecognition of financial assets*

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire or it transfers the right to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in the transferred financial asset that is created or retained by the Company is recognised as an asset.

##### (iii) *Derecognition of financial liabilities*

The Company derecognises financial liabilities when its obligations are discharged, cancelled or expired.

##### (iv) *Trade date accounting*

Purchases and sales of financial assets are recognised on trade date, being the date on which the Company commits to purchase or sell the assets.

##### (v) *Classification and measurement of financial assets and financial liabilities*

###### *Financial assets*

The Company's investments are classified as held at fair value through profit or loss.

Financial assets held at fair value through profit or loss are initially recognised at fair value, which is taken to be their cost, with transaction costs expensed in the income statement, and are subsequently valued at fair value.



## NOTES TO THE FINANCIAL STATEMENTS

continued

### 1. Principal Accounting Policies (continued)

#### (c) Financial Instruments (continued)

##### (v) *Classification and measurement of financial assets and financial liabilities (continued)*

Fair value for investments that are actively traded in organised financial markets is determined by reference to stock exchange quoted bid prices at the balance sheet date. Fair value for investments that are actively traded but where active stock exchange quoted bid prices are not available is determined by reference to a variety of valuation techniques including broker quotes and price modelling. Unquoted, unlisted or illiquid investments are valued by the Directors at fair value using a variety of valuation techniques including earnings multiples, recent transactions and other market indicators, cash flows and net assets.

##### *Financial liabilities*

Financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs and are subsequently measured at amortised cost using the effective interest method.

#### (d) Hedging and Derivatives

Forward currency contracts entered into for hedging purposes are valued at the appropriate forward exchange rate ruling at the balance sheet date. Profits or losses on the closure or revaluation of positions are included in capital reserves.

Futures contracts may be entered into for hedging purposes and any profits and losses on the closure or revaluation of positions are included in capital reserves.

Derivative instruments are valued at fair value in the balance sheet. Derivative instruments may be capital or revenue in nature and, accordingly, changes in their fair value are recognised in revenue or capital in the income statement as appropriate.

#### (e) Income

Interest income arising from fixed income securities and cash is recognised in the income statement using the effective interest method. Dividend income arises from equity investments held and is recognised on the date investments are marked 'ex-dividend'. Deposit interest and underwriting commission receivable are taken into account on an accruals basis.

#### (f) Expenses and Finance Costs

Expenses are recognised on an accruals basis and finance costs are recognised using the effective interest method in the income statement.

The investment management fee and finance costs are allocated 70% to capital and 30% to revenue. This is in accordance with the Board's expected long-term split of returns, in the form of capital gains and income respectively, from the portfolio.

The performance fee is allocated wholly to capital as it arises from capital returns on the portfolio.

Expenses in connection with the previous year's change of manager and transaction costs are recognised in capital in the income statement. All other expenses are allocated to revenue in the income statement.

#### (g) Taxation

The liability to corporation tax is based on net revenue for the year, excluding non-taxable dividends. The tax charge is allocated between the revenue and capital account on the marginal basis whereby revenue expenses are matched first against taxable income in the revenue account.

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax or a right to pay less tax in the future have occurred. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements. Deferred taxation assets are recognised where, in the opinion of the directors, it is more likely than not that these amounts will be realised in future periods.

A deferred tax asset is only recognised in respect of surplus management expenses, losses on loan relationships and eligible unrelieved foreign tax to the extent that the Company is likely to have sufficient future taxable revenue to offset against these.

#### (h) Dividends Payable

Dividends are not recognised in the accounts unless there is an obligation to pay at the balance sheet date. Proposed dividends are recognised in the year in which they are paid to shareholders.

## 2. Income

|   | 2011<br>£'000 | 2010<br>£'000 |
|---|---------------|---------------|
| <b>Income from listed investments</b>                 |               |               |
| UK dividends  | 39,841        | 38,795        |
| Scrip dividends                                       | 689           | 870           |
| Overseas dividends                                    | 9,314         | 5,936         |
| UK unfranked investment income – interest             | —             | 1,190         |
| Income from money market funds                        | 9             | 7             |
|   | 49,853        | 46,798        |
| <b>Other income</b>                                   |               |               |
| Deposit interest                                      | —             | 1             |
| Interest on VAT recovered on management fees (note 3) | 2,459         | —             |
| Underwriting commission                               | 148           | 111           |
| Sundry income   | —             | 48            |
| <b>Total income</b>                                   | <b>52,460</b> | <b>46,958</b> |

## 3. Investment Management Fees

|                           | 2011             |                  |                | 2010             |                  |                |
|---------------------------|------------------|------------------|----------------|------------------|------------------|----------------|
|                           | REVENUE<br>£'000 | CAPITAL<br>£'000 | TOTAL<br>£'000 | REVENUE<br>£'000 | CAPITAL<br>£'000 | TOTAL<br>£'000 |
| Investment management fee | 1,464            | 3,417            | 4,881          | 1,224            | 2,855            | 4,079          |
| Performance fee           | —                | —                | —              | —                | —                | —              |
|                           | 1,464            | 3,417            | 4,881          | 1,224            | 2,855            | 4,079          |

Details of the investment management agreement are disclosed on page 22 in the Report of the Directors. At 31 March 2011 investment management fees of £435,000 (2010: £387,000) were accrued. No performance fee is due or accrued for the year ended 31 March 2011 (2010: none). At 31 March 2011, the performance fee of £1,711,000 became payable.

An amount of £3,176,000 (2010: £963,000) has been recognised in these accounts in respect of VAT recovered on management fees paid to a previous manager, Aberdeen Asset Management ('Aberdeen'). The recovered VAT has been credited £1,809,000 (2010: £289,000) to revenue and £1,367,000 to capital (2010: £674,000), in the same proportion as originally charged to the income statement. Interest recovered thereon of £2,459,000 (2010: none recovered) is credited wholly to revenue.

## NOTES TO THE FINANCIAL STATEMENTS

continued

## 4. Other Expenses

|   | 2011             |                  |                | 2010             |                  |                |
|---|------------------|------------------|----------------|------------------|------------------|----------------|
|   | REVENUE<br>£'000 | CAPITAL<br>£'000 | TOTAL<br>£'000 | REVENUE<br>£'000 | CAPITAL<br>£'000 | TOTAL<br>£'000 |
| Other expenses  | 775              | 1                | 776            | 697              | 6                | 703            |
| Other expenses include the following:                 |                  |                  |                |                  |                  |                |
| Directors' fees                                       | 171              | —                | 171            | 171              | —                | 171            |
| Fees payable to the Company's auditor in relation to: |                  |                  |                |                  |                  |                |
| – the audit of the financial statements               | 22               | —                | 22             | 21               | —                | 21             |
| – for other services                                  | 7                | —                | 7              | 7                | —                | 7              |

The Directors' fees authorised by the Articles of Association are £250,000 per annum. The Directors' Remuneration Report provides further information on Directors' fees for the year.

Fees payable to the Company's auditor for other services relate to fees and expenses payable to the auditor for their review in connection with the half-yearly financial statements and the annual certificate to the trustee of the debenture stocks, which are recognised in revenue. Fees payable to the Company's auditor are shown excluding VAT, which is included in other expenses.

## 5. Finance Costs

|  | 2011             |                  |                | 2010             |                  |                |
|--|------------------|------------------|----------------|------------------|------------------|----------------|
|  | REVENUE<br>£'000 | CAPITAL<br>£'000 | TOTAL<br>£'000 | REVENUE<br>£'000 | CAPITAL<br>£'000 | TOTAL<br>£'000 |
| Interest payable on borrowings repayable not by instalments: |                  |                  |                |                  |                  |                |
| Overdraft interest   | 1                | 2                | 3              | —                | —                | —              |
| Debenture stock repayable within 5 years                     | 3,450            | 8,050            | 11,500         | 3,450            | 8,050            | 11,500         |
| Debenture stock repayable after 5 years                      | 2,325            | 5,425            | 7,750          | 2,325            | 5,425            | 7,750          |
| Amortised debenture stock discount and issue costs           | 75               | 178              | 253            | 75               | 177              | 252            |
|  | 5,851            | 13,655           | 19,506         | 5,850            | 13,652           | 19,502         |

## 6. Taxation

### (a) Current tax charge

|              | 2011  | 2010  |
|--------------|-------|-------|
|              | £'000 | £'000 |
| Overseas tax | 1,305 | 809   |

### (b) Reconciliation of current tax charge

|   | 2011     | 2010     |
|---|----------|----------|
|   | £'000    | £'000    |
| Total return on ordinary activities before taxation                                   | 100,627  | 235,806  |
| UK Corporation Tax rate of 28% (2010: 28%)  | 28,175   | 66,026   |
| Effect of:  |          |          |
| – non-taxable gains on investments  | (19,680) | (59,460) |
| – non-taxable losses on foreign exchange movements                                    | 37       | 52       |
| – non-taxable UK dividends  | (11,349) | (11,106) |
| – non-taxable overseas dividends  | (2,607)  | (1,142)  |
| – expenses and finance costs in excess of taxable income for the year carried forward | 5,418    | 5,630    |
| – disallowed expenses   | 6        | —        |
| – overseas tax  | 1,305    | 809      |
| Current tax charge for the year   | 1,305    | 809      |

### (c) Deferred tax

Due to the Company's status as an investment company, and its intention to continue meeting the conditions required to obtain approval in the foreseeable future, the Company has not provided deferred tax on any capital gains and losses arising on the revaluation or disposal of investments.

### (d) Factors that may affect future tax changes

The Company has surplus management expenses and losses on loan relationships of £291,026,000 (2010: £271,684,000) that are available to offset future taxable revenue. A deferred tax asset has not been recognised in respect of these expenses since the Directors believe that there will be no taxable profits in the future against which the deferred tax assets can be offset.

## 7. Return per Ordinary Share

The basic, capital and total returns per ordinary share are based on each return on ordinary shares after tax and on 195,116,734 (2010: 195,116,734) ordinary shares, being the weighted average number of shares in issue during the year.

## NOTES TO THE FINANCIAL STATEMENTS

continued

## 8. Dividends

|   | 2011  |        | 2010  |        |
|---|-------|--------|-------|--------|
|   | pence | £'000  | pence | £'000  |
| Dividends paid and recognised in the year:          |       |        |       |        |
| Third interim paid in respect of previous year      | —     | —      | 4.75  | 9,268  |
| Final paid in respect of previous year              | 6.35  | 12,390 | 6.15  | 12,000 |
| First interim paid                                  | 4.75  | 9,268  | 4.75  | 9,268  |
| Special paid  | 0.93  | 1,815  | —     | —      |
| Second interim paid                                 | 4.75  | 9,268  | 4.75  | 9,268  |
| Third interim paid                                  | —     | —      | 4.75  | 9,268  |
|   | 16.78 | 32,741 | 25.15 | 49,072 |
| Dividends on shares payable in respect of the year: |       |        |       |        |
| First interim                                       | 4.75  | 9,268  | 4.75  | 9,268  |
| First special                                       | 0.93  | 1,815  | —     | —      |
| Second interim                                      | 4.75  | 9,268  | 4.75  | 9,268  |
| Third interim                                       | 4.75  | 9,268  | 4.75  | 9,268  |
| Second special                                      | 1.26  | 2,458  | —     | —      |
| Proposed final                                      | 6.55  | 12,780 | 6.35  | 12,390 |
|   | 22.99 | 44,857 | 20.60 | 40,194 |

The proposed final dividend is subject to approval by Ordinary Shareholders at the AGM.

## 9. Investments

## (a) Analysis of investments by listing status

|   | 2011      | 2010      |
|---|-----------|-----------|
|   | £'000     | £'000     |
| Investments listed on recognised stock exchange | 1,083,344 | 1,016,723 |
| Unlisted investments at Directors' valuation    | 5,134     | 5,134     |
|   | 1,088,478 | 1,021,857 |

## (b) Analysis of investments gains and losses

|   | 2011      | 2010      |
|---|-----------|-----------|
|   | £'000     | £'000     |
| Opening book cost                         | 950,170   | 978,406   |
| Opening investment holding gains/(losses) | 71,687    | (138,944) |
| Opening valuation                         | 1,021,857 | 839,462   |
| <b>Movements in year:</b>                 |           |           |
| Purchases at cost                         | 168,681   | 202,667   |
| Sales – proceeds                          | (172,345) | (232,628) |
| – net realised gains on sales             | 11,198    | 1,725     |
| Movement in investment holding gains      | 59,087    | 210,631   |
| Closing valuation                         | 1,088,478 | 1,021,857 |
| Closing book cost                         | 957,704   | 950,170   |
| Closing investment holding gains          | 130,774   | 71,687    |
| Closing valuation                         | 1,088,478 | 1,021,857 |

There were no purchases or sales of unlisted investments during the year (2010: £nil).

**(c) Gains on investments**

|                                      | 2011   | 2010    |
|--------------------------------------|--------|---------|
|                                      | £'000  | £'000   |
| Realised gains on sales              | 11,198 | 1,725   |
| Movement in investment holding gains | 59,087 | 210,631 |
| Gains on investments                 | 70,285 | 212,356 |

**(d) Transaction costs**

Transaction costs on purchases of £859,000 (2010: £1,066,000) and on sales of £193,000 (2010: £328,000) are included within gains and losses on investments.

**(e) Significant holdings**

At 31 March 2011 the Company holds 3% or more of the number in issue of the following investments:

| <i>Issuer</i> | <i>Country of Incorporation</i> | <i>Instrument</i>                       | <i>% held</i> |
|---------------|---------------------------------|---|---------------|
| Barclays Bank | England & Wales                 | Nuclear Power Notes<br>28 February 2019 | 4.4           |
| Proximagen    | England & Wales                 | Ordinary shares                         | 3.1           |
| Raven Russia  | Guernsey                        | Preference shares                       | 3.0           |

**10. Debtors**

|                                | 2011  | 2010  |
|--------------------------------|-------|-------|
|                                | £'000 | £'000 |
| Prepayments and accrued income | 6,843 | 7,146 |
| Tax recoverable                | 663   | 87    |
|                                | 7,506 | 7,233 |

**11. Creditors: amounts falling due within one year**

|                                  | 2011  | 2010  |
|----------------------------------|-------|-------|
|                                  | £'000 | £'000 |
| Interest due on debenture stocks | 2,836 | 2,836 |
| Accruals                         | 603   | 590   |
|                                  | 3,439 | 3,426 |

**12. Creditors: amounts falling due after more than one year**

|   | 2011    | 2010    |
|---|---------|---------|
|   | £'000   | £'000   |
| Debenture Stock:  |         |         |
| 11½% redeemable 30 June 2014                                | 100,000 | 100,000 |
| 7¾% redeemable 30 September 2022                            | 100,000 | 100,000 |
|   | 200,000 | 200,000 |
| Unamortised discount and issue expenses on debenture stocks | (2,888) | (3,141) |
|   | 197,112 | 196,859 |

Both debentures are secured by a floating charge on the Company. The interest on the debentures is payable in half-yearly installments. The interest on the 11½% debenture is payable in June and December, and the interest on the 7¾% debenture is payable in March and September, each year.

The effect on the net asset value of deducting the debenture stocks at market value, rather than at par, is disclosed in note 16.

## NOTES TO THE FINANCIAL STATEMENTS

continued

## 13. Provisions

|                          | 2011<br>£'000 | 2010<br>£'000 |
|--------------------------|---------------|---------------|
| Performance-related fee: |               |               |
| Opening provision        | 1,711         | 1,711         |
| Charge in the year       | —             | —             |
| .....                    |               |               |
| Closing provision        | 1,711         | 1,711         |

Details of the performance fee are given in the Report of the Directors on page 22.

## 14. Share Capital

|   | 2011        |        | 2010        |        |
|---|-------------|--------|-------------|--------|
|   | NUMBER      | £'000  | NUMBER      | £'000  |
| <b>Authorised</b>                         |             |        |             |        |
| Ordinary shares of 25p each               | 316,099,929 | 79,025 | 316,099,929 | 79,025 |
| <b>Allotted, called-up and fully paid</b> |             |        |             |        |
| Ordinary shares of 25p each               | 195,116,734 | 48,779 | 195,116,734 | 48,779 |

## 15. Reserves

The capital redemption reserve maintains the equity share capital arising from the buy back and cancellation of shares; it, and the share premium, are non-distributable.

The capital reserve includes the investment holding gains, being the difference between cost and market value at the balance sheet date, totalling a gain of £130,774,000 (2010: £71,687,000). The capital reserve is non-distributable however the realised element can be used to fund share buy backs.

The revenue reserve is the only reserve that is distributable by way of dividend.

## 16. Net Asset Value ('NAV') per Ordinary Share

## (a) NAV – debt at par

The shareholders' funds in the balance sheet are accounted for in accordance with accounting standards, however, this does not reflect the rights of shareholders on a return of assets under the Articles of Association. These rights are reflected in the net assets with debt at par and the corresponding NAV per share. A reconciliation between the two sets of figures follows:

|  | 2011                           |         | 2010                           |         |
|--|--------------------------------|---------|--------------------------------|---------|
|  | NAV SHAREHOLDERS'<br>PER SHARE | FUNDS   | NAV SHAREHOLDERS'<br>PER SHARE | FUNDS   |
|  | PENCE                          | £'000   | PENCE                          | £'000   |
| Shareholders' funds  | 458.14                         | 893,906 | 424.02                         | 827,325 |
| Less: Unamortised discount and expenses arising from debenture issue | (1.48)                         | (2,888) | (1.61)                         | (3,141) |
| .....  |                                |         |                                |         |
| NAV – debt at par  | 456.66                         | 891,018 | 422.41                         | 824,184 |

**(b) NAV – debt at market value**

The market value of the debenture stocks is determined by reference to the daily closing price. This is the Bloomberg closing price, subject to review against other data providers to ensure consistency between data providers and against the reference gilts.

The net asset value per share adjusted to include the debenture stocks at market value rather than at par is as follows:

|                                | 2011               |                | 2010               |                |
|--------------------------------|--------------------|----------------|--------------------|----------------|
|                                | NAV SHAREHOLDERS'  |                | NAV SHAREHOLDERS'  |                |
|                                | PER SHARE<br>PENCE | FUNDS<br>£'000 | PER SHARE<br>PENCE | FUNDS<br>£'000 |
| NAV – debt at par              | 456.66             | 891,018        | 422.41             | 824,184        |
| Debt at par                    | 102.50             | 200,000        | 102.50             | 200,000        |
| <b>Debt at market value</b>    |                    |                |                    |                |
| – 11½% Debenture<br>Stock 2014 | (63.59)            | (124,081)      | (64.65)            | (126,136)      |
| – 7¾% Debenture<br>Stock 2022  | (61.55)            | (120,102)      | (61.34)            | (119,690)      |
| NAV – debt at market<br>value  | 434.02             | 846,835        | 398.92             | 778,358        |

The number of ordinary shares in issue at the year end was 195,116,734 (2010: 195,116,734).

**17. Notes to the Cash Flow Statement****(a) Reconciliation of operating profit to operating cash flows**

|   | 2011<br>£'000 | 2010<br>£'000 |
|---|---------------|---------------|
| Total return before finance costs and taxation  | 120,133       | 255,308       |
| Scrip dividends received as income              | (689)         | (870)         |
| Adjustment for gains on investments             | (70,285)      | (212,356)     |
| Adjustment for exchange losses                  | 131           | 187           |
| Increase in debtors                             | (273)         | (1,535)       |
| Increase/(decrease) in creditors and provisions | 13            | (2,006)       |
| Tax on overseas investment income               | (1,305)       | (809)         |
| Net cash inflow from operating activities       | 47,725        | 37,919        |

**(b) Analysis of cash flow for headings netted in the cash flow statement**

|  | 2011<br>£'000 | 2010<br>£'000 |
|--|---------------|---------------|
| <b>Servicing of finance</b>  |               |               |
| Overdraft interest   | (3)           | —             |
| Interest paid on debenture stocks  | (19,250)      | (19,250)      |
| Net cash outflow from servicing of finance                               | (19,253)      | (19,250)      |
| <b>Capital expenditure and financial investment</b>                      |               |               |
| Purchase of investments, excluding scrip dividends<br>received as income | (167,992)     | (201,812)     |
| Sale of investments  | 172,345       | 232,628       |
| Net cash inflow from capital expenditure and<br>financial investments    | 4,353         | 30,816        |



## NOTES TO THE FINANCIAL STATEMENTS

continued

## 17. Notes to the Cash Flow Statement (continued)

## (c) Analysis of changes in net debt

|              | 31 MARCH<br>2010<br>£'000 | CASH<br>FLOW<br>£'000 | EXCHANGE<br>MOVEMENTS<br>£'000 | DEBENTURE<br>STOCK<br>NON-CASH<br>MOVEMENT<br>£'000 | 31 MARCH<br>2011<br>£'000 |
|--------------|---------------------------|-----------------------|--------------------------------|---|---------------------------|
| Cash at bank | 231                       | 84                    | (131)                          | —   | 184                       |
| Debentures   | (196,859)                 | —                     | —                              | (253)   | (197,112)                 |
| Net debt     | (196,628)                 | 84                    | (131)                          | (253)   | (196,928)                 |

## 18. Risk Management and Financial Instruments

**Financial instruments**

The Company's financial instruments mainly comprise its investment portfolio (as shown on page 10) and debentures as well as its cash, debtors and creditors that arise directly from its operations such as sales and purchases awaiting settlement and accrued income. The accounting policies in note 1 include criteria for the recognition and the basis of measurement applied for financial instruments. Note 1 also includes the basis on which income and expenses arising from financial assets and liabilities are recognised and measured.

The principal risks that an investment company faces in its portfolio management activities are set out below:

**Market risk** – arising from fluctuations in the fair value or future cash flows of a financial instrument because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk:

**Currency risk** – arising from fluctuations in the fair value or future cash flows of a financial instrument because of changes in foreign exchange rates;

**Interest rate risk** – arising from fluctuations in the fair value or future cash flows of a financial instrument because of changes in market interest rates; and

**Other price risk** – arising from fluctuations in the fair value or future cash flows of a financial instrument for reasons other than changes in foreign exchange rates or market interest rates.

**Liquidity risk** – arising from any difficulty in meeting obligations associated with financial liabilities.

**Credit risk** – arising from financial loss for a company where the other party to a financial instrument fails to discharge an obligation.

**Risk Management Policies and Procedures**

The Directors have delegated to the Manager the responsibility for the day-to-day investment activities and management of gearing of the Company as more fully described in the Report of the Directors.

As an investment trust the Company invests in equities and other investments for the long-term so as to meet its investment policy (incorporating the Company's investment objective). In pursuing its investment objective, the Company is exposed to a variety of risks that could result in either a reduction in the Company's net assets or a reduction of the profits available for dividends. These policies are summarised below and have remained substantially unchanged for the two years under review.

**Market Risk**

The Company's Manager assesses the Company's exposure when making each investment decision, and monitors the overall level of market risk for the whole of the investment portfolio on an ongoing basis. The Board meets at least quarterly to assess risk and review investment performance, as disclosed in the Board Responsibilities on page 29. The debentures provide structural gearing which is used to enhance returns, however, this will also increase the Company's exposure to market risk and volatility.

**Currency risk**

The majority of the Company's assets and all of its liabilities are denominated in sterling. Forward currency contracts may be entered into for hedging purposes however, none were held during the

year or at the year end. All contracts are limited to currencies and amounts commensurate with the asset exposure of those currencies.

The Company may invest up to 15% of the portfolio in securities listed on non-UK stock exchanges. At the year end holdings of non-UK securities total £162.0 million (2010: £102.1 million) representing 14.9% (2010: 10%) of the portfolio.

If sterling had weakened by 3.2% for US dollar and 4.0% for Swiss franc during the year, the income statement capital return and net assets of the Company would have increased by £5.6 million (2010: £3.9 million). Conversely, if sterling had strengthened by the same percentage for the currencies mentioned above, the capital return and net assets of the Company would have decreased by the same amount. The exchange rate variances of  $\pm 3.2\%$  for US dollar and  $\pm 4.0\%$  for Swiss francs (2010:  $\pm 3.9\%$  and  $\pm 3.1\%$  respectively) have been determined based on market volatility in the year, using the standard deviation of sterling's fluctuation to the applicable currency.

#### *Interest rate risk*

Interest rate movements will affect the level of income receivable on cash deposits and money market funds, and the interest payable on variable rate borrowings. When the Company has cash balances, they are held on variable rate bank accounts yielding rates of interest dependent on the base rate determined by the Custodian, The Bank of New York Mellon.

The Company has an uncommitted bank overdraft facility which it uses for settlement purposes. This facility has not been used during the year.

All of the Company's long term debt of £200 million of debenture stocks is fixed which exposes the Company to changes in market value in the event that the debt is repaid before maturity. Details of the debenture stock interest is shown in note 12, with details of its market value and the affect on net asset value in note 16.

The Company can invest in fixed income securities although at the year end none were held (2010: £nil).

#### *Interest rate exposure*

At 31 March the exposure of financial assets and financial liabilities to interest rate risk is shown by reference to:

- floating interest rates (giving cash flow interest rate risk) - when the interest rate is due to be re-set; and
- fixed interest rates (giving fair value interest rate risk) - when the financial instrument is due for repayment.

|  | 2011  |                            |                                     |                | 2010  |                            |                                     |                |
|--|---|----------------------------|-------------------------------------|----------------|---|----------------------------|-------------------------------------|----------------|
|  | BETWEEN<br>WITHIN ONE<br>AND ONE<br>YEAR<br>£'000 | AND FIVE<br>YEARS<br>£'000 | MORE<br>THAN FIVE<br>YEARS<br>£'000 | TOTAL<br>£'000 | BETWEEN<br>WITHIN ONE<br>AND ONE<br>YEAR<br>£'000 | AND FIVE<br>YEARS<br>£'000 | MORE<br>THAN FIVE<br>YEARS<br>£'000 | TOTAL<br>£'000 |
| Exposure to floating interest rates:<br>Cash and money market funds                                | 184   | —                          | —                                   | 184            | 231   | —                          | —                                   | 231            |
| Exposure to fixed interest rates:<br>Debentures, excluding unamortised discount and issue expenses | —   | (100,000)                  | (100,000)                           | (200,000)      | —   | (100,000)                  | (100,000)                           | (200,000)      |
| Total exposure to interest rates   | 184   | (100,000)                  | (100,000)                           | (199,816)      | 231   | (100,000)                  | (100,000)                           | (199,769)      |

No fixed interest investments were held at the year end.

## NOTES TO THE FINANCIAL STATEMENTS

continued

## 18. Risk Management and Financial Instruments (continued)

*Other price risk*

Other price risks (i.e. changes in market prices other than those arising from interest rate risk or currency risk) may affect the value of the equity investments, but it is the business of the Manager to manage the portfolio to achieve the best return that he can.

*Management of the other price risk*

The Directors manage the market price risks inherent in the investment portfolio by meeting regularly to monitor on a formal basis the Manager's compliance with the Company's stated objectives and policies and to review investment performance.

The Company's portfolio is the result of the Manager's investment process and need not be highly correlated with the Company's benchmark or the market in which the Company invests. The value of the portfolio will not move in line with the market but will move as a result of the performance of the company shares within the portfolio.

If the value of the portfolio fell by 10% at the balance sheet date, the profit after tax for the year and the net assets of the Company would decrease by £109 million (2010: £102 million). Conversely, if the value of the portfolio rose by 10%, the profit after tax and the net assets of the Company would increase by the £109 million (2010: £102 million).

**Liquidity risk** is minimised as the majority of the Company's investments comprise a diversified portfolio of readily realisable securities which can be sold to meet funding commitments as necessary. In addition, the Company has an overdraft facility which it can use to provide short-term funding flexibility.

**Credit risk** encompasses the failure by counterparties to deliver securities which the Company has paid for, or to pay for securities which the Company has delivered, and cash balances. Counterparty risk is minimised by using only approved counterparties. The Company's ability to operate in the short-term may be adversely affected if the Company's custodian suffers insolvency or other financial difficulties. The Board reviews the custodian's annual controls report and the Manager's management of the relationship with the custodian. Cash balances are limited to a maximum of £5 million with any one depository, with only approved depositories being used, and a maximum deposit of £75 million with AIM Short-Term Investments Company (Global Series) plc, a triple-A rated money market fund.

**Values of Financial Assets and Financial Liabilities**

The values of the financial assets and financial liabilities are carried in the balance sheet at their fair value (investments), or the balance sheet amount is a reasonable approximation of fair value (amounts due from brokers, dividends receivable, accrued income, amounts due to brokers, accruals and cash) or at amortised cost (debentures). The book cost and fair value of the debentures, based on the mid-market value at the balance sheet date, are as follows:

|   | BOOK<br>VALUE<br>2011<br>£'000 | FAIR<br>VALUE<br>2011<br>£'000 | BOOK<br>VALUE<br>2010<br>£'000 | FAIR<br>VALUE<br>2010<br>£'000 |
|---|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| <b>Debentures repayable between one and five years:</b> |                                |                                |                                |                                |
| 11½% Debenture Stock 2014                               | 100,000                        | 124,081                        | 100,000                        | 126,136                        |
| Debentures repayable in more than five years:           |                                |                                |                                |                                |
| 7¼% Debenture Stock 2022                                | 100,000                        | 120,102                        | 100,000                        | 119,690                        |
| Discount on issue of debentures                         | (2,888)                        | —                              | (3,141)                        | —                              |
|   | 197,112                        | 244,183                        | 196,859                        | 245,826                        |

Incorporating the fair value of the debentures results in the reduction of the net asset value per ordinary share to 434.02p (2010: 398.92p).

### Fair Value of Hierarchy Disclosures

All except one of the Company's portfolio of investments are in the Level 1 category as defined in FRS 29 'Financial Instruments: Disclosures'. The three levels set out in FRS 29 follow.

Level 1 – fair value based on quoted prices in active markets for identical assets.

Level 2 – fair values based on valuation techniques using observable inputs other than quoted prices within Level 1.

Level 3 – fair values based on valuation techniques using inputs that are not based on observable market data.

Categorisation within the hierarchy is determined on the basis of the lowest level input that is significant to the fair value measurement of each relevant asset/liability.

The valuation techniques used by the Company are explained in the accounting policies note. All except one of the Company's investments are Level 1 with one investment in Level 2. There were no transfers between the levels during the year.

The sole investment in Level 2 comprised the Company's holding of Barclays Bank - Nuclear Power Notes, which was valued at £5.1 million (2010: £5.1 million).

### Maturity Analysis of Contractual Liability Cash Flows

The financial liabilities of the Company are shown in notes 11 and 12. The major liabilities are the two debenture stocks with £100 million payable on 30 June 2014, the other £100 million payable on 30 September 2022 and interest payments totalling £11.5 million and £7.75 million per annum respectively. Other liabilities comprise amounts due to brokers and accruals. All are paid under contractual terms. For amounts due to brokers, this is usually the purchase date of the investment plus three business days. For accruals, this is normally within 30 business days of invoice or, in the case of management fees, in accordance with the management agreement.

### Capital Management

The Company does not have any externally imposed capital requirements. The Company's capital is disclosed in the balance sheet and is managed on a basis consistent with its investment objective and policies, as disclosed in the Report of the Directors' on page 15. The principal risks and their management are discussed above.

## 19. Contingencies, Guarantees and Financial Commitments

There were no contingencies, guarantees or financial commitments of the Company at the year end.

## 20. Related Party Transactions

Invesco Asset Management Limited ('IAML'), a wholly owned subsidiary of Invesco Limited, is Manager, Company Secretary and Administrator to the Company. Details of management fees payable to IAML, together with details of Directors' interests, are disclosed in the Report of the Directors. There are no other related party transactions.

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to what action to take, you should consult your stockbroker, solicitor, accountant or other appropriate independent professional adviser authorised under the Financial Services and Markets Act 2000. If you have sold or otherwise transferred all your shares in The Edinburgh Investment Trust plc, please forward this document and the accompanying Form of Proxy to the person through whom the sale or transfer was effected, for transmission to the purchaser or transferee.**

## NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the one hundred and twenty second Annual General Meeting of The Edinburgh Investment Trust plc will be held at The Weston Link, National Galleries of Scotland, Princes Street, Edinburgh on Friday, 22 July 2011 at 11.00 am, for the following purposes:

### Ordinary Business

1. To receive and adopt the Annual Accounts and Reports for the year ended 31 March 2011;
2. To declare a final dividend on the ordinary shares;
3. To re-elect Jim Pettigrew as a Director of the Company;
4. To re-elect Richard Barfield as a Director of the Company;
5. To re-elect Nicola Ralston as a Director of the Company;
6. To re-elect William Samuel as a Director of the Company;
7. To re-elect Sir Nigel Wicks as a Director of the Company;
8. To elect Gordon McQueen as a Director of the Company;
9. To receive and adopt the Directors' Remuneration Report for the year ended 31 March 2011;
10. To re-appoint KPMG Audit Plc as Auditors of the Company; and
11. To authorise the Directors to determine the remuneration of the Auditors.

### Special Business

To consider and, if thought fit, to pass the following resolutions of which resolution 12 will be proposed as an Ordinary Resolution and resolutions 13, 14, 15 and 16 as Special Resolutions:

12. THAT:

in substitution for any existing authority under section 551 of the Companies Act 2006 (the 'Act') the Directors be generally and unconditionally authorised in accordance with section 551 of the Act as amended from time to time prior to the date of the passing of this resolution, to exercise all powers of the Company to allot shares and grant rights to subscribe for, or convert any securities into, shares up to an aggregate nominal amount (within the meaning of sections 551(3) and (6) of the Act) of £4,877,918, this being 10% of the Company's issued ordinary share capital as at 31 May 2011, such authority to expire at the conclusion of the next AGM of the Company or the date fifteen months after the passing of this resolution, whichever is the earlier, but so that this authority shall allow the Company to make offers or agreements before the expiry of this authority which would or might require shares to be allotted, or rights to be granted, after such expiry as if the authority conferred by this resolution had not expired.

13. THAT:

subject to the passing of resolution number 12 and in substitution for any existing authority under sections 570 and 573 of the Act but without prejudice to the exercise of any such authority prior to the date of this resolution, the Directors be and are hereby empowered, in accordance with sections 570 and 573 of the Act as amended from time to time prior to the date of the passing of this resolution to allot equity securities (within the meaning of section 560(1), (2) and (3) of the Act) for cash, either pursuant to the authority given by resolution 12 set out above or (if such allotment constitutes the sale of relevant shares which, immediately before the sale, were held by the Company as treasury shares) otherwise, as if section 561 of the Act did not apply to any such allotment, provided that this power shall be limited:

- (a) to the allotment of equity securities in connection with a rights issue in favour of all holders of a class of equity securities where the equity securities attributable respectively to the interests of all holders of securities of such class are either proportionate (as nearly as may be) to the respective numbers of relevant equity securities held by them or are otherwise allotted in accordance with the rights attaching to such equity securities (subject in either case to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or legal or practical problems under the laws of, or the requirements of, any regulatory body or any stock exchange in any territory or otherwise); and
- (b) to the allotment (otherwise than pursuant to a rights issue) of equity securities up to an aggregate nominal amount of £4,877,918, this being 10% of the Company's issued ordinary share capital as at 31 May 2011

and this power shall expire at the conclusion of the next AGM of the Company or the date fifteen months after the passing of this resolution, whichever is the earlier, but so that this power shall allow the Company to make offers or agreements before the expiry of this power which would or might require equity securities to be allotted after such expiry as if the power conferred by this resolution had not expired; and so that words and expressions defined in or for the purposes of Part 17 of the Act shall bear the same meanings in this resolution.

14. THAT:

the Company be generally and subject as hereinafter appears unconditionally authorised in accordance with section 701 of the Act to make market purchases (within the meaning of section 163 of the Act) of the issued ordinary shares of 25p each in the capital of the Company ('Shares')

PROVIDED ALWAYS THAT:

- (a) the maximum number of Shares hereby authorised to be purchased shall be 29,247,998 ordinary shares (being 14.99% of the issued ordinary share capital of the Company as at 31 May 2011);
- (b) the minimum price which may be paid for a Share shall be 25p;
- (c) the maximum price which may be paid for a Share shall be an amount equal to 105% of the average of the middle market quotations for a Share taken from and calculated by reference to the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the Share is purchased;
- (d) any purchase of Shares will be made in the market for cash at prices below the prevailing net asset value per Share (as determined by the Directors);
- (e) the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company, or on 20 January 2013 if earlier, unless the authority is renewed at any other general meeting prior to such time; and
- (f) the Company may make a contract to purchase Shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiration of such authority and may make a purchase of Shares pursuant to any such contract.

15. THAT:

the Investment Policy as set out on page 14 be amended as follows:

The Company may invest up to 20% of the market value of the Company's investment portfolio, measured at the time of any acquisition, in securities listed on stock exchanges outside the UK.

# NOTICE OF ANNUAL GENERAL MEETING

continued

16. THAT:

the period of notice required for general meetings of the Company (other than AGMs) shall be not less than 14 days.

**Explanatory Notes to Resolution 16**  
**Notice of period for general meetings**

This resolution is required as the implementation of the EU Shareholder Rights Directive has increased the notice period for general meetings of companies to 21 days unless certain conditions are met in which case it may be 14 days. To ensure that the Company's general meetings (other than AGMs) may be held on 14 days' notice, a shareholder resolution reducing the period of notice to not less than 14 days must have been passed at the immediately preceding AGM.

For an explanation of all Special Business please refer to the Report of the Directors on page 21.

Dated this 31 May 2011

By order of the Board

**Invesco Asset Management Limited**

Secretary

*Following the Annual General Meeting, shareholders will have the opportunity to meet the Board and representatives from the Manager informally. Refreshments will be served.*

**Notes:**

1. A member entitled to attend and vote at the AGM is entitled to appoint one or more proxies to attend and, on a poll, to vote in his stead. Where more than one proxy is appointed, each proxy must be appointed to exercise the rights attached to a different share or shares. A proxy need not be a member of the Company. In order to be valid an appointment of proxy must be returned by one of the following methods:
  - via Capita Registrar's website [www.capitashareportal.com](http://www.capitashareportal.com); or
  - in hard copy form by post, by courier or by hand to the Company's Registrars, Capita Registrars, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU; or
  - in the case of CREST members, by utilising the CREST electronic proxy appointment service in accordance with the procedures set out below

and in each case to be received by the Company not less than 48 hours before the time of the meeting.
2. CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so by utilising the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s) who will be able to take the appropriate action on their behalf. In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it relates to the appointment of a proxy or to 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 issuer's agent (ID RA10) by the latest time(s) for receipt of proxy appointments specified in this document. 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 Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any changes of instructions to proxies through CREST should be communicated to the appointee through other means. 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. CREST members and, where applicable, their CREST sponsors or voting service provider(s) should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular messages. 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 service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings. The CREST Manual can be reviewed at [www.euroclear.com/CREST](http://www.euroclear.com/CREST).

3. A form of appointment of proxy is enclosed. Appointment of a proxy (whether by completion of a form of appointment of proxy, or other instrument appointing a proxy or any CREST Proxy Instruction) does not prevent a member from attending and voting at this meeting.  
  
To be effective, the form of appointment of proxy, duly completed and executed, together with any power of attorney or other authority under which it is signed (or a notarially certified copy thereof) must be lodged at the office of the Company's Registrars, Capita Registrars, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU by no later than 11.00 am on 20 July 2011.
4. A person entered on the Register of Members at close of business on 20 July 2011 (a 'member') is entitled to attend and vote at the Meeting pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001. Any changes to the Register of Members after such time and date shall be disregarded in determining the rights of any person to attend and/or vote at the Meeting. If the Meeting is adjourned, entitlement to attend and vote at the adjourned meeting, and the number of votes which may be cast thereat, will be determined by reference to the Company's register of members 48 hours before the time fixed for the adjourned meeting.
5. The Terms of Reference of the Audit, Management Engagement and Nominations Committees and the Letters of Appointment for Directors will be available for inspection at the Company's AGM.
6. A copy of the Articles of Association is available for inspection at the Registered Office of the Company during normal business hours on any business day (excluding public holidays) until the close of the Annual General Meeting and will also be available at the Annual General Meeting for at least 15 minutes prior and during the meeting.
7. Any person to whom this Notice is sent who is a person nominated under section 146 of the Companies Act 2006 to enjoy information rights (a 'Nominated Person') may have a right, under an agreement between him/her and the shareholder by whom he/she was nominated, to be appointed (or to have someone else appointed) as a proxy for the meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may have a right, under such an agreement, to give instructions to the shareholder as to the exercise of voting rights.  
  
The statement of the above rights of the shareholders in relation to the appointment of proxies does not apply to Nominated Persons. Those rights can only be exercised by shareholders of the Company.
8. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.
9. Any member attending the AGM has the right to ask questions. The Company must cause to be answered any such question relating to the business being dealt with at the AGM but no such answer need be given if: (a) to do so would interfere unduly with the preparation for the AGM 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 AGM that the question be answered.
10. You may not use any electronic address (within the meaning of section 333(4) of the Companies Act 2006) provided in this Notice (or in any related documents including the proxy form) to communicate with the Company for any purposes other than those expressly stated.
11. As at 31 May 2011 (being the last practicable day prior to the publication of this Notice) the Company's issued share capital consists of 195,116,734 ordinary shares of 25p each carrying one vote each. Therefore, the total voting rights in the Company as at that date are 195,116,734.
12. A copy of this notice, and other information required by section 311A of the Companies Act 2006, can be found at [www.invescopetual.co.uk/investmenttrusts](http://www.invescopetual.co.uk/investmenttrusts).
13. Shareholders should note that it is possible that, pursuant to requests made by members of the Company under section 527 of the Companies Act 2006 (the '2006 Act'), the Company may be required to publish on a website a statement setting out any matter relating to: (i) the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the Annual General Meeting for the financial year beginning on 1 April 2010; or (ii) any circumstance connected with an auditor of the Company appointed for the financial year beginning on 1 April 2009 ceasing to hold office since the previous meeting at which the annual financial report was laid in accordance with section 437 of the Companies Act 2006 (in each case) that the members propose to raise at the relevant Annual General Meeting.

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 2006 Act. Where the Company is required to place a statement on a website under section 527 of the 2006 Act, it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the Annual General Meeting includes any statement that the Company has been required under section 527 of the Companies Act 2006 to publish on a website.



## GLOSSARY OF TERMS

### Benchmark

A market index, which averages the performance of companies in any sector, giving a good indication of any rises or falls in the market.

### Discount/(Premium)

The amount by which the mid-market price per share of an investment trust is lower/(higher) than the net asset value per share. The discount/premium is normally expressed as a percentage of the net asset value of the share.

### Dividend Yield

The annual dividend expressed as a percentage of the current share price.

### Gearing

The term defines the effect of borrowings which increase the return on investments when the value of the Company's investments is rising but reduce the return when values are declining. A gearing level of 100 or 0% indicates there is no gearing.

**Actual Gearing** reflects the scale of borrowings in use by the Company at any particular time. It is calculated by dividing the aggregate of borrowings less cash and investments in money market funds by shareholders' funds.

**Potential Gearing** reflects the utilisation of the maximum of all arranged borrowings. It is calculated by dividing the aggregate of borrowings by shareholders' funds.

### Net Asset Value ('NAV')

Also described as shareholders' funds, the net asset value is the value of total assets less liabilities. Liabilities include current and long-term liabilities. The net asset value per share is calculated by dividing the net asset value by the number of ordinary shares in issue.

### Return

The return generated in the period from the investments.

**Capital Return** reflects the return on capital, excluding any income returns.

**Total Return** reflects the aggregate of capital and income returns in the period. The NAV total return reflects capital changes in the NAV and dividends paid in the period.

### Total Expense Ratio

The total expenses including those charged to capital, but excluding interest incurred by the Company and the effect of VAT refunds on management fees, expressed as a percentage of average net assets (shareholders' funds).



The Manager of The Edinburgh Investment Trust plc is Invesco Asset Management Limited.

Invesco Asset Management Limited is a wholly owned subsidiary of Invesco Limited and is authorised and regulated by the Financial Services Authority.

Invesco Perpetual is a business name of Invesco Asset Management Limited.

Invesco Perpetual is one of the largest independent global investment management firms, with funds under management in excess of \$668.6 billion.\*

We aim to provide the highest returns available from markets, through active management, but in a controlled manner, conscious of the risks involved and within our clients' objectives.

\* Funds under Management as at 30 April 2011.

## SPECIALIST FUNDS MANAGED BY INVESCO PERPETUAL

### Investing for Income, Income Growth and Capital Growth (from equities, fixed interest securities or property)

#### City Merchants High Yield Trust plc

Aims to generate a high level of income from a variety of fixed income instruments combined with a degree of security. The Company is geared by bank debt.

#### Invesco Income Growth Trust plc

Aims to provide shareholders with a long-term growth in capital and real, long-term growth in dividends from an above-average yielding portfolio comprising mainly UK equities and equity-related securities. Seeks to achieve a total return in excess of the FTSE All-Share Index. The Company is geared by bank debt.

#### Invesco Leveraged High Yield Fund Limited

A Jersey-incorporated closed-ended Company that aims to provide a high level of income, paid gross to UK investors, whilst seeking to maximise total return through investing, primarily in a diversified portfolio of high-yielding corporate and government bonds. The Company seeks to balance the attraction of high-yield securities with the need for protection of capital and to manage volatility. The Company is highly geared.

#### Invesco Perpetual Recovery Trust 2011 plc

A split-capital investment trust with ordinary income shares, zero dividend preference shares and units (a combination of the two). Aims to meet the capital entitlements of the zero dividend preference shares and to maximise the capital and income returns of the ordinary income shares by investing primarily in equities but also debt securities which are considered to offer recovery prospects. Returns to ordinary income shareholders are geared by the prior charge of the zero shares. The Company has an initial life projected to end in 2011.

#### Invesco Perpetual Select Trust plc – Managed Liquidity Share Portfolio

Aims to generate a high level of income from a variety of fixed income instruments combined with a high degree of security.

#### Invesco Perpetual Select Trust plc – UK Equity Share Portfolio

The Company aims to generate long-term capital and income growth with real growth in dividends from investment, primarily in the UK equity market. The portfolio is geared by bank debt.

#### Invesco Property Income Trust Limited

The Company is a closed-ended investment company with limited liability incorporated in Jersey. The objective is to provide ordinary shareholders with an attractive level of income together with the prospect of income and capital growth from investing in commercial properties in the UK and Continental Europe. The Company is geared by bank debt.

#### Keystone Investment Trust plc

Aims to provide shareholders with long-term growth of capital mainly from UK investments. The Company is geared by way of debenture stocks.

#### Perpetual Income and Growth Investment Trust plc

Aims to generate capital growth with a higher than average income from investment, primarily in the UK equity market. It is intended that the Company will provide shareholders with real dividend growth over the medium-term by investing mainly in above-average yield equities. However, investments are also made in companies with lower initial yields which are considered to have good potential for income growth. The Company is geared by a debenture stock and bank debt.

#### The Edinburgh Investment Trust plc

Invests in UK securities with long term objective of achieving:

1. an increase in the Net Asset Value per share by more than the growth in the FTSE All-Share Index; and
2. growth in dividends per share by more than the rate of UK inflation.

The portfolio is geared by way of two debenture stocks.

### Investing in Smaller Companies

#### Invesco Perpetual UK Smaller Companies Investment Trust plc

Aims to achieve long-term total returns for the Company's shareholders from investment in a broad cross-section of small to medium size UK-quoted companies. The Company may gear by bank debt.

### Investing Internationally

#### Invesco Asia Trust plc

Aims to produce long-term capital growth by investing in a diversified portfolio of Asian and Australasian securities. The Company aims to achieve growth in its net asset value in excess of the Morgan Stanley Capital International (All County) Far East Free (ex Japan) Index, measured in sterling. The Company is geared by bank debt.

#### Invesco Perpetual Select Trust plc – Global Equity Share Portfolio

Aims to produce long-term capital growth from a sensibly diversified portfolio of international equities (including the UK). The portfolio comprises the 'best ideas' of a number of Invesco Perpetual's investment managers. The portfolio is geared by bank debt.

### Investing for Absolute Returns

#### Invesco Perpetual Select Trust plc – Hedge Fund Share Portfolio

Aims to achieve absolute return of 3-month sterling LIBOR plus 6% per annum over a rolling 5-year period, coupled with low volatility. Capital preservation is a priority.

### Investing in Multiple Asset Classes

#### Invesco Perpetual Select Trust plc

- UK Equity Share Portfolio
- Global Equity Share Portfolio
- Managed Liquidity Share Portfolio
- Hedge Fund Share Portfolio

A choice of asset classes within one investment trust with the freedom to switch between them, twice a year, free from capital gains tax liability.

## NOTES



If you have any queries about The Edinburgh Investment Trust plc,  
or any of the other specialist funds managed by Invesco Perpetual,  
please contact our Investor Services Team on

☎ 0800 085 8677

🌐 [www.invescopetual.co.uk/investmenttrusts](http://www.invescopetual.co.uk/investmenttrusts)

*Front Cover: Obsidian, volcanic, extrusive igneous rocks fractures in a distinctive way*