The Edinburgh Investment Trust plc

ANNUAL FINANCIAL REPORT
YEAR ENDED 31 MARCH 2014

Investment Objective

The Edinburgh Investment Trust plc is an investment trust whose investment objective is to invest 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 in companies quoted on a recognised stock exchange in the UK. The Company may also invest up to 20% of the portfolio in securities listed on stock exchanges outside the UK. The portfolio is selected on the basis of assessment of fundamental value of individual securities and is not structured on the basis of industry weightings.

Nature of the Company

The Company is a public listed Investment Company whose shares are traded on the London Stock Exchange. The business of the Company consists of investing the pooled funds of its shareholders, according to a specified investment objective and policy (set out on page 8), with the aim of spreading investment risk and generating a return for shareholders.

The Company uses borrowing to enhance returns to shareholders. This increases the risk to shareholders should the value of investments fall.

The Company has contracted with an external investment manager, Invesco Asset Management Limited (the 'Manager'), to manage its investments and to provide the Company's general administration. Other administrative functions are contracted to other external service providers. The Company has a Board of non-executive directors who oversee and monitor the activities of the Manager and other service providers on behalf of shareholders and ensure that the investment objective and policy is adhered to. The Company has no employees.

The Company's ordinary shares and debentures qualify to be considered as a mainstream investment products suitable for promotion to retail investors. The Company's ordinary shares are eligible for investment in an ISA.

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.invescoperpetual.co.uk/investmenttrusts

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

Contents

The Company is a member of

The Association of Investment Companies

FINANCIAL INFORMATION AND PERFORMANCE STATISTICS

Performance Statistics

The Company's Benchmark is the FTSE All-Share Index

Terms marked † are defined in the Glossary of Terms on page 65

FOR THE YEAR TO 31 MARCH	2014 % CHANGE	2013 % CHANGE
Total Return† (capital growth with income reinvested)		
Net asset value† (NAV) total return[1]:		
– debt at par	+12.5	+21.1
– debt at market value	+14.4	+22.4
FTSE All-Share Index total return[1]	+8.8	+16.8
Share price total return[1]	+8.0	+20.1

	AT 31 MARCH 2014	AT 31 MARCH 2013	% CHANGE
Capital Return†			
NAV:			
– debt at par	628.18p	581.89p	+8.0
– debt at market value	613.25p	559.01p	+9.7
FTSE All-Share Index[1]	3555.59	3380.64	+5.2
Share price[1]	594.0p	572.0p	+3.8
Discount/(premium)†:			
– debt at par	5.4%	1.7%	
– debt at market value	3.1%	(2.3)%	
Gearing† (at par):			
– gross gearing	16.3%	17.6%	
– net gearing	15.7%	17.6%	

FOR THE YEAR TO 31 MARCH	2014	2013	% CHANGE
Revenue Return			
Revenue return per share	23.2p	22.0p	+5.5
Dividends:			
– first interim	5.0p	5.0p	
– second interim	5.0p	5.0p	
– third interim	5.0p	5.0p	
– final proposed	8.5p	7.8p	
– total dividends	23.5p	22.8p	+3.1
Retail Price Index[1]	2.5%	3.3%	
Ongoing Charges Ratio†:			
Excluding performance fee	0.67	0.71	
Performance fee[2]	0.42	1.21	

[1] Source: Thomson Reuters Datastream

[2] The Company's performance fee is capped at 1% of period end net assets. A full explanation of the Company's performance fee is given on page 28. No performance fee will be due in future years.

Historical Record – Last 10 Years

Year ended 31 March	Ordinary shareholders' funds £m	Shares bought back m	Per ordinary share at 31 March Revenue return p	Dividend rate p	Net asset value p	Share price p	Discount (debt at par) %	Net gearing %	Gross gearing %
2005[(1)]	1,003	3.4	12.4	13.15	417.1	329.8	20.9	10.3	19.9
2006	1,215	5.5	15.3	15.25	517.4	429.5	17.0	11.4	16.5
2007	1,205	18.4	18.1	18.85	557.5	481.0	13.7	14.3	16.6
2008	945	17.2	21.4	19.90	474.7	403.3	15.1	12.9	21.2
2009	641	3.2	21.0	20.40	327.0	292.5	10.5	31.2	31.2
2010	827	—	19.8	20.60	422.4	396.3	6.2	24.1	24.2
2011	894	—	23.0	22.99[(2)]	456.7	444.0	2.8	22.4	22.4
2012	982	—	22.1	22.00	502.0	497.6	0.9	20.3	20.4
2013	1,138	—	22.0	22.80	581.9	572.0	1.7	17.6	17.6
2014	**1,228**	**—**	**23.2**	**23.50**	**628.2**	**594.0**	**5.4**	**15.7**	**16.3**

Notes: (1) 2005 numbers have been restated following the changes in the amount of equity shareholders' funds arising from changes to UK GAAP.
(2) Includes a special dividend of 2.19p arising on refunds of VAT on management fees.

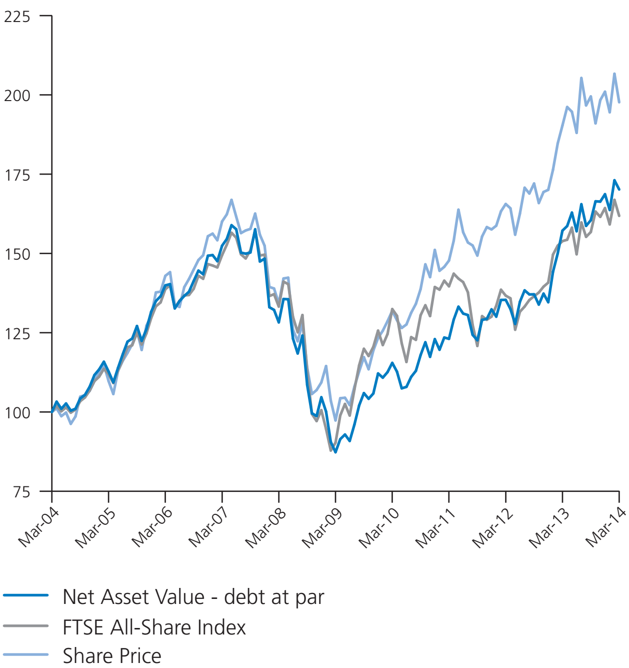
Total Returns to 31 March

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	THREE YEARS	FIVE YEARS	TEN YEARS
NAV (debt at par) (%)	16.2	27.9	12.0	–11.7	–27.8	38.0	12.3	15.2	21.1	12.5	56.9	143.2	158.1
Share Price (%)	14.7	35.3	17.4	–12.6	–23.5	45.7	16.5	17.6	20.1	8.0	52.6	159.0	215.1
FTSE All-Share (%)	15.6	28.0	11.1	–7.7	–29.3	52.3	8.7	1.4	16.8	8.8	28.8	113.3	128.7

Source: Thomson Reuters Datastream.

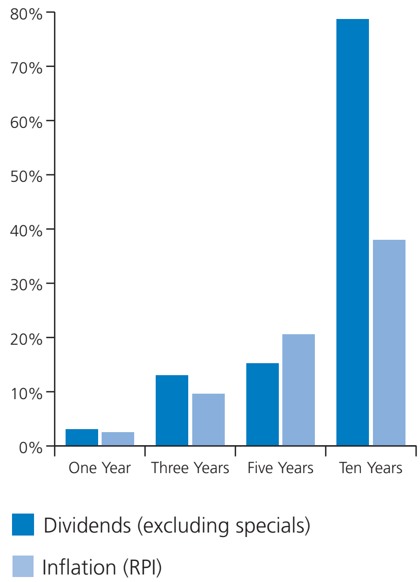
Capital Returns Over Ten Years

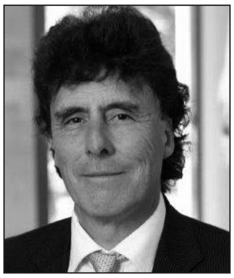
Figures rebased to 100 at 31 March 2004



Cumulative Real Dividend Growth

Year to 31 March 2014





Jim Pettigrew

Dear Shareholder

Equity markets, and UK equity markets in particular, continued their recovery over the twelve months to 31 March 2014. The net asset value (NAV) has once again benefited from the value-driven and long-term investment strategy of the Manager which, combined with the use of gearing, has delivered out-performance against the benchmark for the year to 31 March 2014. The performance and conditions on both the economic and market fronts are elaborated on below and in the Portfolio Manager's Report.

I also report below on the new portfolio manager, Mark Barnett, and amendments to the investment management agreement.

The income generation of the portfolio remains good and the Board is proposing a final dividend of 8.5 pence per share for the year which would result in a full year dividend of 23.5 pence per share, an increase of 3.1% year-on-year.

The Manager and Changes to the Investment Management Agreement

As reported to Shareholders at the half-yearly stage and in two subsequent letters, the Board was informed by the Manager in October 2013 that Neil Woodford, the Company's portfolio manager, would be leaving Invesco Perpetual in April 2014.

As a Board we considered a variety of options for the future management of the Company's assets, one of which was a set of proposals from Invesco Perpetual. Having considered the appropriateness of Invesco Perpetual's investment style and strategy to our objective and the strength of its investment resources, we decided that Invesco Perpetual should continue as Manager with Mark Barnett taking responsibility for the management of your Company's portfolio with effect from 28 January 2014.

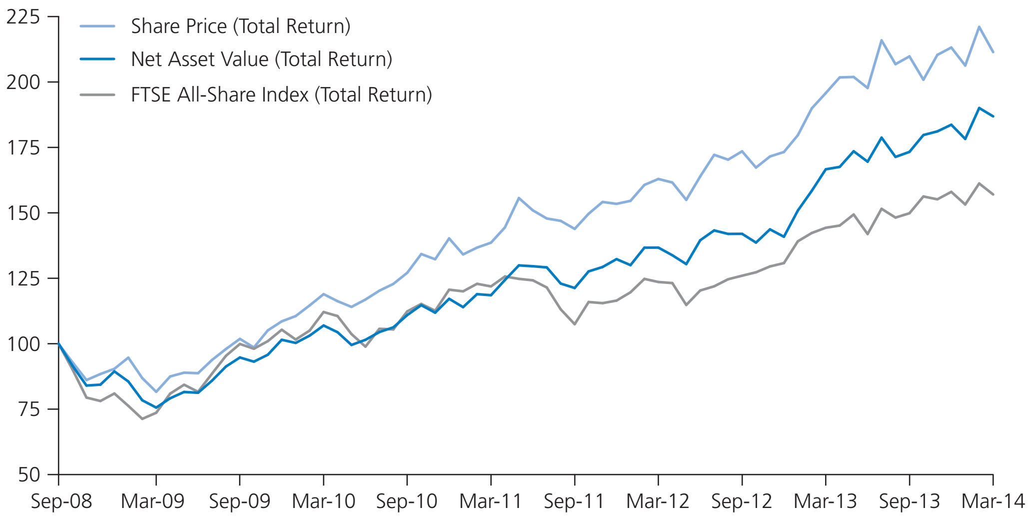
At the same time, we conducted a review of the Company's management fees in light of the changing market conditions with a view to achieving a simple, transparent and competitive structure, something which I am sure you will welcome. We also spoke with a number of the Company's largest shareholders to understand their views and expectations.

As a result of this review, the Board agreed with Invesco Perpetual amendments to the Company's investment management agreement including changes to the management fees which from 1 April 2014 will comprise a flat rate fee of 0.55% (previously 0.6%) per annum of market capitalisation with no performance fee. Mindful of the potential costs of repositioning the portfolio, a reduction of up to £7.5 million of the amount of any performance fee for the year ended 31 March 2014 was also agreed.

Total Returns Since Appointment of Invesco Perpetual on 15 September 2008

Figures rebased to 100 at 15 September 2008.

Source: Thomson Reuters Datastream.



When I wrote to you in October, I assured you that the Board had your interests uppermost in its considerations as we determined the future management of the Company. With Mark Barnett's expertise, continuity of management with Invesco Perpetual and a reduction in management costs, we believe these new management arrangements are an excellent outcome for the Company and for you the shareholders.

UK Equity Market

The UK equity market as measured by the FTSE All Share Index delivered a total return of 8.8% in the year to 31 March but the graph was far from being a straight line as the market reacted to both positives, and negatives. The positives included persistent increases in forecasts for UK economic growth, rising consumer confidence, and a buoyant housing market. Negatives comprised the strengthening UK currency, earnings downgrades in the international sector, and the news that the pace of quantitative easing in the USA would slow. UK equities continued to outperform UK gilts and the final quarter of the financial year saw increased M&A activity and subsequent to the year end the emergence of what could become the largest ever takeover of a UK company. Off-setting the boost from increased M&A activity has been rising tension in the Ukraine, the economic slowdown in China, and problems in previously strong performers such as Brazil and Turkey.

A more detailed discussion on the UK equity market and the Company's portfolio is contained in the Portfolio Manager's Report.

Investment Strategy

With the continuing prospect of low economic growth in the Western world, a defensive portfolio remains in place, as has been the case for the last five years. The Board supports the Manager's strategy, which is to be increasingly vigilant with regard to company earnings forecasts and to continue focusing on owning companies that are sensibly valued and able to deliver sustainable and reliable earnings growth over the longer term, regardless of economic headwinds or unexpected changes in commodity prices. This bottom up stock selection strategy continues to result in concentrated positions in the Pharmaceuticals, Tobacco and Utilities sectors and in largely avoiding the Mining and Banking sectors. With the repositioning of the portfolio complete, we now have fewer very large individual positions representing over 5% of the portfolio. Mark's new additions to the portfolio include BP, Shaftesbury, KCOM, NewRiver Retail and Thomas Cook.

2014 Highlights

Total return[(1)]	
– Net asset value (debt at par)	+12.5%
– FTSE All-Share Index	+8.8%
– Share price	+8.0%
Dividend	+3.1%

(1) Source: Thomson Reuters Datastream.

Performance for the Year

The Company produced a net asset value (NAV) total return for the year of 12.5% (debt at par) and 14.4 % (debt at market value), which compares with a total return of 8.8% for the FTSE All-Share Index (the 'Index'), the Company's benchmark. The share price total return (share price with dividends reinvested) for the year was 8.0%. The portfolio continues to be concentrated in a relatively small number of sectors and its overweight or underweight positions in various sectors are material drivers of the Company's relative investment performance.

The Company's share price ended the year at 594.0p, an increase of 3.8% from the previous year end of 572.0p. During the year the discount of the shares to NAV with debt at par moved from 1.7% to a small premium mid-year then returned to a discount, ending the year at 5.4%. With debt at market value, the 2.3% premium at the start of the year rose to a maximum of 6.6% and subsequently dropped back to a discount of 3.1% at the year end. The volatility of the discount/ premium to share price reflect to some extent the reaction in the market to the news that Neil Woodford would leave Invesco Perpetual, as discussed earlier. At 23 May 2014, the latest practical date to signing this report, the NAV was 639.26p (debt at par) and 623.62p (debt at market value), the share price was 600.00p and the resultant discount was 6.1% (debt at par) and 3.8% (debt at market value).

Performance Fee

A performance fee is payable in respect of each three year rolling period in which the Company outperforms its benchmark index plus a hurdle of 1.25% pa. This fee was capped at 1% of the period end net assets, before deduction of any performance fee.

As a result of the Company's very strong performance over three years producing a total return of 56.9% against the Index total return of 28.8%, a capped performance fee of £12.3 million arose which, after the £7.5 million reduction referred to previously, resulted in a fee of £4.8 million. As noted above, no performance fee will be payable from this year onwards.

Gearing

The Company continues to benefit from debt amounting to £200 million in the form of two debentures, which the Manager deploys for investment purposes. As a result of appreciation in assets, the gross gearing level had fallen to 16.3% (NAV with debt at par) at the year end, a decrease from 17.6% at the previous year end. Mark has a proactive approach to the use of gearing, and this is shown at the year end with the balance sheet cash position of £7 million and net gearing of 15.7%.

As reported in my half-yearly Chairman's Statement, the £100 million 11½% debenture matures in June 2014. The Board has undertaken an extensive exercise to review whether new borrowings should be put in place, and if so the type – including duration and cost. As a result the Board has agreed in principle a new 364 day £100 million revolving credit facility with Bank of New York Mellon. The mix of fixed and floating debt provides diversity of funding sources and flexibility. The new facility will be available for the debenture's redemption date of 30 June 2014, and will represent a material saving in interest costs for the Company.

Changes to the Investment Objective and Investment Policy

There has been no change in the level of borrowings permitted by the investment policy for a number of years, which limits borrowing to £200 million. At the year end this was equivalent to 16.3% of net assets (NAV with debt at par). In order to make the borrowing limit reflect the assets of the Company, it is proposed to change this limit from an absolute amount to a relative 25% of net assets. I can assure shareholders that it is not the current intention of the Manager to increase gearing to 25%, but to provide more flexibility.

In addition, although we are not changing the substance of the investment objective and investment policy as shown on page 8, we have taken the opportunity to make clearer some of the language used within it.

These changes are subject to the approval of shareholders. Accordingly, the Board recommend that shareholders vote for Ordinary Resolution 13 at the Annual General Meeting (AGM).

Dividend

Income from the portfolio during the year was £55.4 million (2013: £52.9 million). Of this £3.75 million, which is equal to 1.92p per share, was special dividends which – by their nature – are non-recurring (2013: £0.46 million; 0.24p). The Board is alert to the income requirement of the Company, and during the year reviews the situation on a regular basis with the portfolio manager.

The Board is recommending a final dividend of 8.5 pence per share which, if approved at the AGM, will be paid on 31 July 2014 to Shareholders on the Company's register on 13 June 2014. Shares will be quoted ex-dividend on 11 June 2014. This gives a total dividend for the year of 23.5p, an increase of 3.1% on last year's total dividend of 22.8p. This is higher than the annual increase in the Retail Price Index of 2.5% and demonstrates the Company's commitment to its long term objective of providing income growth which exceeds the rate of inflation.

Retail Distribution Review (RDR)

More than a year after RDR came into effect (31 December 2012), changes to the manner in which independent financial advisers (IFAs) are paid for their services have yet to have much impact on the way that investment funds are selected for recommendation to their clients. Systems difficulties experienced by the three major IFA-only execution platforms – CoFunds, Fidelity Funds Network and Skandia – are cited as the principal reason but this has not stopped investors from seeking out the attractions of investment trusts directly. As mentioned in last year's report, your Board and Manager were confident that the attractions of The Edinburgh Investment Trust – strong performance, quarterly dividends, good levels of liquidity, a clear strategy and a well-known brand – would be compelling to such investors and so it has proved with unadvised investors being the largest shareholder growth category in 2013.

As dealing systems improve, it is expected that more IFAs will embrace investment trusts, using the many research capabilities that exist to make the best choice for clients. Your Company remains well positioned to benefit from any increase in demand that results.

Referendum on Scottish Independence

This is a serious question for any company, like ours, which is registered in Scotland. It introduces an element of political uncertainty with associated practical economic and regulatory implications. The Board will continue to keep the situation under review and to look to act in shareholders' best interests.

Outlook

Your Board and Manager remain vigilant in light of a mixed global macro-economic outlook and also as a result of higher share prices and higher valuations across the UK equity market. Taking this into account, we look to the current financial year with guarded optimism whilst not anticipating a repeat of the returns enjoyed last year. That said, the Company's strategy remains to continue to identify pockets of value. The recent bid approach by Pfizer for AstraZeneca, a long term core holding for your Company, suggests that certain companies continue to be undervalued by the market and that, as is often the case in investing, patience can be rewarded. In conclusion, I believe that in the present market environment the Company's current investment approach should provide resilience in periods of market weakness, whilst still providing the opportunity for creating growth in shareholder value over the longer term.

125th Annual General Meeting (AGM)

The Notice of the AGM of the Company, which is to be held on Friday, 18 July 2014, is on pages 59 to 62 and a summary of the resolutions is set out in the Directors' Report on pages 31 and 32. My fellow directors and I will be voting in favour of all the resolutions and I urge all shareholders to register their vote by returning their completed voting papers or voting on-line.

I hope that as many shareholders as possible will attend the AGM in person and take part in celebrating the 125th AGM of the Company. Shareholders will have the opportunity to hear from Mark Barnett about the portfolio and his views on the outlook, and meet myself and my fellow directors.

Jim Pettigrew
Chairman

27 May 2014

BUSINESS REVIEW

The Edinburgh Investment Trust plc is an investment company and its investment objective is set out below. The strategy the Board follows to achieve that objective is to set investment policy and risk guidelines, together with investment limits, and to monitor how they are applied. These are also set out below and have been approved by shareholders.

The business model the Company has adopted to achieve its investment objective has been to contract the services of Invesco Asset Management Limited (the 'Manager') to manage the portfolio in accordance with the Board's strategy and under its oversight.

Since the Manager was appointed in 2008, the named portfolio manager with individual responsibility for the day-to-day management of the portfolio has been Neil Woodford. As explained both in the Chairman's Statement and update letters sent to shareholders, Neil Woodford notified Invesco Perpetual that he would be leaving the firm in April 2014 and Mark Barnett was appointed by the Board as the named portfolio manager with effect from 28 January 2014.

Investment Objective and Policy

Whilst the Board continues to be satisfied with the investment objective and generally with the investment policy of the Company, the investment policy shown below has been changed to reflect the following:

- a change to the current borrowing limit of £200 million. This absolute limit does not reflect the increase in net assets of the Company over the years. It is proposed that it be revised to a relative limit of 25% of net assets. This is intended to give increased flexibility and foreshadows the change in borrowing from solely the £200 million debentures to a mixture of fixed and floating debt. For clarity: there is no intention to increase borrowing to 25% of net assets; and
- some minor changes to the drafting of the investment policy to clarify the language used.

The investment policy shown below reflects these changes which are subject to the approval of shareholders at the forthcoming Annual General Meeting (AGM). Should such approval not be forthcoming, the investment policy will remain as published in the 2013 annual financial report, which is available at www.invescoperpetual.co.uk/investmenttrusts.

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.

Investment Policy

The Company will generally invest in companies quoted on a recognised stock exchange in the UK. The Company may also 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. 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 may 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 may borrow money to provide gearing to the equity portfolio up to 25% of net assets.

Use of derivative instruments is monitored carefully by the Board and permitted within the following constraints: the writing of covered calls against securities which in aggregate amount to no more than 10%

of the value of the portfolio and the investment in FTSE 100 futures which when exercised would equate to no more than 15% of the value of the portfolio. Other derivative instruments may be employed, subject to prior Board approval, provided that the cost (and potential liability) of exercise of all outstanding derivative positions at any time should not exceed 25% of the value of the portfolio at that time. The Company may hedge exposure to changes in foreign currency rates in respect of its overseas investments.

Results and Dividends

At the year end the mid-market price was 594p per ordinary share (2013: 572p). The net asset value (debt at par) and net asset value (debt at market value) per ordinary share were 628.18p and 613.25p respectively. The comparative figures on 31 March 2013 were 581.89p and 559.01p.

Subject to approval at the AGM, the final proposed dividend for the year ended 31 March 2014 of 8.50p (2013: 7.8p) per ordinary share will be payable on 31 July 2014 to shareholders on the register on 13 June 2014. The shares will be quoted ex-dividend on 11 June 2014. This will give total dividends for the year of 23.50p per share, an increase of 3.1% on the previous year's dividend of 22.8p. The revenue return per share for the year was 23.2p, a 5.5% increase on the 2013 return of 22p.

Performance

The Board reviews the Company's performance by reference to a number of key performance indicators (KPIs) which are set out below. 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 reviewed by the Board at each meeting.

YEAR TO 31 MARCH	2014	2013
Total Return:		
Net asset value (per share debt at par)(1)	12.5%	21.1%
Net asset value (per share debt at market value)(1)	14.4%	22.4%
FTSE All-Share Index(1)	8.8%	16.8%
Share price(1)	8.0%	20.1%
Discount to NAV (debt at par)	5.4%	1.7%
Discount/(premium) to NAV (debt at market value)	3.1%	(2.3)%
Revenue return per share	23.2p	22.0p
Dividend per share	23.5p	22.8p
Gross gearing	16.3%	17.6%
Ongoing charges ratio(2) – excluding performance fee	0.7	0.7
Performance fee(3)	0.4	1.2

(1) Source: Thomson Reuters Datastream.

(2) Calculated in accordance with AIC Guidelines i.e. total ongoing expenses ÷ average NAV (debt at market value).

(3) Note that since the Company's performance fee was capped at 1% of period end net assets, the ongoing charges ratio for 2013 resulted in a figure that was higher than 1%. For a full explanation of the Company's performance fee, see page 28.

Past performance is not a guide to future returns.

The Chairman's Statement on pages 4 to 7 gives a commentary on the performance of the Company during the year, the performance fee, the gearing and the dividend.

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. For the year being reported, all KPIs are considered satisfactory.

The Board also regularly reviews the performance of the Company in relation to the 21 investment trusts in the UK Equity Income sector. As at 31 March 2014, the Company was ranked 12th by NAV performance in this sector over one year, 4th over three years and 6th over five years (source: JPMorgan Cazenove).

STRATEGIC REPORT

FOR THE YEAR ENDED 31 MARCH 2014

BUSINESS REVIEW continued

Analysis of Performance

TOTAL RETURN BASIS	FOR YEAR ENDED 31 MARCH 2014 %
Net asset value total return	12.5
Benchmark total return	8.8
Relative performance	3.7
Analysis of Relative Performance	
Portfolio total return	13.1
Less Benchmark total return	8.8
Portfolio outperformance	4.3
Debenture borrowings:	
Net gearing effect	2.3
Interest	(1.7)
Base management fee	(0.6)
Performance fee	(0.4)
Other expenses	(0.1)
Tax	(0.1)
Total	3.7

Analysis of Performance – analyses the relative performance of the Company to its benchmark index.

Relative performance – represents the arithmatic difference between the NAV and the benchmark.

Net gearing effect – measures the impact of the debenture stocks and cash on the Company's relative performance. This will be positive if the portfolio has positive performance.

Interest – arising from the debenture stocks reduces the assets available to invest and has a negative impact on performance.

Management fees – the base fee and any performance fee – reduce the Company's net assets and decrease performance.

Other expenses and tax – reduce the level of assets and therefore result in a negative effect for relative performance.

Financial Position and Borrowings

At 31 March 2014 the Company's net assets were valued at £1,227.8 million (2013: £1,137.7 million) comprising principally a portfolio of equity investments, cash and borrowings. Borrowings were in the form of two £100 million debentures. The 7¾% debenture matures in 2022 and the 11½% debenture matures on 30 June 2014. As discussed in the Chairman's Statement, the Company has negotiated a new £100 million bank revolving credit facility and this will be used to repay the debenture and provide more flexible gearing.

The Company also has a bank overdraft facility of up to 10% of assets held by the Custodian which was undrawn at 31 March 2014; this facility is available to facilitate settlement of short-term cash timing differences and was largely unused during the year.

Outlook, including the Future of the Company

The main trends and factors likely to affect the future development, performance and position of the Company's business can be found in the Portfolio Manager's Report of this Strategic Report. Further details of the principal risks affecting the Company follow.

Principal Risks and Uncertainties

The Company's key long-term investment objectives are an increase in the net asset value per share by more than the growth in the FTSE All-Share Index (the 'benchmark') and an increase in dividends by more than the growth in RPI. The principal risks and uncertainties facing 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 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 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 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. In a similar way, the Manager manages other portfolios holding many of the same stocks as the Company which reflects the Manager's high conviction style of investment management. This could significantly increase the liquidity and price risk of certain stocks under certain scenarios and market conditions. 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 and real dividend growth.

Investment selection is delegated to the Manager. 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.

As shown in the investment policy, derivatives may be used provided that the market exposure arising is less than 25% of the value of the portfolio. For part of the year, forward currency contracts were used for hedging, however, no derivatives were held at the year end.

Gearing and Borrowing 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 borrowing is too high, whether the term of borrowing is appropriate, and if the Company could not replace the £100 million debenture which matures on 30 June 2014. However, the Board are confident that the steps they have taken to replace the £100 million borrowing, represented by the debenture, will be successful.

The Manager has full discretion over the amount of the borrowing it uses to gear its portfolio, whilst the issuance, repurchase or restructuring of borrowing are for the Board to decide. Information related to borrowing and gearing is provided to the Directors as part of the Board papers. 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.

BUSINESS REVIEW continued

Control Systems Risk

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

- good practice industry 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 operated in a satisfactory manner. In addition, the Company relies on the soundness and efficiency of the Custodian for good title and timeliness of receipt and delivery of securities.

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 has no employees and the Directors are all appointed on a non-executive basis. The Company is reliant upon the performance of third party providers for its executive function. The Company's most significant contract is with the Manager, to whom responsibility both for the Company's portfolio and for the provision of company secretarial and administrative services is delegated. The Company has other contractual arrangements with third parties to act as auditor, registrar, custodian and broker. Failure by any service provider to carry out its obligations to the Company in accordance with the terms of its appointment could have a materially detrimental impact on the operation of the Company and could affect the ability of the Company to pursue successfully its investment policy and expose the Company to risk of loss or to reputational risk.

In particular, the Manager performs services which are integral to the operation of the Company. The Manager may be exposed to the risk that litigation, misconduct, operational failures, negative publicity and press speculation, whether or not it is valid, will harm its reputation. Any damage to the reputation of the Manager could result in counterparties and third parties being unwilling to deal with the Manager and by extension the Company. This could have an adverse impact on the ability of the Company to pursue its investment policy.

The Board seeks to manage these risks in a number of ways:

- The Manager monitors the performance of all third party providers in relation to agreed service standards on a regular basis, and any issues and concerns are dealt with promptly and reported to the Board. The Manager formally reviews the performance of all third party providers and reports to the Board on an annual basis.
- The Board reviews the performance of the Manager at every board meeting and otherwise as appropriate. The Board has the power to replace the Manager and reviews the management contract formally once a year.
- The day-to-day management of the portfolio is the responsibility of the named portfolio manager. This changed from Neil Woodford to Mark Barnett, effective 28 January 2014. Neil was Head of UK Equities at Invesco Perpetual until April 2014, when this role was taken over by Mark. Mark has worked in equity markets since 1992 and has been part of the UK equities team at Invesco Perpetual for 17 years.
- 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 set guidelines within which the portfolio manager is permitted wide discretion. Any proposed variation outside these guidelines is referred to the Board and compliance with the guidelines and the guidelines themselves are reviewed at every board meeting.

Referendum on Scottish Independence

The Company is registered in Scotland and the Board is mindful of the referendum on Scottish independence in September 2014. The Board considers that a vote for Scottish independence will create major prolonged uncertainties, both for the Scottish economy (including tax and currency) and for the regulatory environment in which the Company operates.

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 credit, 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 the conditions for approval as an investment trust 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.

The Manager is regulated by the Financial Conduct Authority and failure to comply with the relevant regulations could harm the Manager's reputation with a potential detrimental effect on the Company.

The Alternative Investment Fund Managers Directive came into force during the year. Although it imposes certain obligations on the Company and the Manager that will increase compliance and regulatory costs going forward, the impact is not expected to be material.

The Manager reviews compliance with investment trust tax conditions and other financial and regulatory requirements on a daily basis.

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.

Alternative Investment Fund Managers Directive (AIFMD)

The Board is taking independent legal advice in relation to the Directive and has decided, in principle, to appoint Invesco Fund Managers Limited (IFML) as the Company's Alternative Investment Fund Manager (AIFM). IFML is in the process of seeking approval as an AIFM before the AIFMD implementation date of 22 July 2014, so that your Company will be fully compliant. IFML is an associated company of Invesco Asset Management Limited (IAML), the current Manager, and it is expected that IAML will continue to manage the Company's investments under delegated authority from IFML.

An additional requirement of the AIFMD is for the Company to appoint a depositary, which will oversee the custody and cash arrangements and other AIFMD required depositary responsibilities. To this end the Board has agreed in principle to appoint BNY Mellon Trust & Depositary (UK) Limited to act as the Company's depositary.

Board Diversity

The Company's policy on diversity is set out on page 25. The Board considers diversity, including the balance of skills, knowledge, diversity (including gender) and experience, amongst other factors when reviewing its composition and appointing new directors, but does not consider it appropriate to establish targets or quotas in this regard. As a norm the Board comprises either five or six non-executive directors. However, as a result of Board changes there were seven directors for some of the year. At all times there was at least one female director and, as Victoria Hastings joined the Board before Nicola Ralston retired, there were two female directors for part of the year. Summary biographical details of the Directors are set out on page 18. The Company has no employees.

Social and Environmental Matters

As an investment company with no employees, property or activities outside investment, environmental policy has limited application. The Manager considers various factors when evaluating potential investments. While a company's policy towards the environment and social responsibility, including with regard to human rights, is considered as part of the overall assessment of risk and suitability for the portfolio, the Manager does not necessarily decide to, or not to, make an investment on environmental and social grounds alone. The Company does not have a human rights policy, although the Manager does apply the United Nations Principles for Responsible Investment.

Mark Barnett

PORTFOLIO MANAGER'S REPORT

Market Review

The stock market's good performance over the past 12 months was punctuated by periods of volatility, as sentiment was impacted by the anticipation of a change in the US Federal Reserve's policy of quantitative easing. This was highlighted by comments last June from Ben Bernanke, Chairman of the Federal Reserve, that "it would be appropriate to moderate the pace of purchases later this year", with subsequent reassurance that US interest rates would be kept low for some time. However, the period was overall positive for market returns and saw a revaluation of the equity asset class in preference to fixed interest or cash.

There was also positive news on the UK economy. The commencement of Mark Carney's tenure as Governor of the Bank of England last summer was followed by a series of increases in forecasts for UK economic growth and an upbeat assessment of the economic outlook by the Chancellor of the Exchequer in his March budget. However, the period under review ended with a more difficult quarter as concerns grew over the outlook for economic growth in emerging markets, most notably China.

Change of Named Portfolio Manager and Portfolio Activity

The Board appointed me as the named portfolio manager on 28 January. I am very honoured to take on this role, supported by a strong team at Invesco Perpetual. The portfolio activity from that date reflected the transition to my preferred investment strategy, which was completed prior to the Company's year end.

The holdings in AstraZeneca, BT Group, Capita, GlaxoSmithKline and Reckitt Benckiser have been reduced and new investments made in Babcock International, Beazley, BP, Brown (N), CLS, Compass, Derwent London, KCOM, London Stock Exchange, NewRiver Retail, Reed Elsevier, Shaftesbury, Thomas Cook and Vectura. The histogram on page 17 shows the industry analysis of the portfolio which reflects these changes including, amongst other things, a reduced exposure to the Heath Care sector and a doubling of investment in Financials. The portfolio's holdings in BG, Elan, Wm Morrison and Smiths were disposed of prior to my appointment.

Portfolio Strategy and Review

The Company's net asset value, including reinvested dividends, rose by 12.5% during the year, compared to a rise of 8.8% (total return) by the FTSE All-Share Index.

The portfolio's out-performance over the period is encouraging and reflects a continuing shift in the market towards companies able to deliver sustainable growth in earnings and, particularly, dividends.

The portfolio's holding in BT Group delivered the most significant positive contribution to performance. Investors have increasingly focused on that company's on-going scope for cost cutting and its dominant position in the UK broadband and fibre markets. It's most recent results were accompanied by a 13% increase in the dividend and it announced that its recently introduced BT Sport TV channel had made a "confident start".

The portfolio is heavily invested in the pharmaceutical sector. This performed well over the year, delivering a flow of positive news. AstraZeneca, in particular, has unveiled a series of positive surprises on the drug pipeline front while the industry as a whole is benefiting from an increased rate of drug approvals by the FDA. Despite the re-rating of the sector by the stock market, it still offers a yield premium, highlighting the scope for further outperformance as new drugs drive future profit and dividend growth. At the time of writing AstraZeneca has become the target for a proposed takeover by Pfizer which highlights the strategic value of these global companies.

The portfolio is also heavily invested in the tobacco sector. This faced some headwinds in 2013, notably concerns over the possible impact of e-cigarettes, plain packaging and emerging market exposure. Headwinds are, of course, nothing new for this sector and the sector has rallied strongly in 2014, as results from the companies have served to remind the stock market of their ability to deliver profit and dividend increases despite a backdrop of declining cigarette volumes.

The holding in Provident Financial contributed strongly to performance. Full year results confirmed the strength of the company's market position in the provision of consumer credit and subprime lending. The company's Vanquis credit card, which provides a credit card for people who cannot otherwise get access to one due to impaired credit history, grew profits by over 50%. The company sees significant growth opportunities here as well as in a newer division – Satsuma, its personal unsecured loan business. This competes in the short term loans business, leveraging the existing infrastructure of the Vanquis call centre.

The portfolio's holdings in the support services sector enjoyed mixed fortunes over the year. Capita maintained its very impressive run of good news, twice confirming a major increase in its pipeline of tendered work – now up to £5.5 billion. There was disappointing news from both G4S and Serco, both of whom announced profit warnings and the departure of their Chief Executives. G4S had a rights issue to raise extra capital and since the period end Serco has made a further profits warning and raised equity. I am confident in the recovery plan in place at G4S, having met the new management team. Serco's new CEO, Nicholas Soames, is in the process of conducting a strategic review.

The on-going political debate over electricity retail prices had a negative impact on the share prices of SSE and Centrica. Both have subsequently shown some recovery as SSE announced its own price freeze and Ofgem confirmed a full competition industry review. The referral by Ofgem of the industry to the Competition Commission noted that there is no meaningful evidence of wrong doing or excessive returns, but just that some elements of the market are not functioning optimally. We expect the review to conclude that industry returns are not excessive, while moves such as that by SSE are already addressing the political agenda of pricing and transparency of margins. Meanwhile there was strong performance from the share price of Drax. The company confirmed the government approval for a revised price support to enable it to switch half its capacity from coal to biomass.

There was disappointing news from the holding in Rolls-Royce which surprised the market with its first profit warning in a decade, and confirmed that this year will see no growth in sales or profits. This is largely blamed on defence spending cuts and the company claims that this is a pause, not a change in direction, and that growth will resume in 2015. BAE Systems, meanwhile, warned that profits would be hit by defence cuts. However, the company reassuringly announced that it had agreed pricing with Saudi Arabia over the rising cost of a long running Eurofighter contract.

Outlook

The UK equity market has struggled to find a convincing direction in 2014. The outlook is likely to remain challenging for the foreseeable future due to a combination of elevated valuations and an environment of continued flat corporate profit growth. In fact the recent earnings season was notable for the number of profit warnings from large corporates. Despite the well-publicised improvements in economic growth in the UK and US economies, the current valuation of the market represents a level which reflects this optimism and which may struggle to be maintained if the pace of earnings growth does not accelerate. The other significant reasons for caution over the near term are a reduction in the scale of asset purchases under the policy of quantitative easing in the US, uncertainty about the strength of economic growth in the developing world especially China, and a heightened level of political risk both in a domestic context ahead of the UK General Election and internationally due to the Ukrainian/Russian situation.

Despite the overall cautious tone of these comments, I believe there remain some pockets of undervaluation within the UK stock market. The key to navigating the near term is to remain highly vigilant about the strength of corporate performance and to remain judicious in portfolio selection, given the increase in valuations. It is unlikely that the performance of the overall market in the coming year will be much better than the 8.8% rise we saw in the financial year under review. Under my management the portfolio will continue with a strong preference for companies that have proven ability to grow revenues, profits and free cash flow in what is a fairly low growth world. We favour management teams that are fully cognisant of the need to deliver sustainable, long term, dividend growth. It is this type of investment opportunity that forms the majority of the portfolio and that I believe offers the potential to deliver good risk adjusted returns over the long term. I will therefore continue to use the gearing facility to seek enhanced returns, particularly since the overall cost of borrowing will be significantly reduced by the redemption of the 11½% debenture.

Mark Barnett
Portfolio Manager

The Strategic Report was approved by the Board of Directors on 27 May 2014.

Invesco Asset Management Limited
Company Secretary

INVESTMENTS IN ORDER OF VALUATION

AT 31 MARCH 2014

UK listed and ordinary shares unless stated otherwise

AIM Investments quoted on AIM

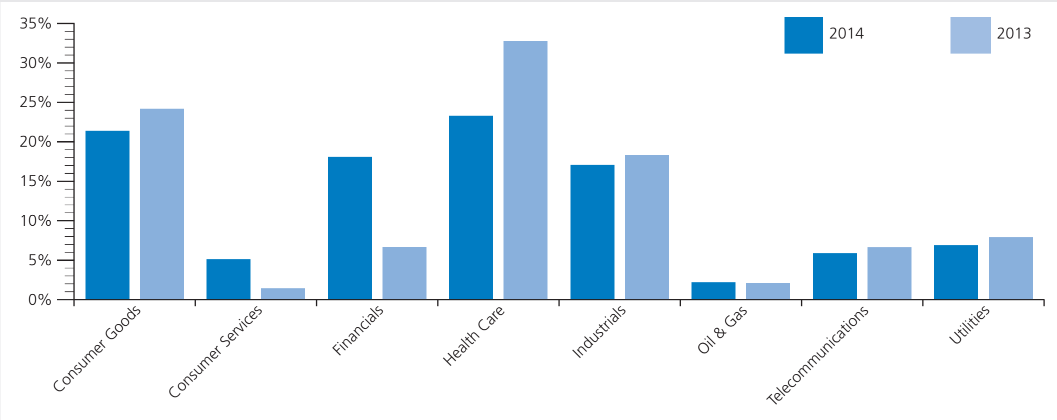
INVESTMENT	SECTOR	MARKET VALUE £'000	% OF PORTFOLIO
British American Tobacco	Tobacco	88,483	6.2
Roche – *Swiss common stock*	Pharmaceuticals & Biotechnology	75,842	5.3
Imperial Tobacco	Tobacco	69,562	4.9
GlaxoSmithKline	Pharmaceuticals & Biotechnology	69,279	4.9
BT Group	Fixed Line Telecommunications	68,509	4.8
AstraZeneca	Pharmaceuticals & Biotechnology	64,083	4.5
Reynolds American – *US common stock*	Tobacco	63,967	4.5
BAE Systems	Aerospace & Defence	59,988	4.2
Reckitt Benckiser	Household Goods & Home Construction	47,756	3.4
Rolls-Royce	Aerospace & Defence	44,078	3.1
Ten Top Holdings		**651,547**	**45.8**
SSE	Electricity	39,806	2.8
Altria – *US common stock*	Tobacco	34,303	2.4
Novartis – *Swiss common stock*	Pharmaceuticals & Biotechnology	32,062	2.3
BP	Oil & Gas Producers	31,354	2.2
Capita	Support Services	31,319	2.2
Provident Financial	Financial Services	30,966	2.2
Drax	Electricity	30,486	2.1
Hiscox	Non-life Insurance	29,732	2.1
Smith & Nephew	Healthcare Equipment & Services	29,700	2.1
Sanofi – *French common stock*	Pharmaceuticals & Biotechnology	29,537	2.1
Twenty Top Holdings		**970,812**	**68.3**
Reed Elsevier	Media	29,058	2.0
Compass	Travel & Leisure	27,734	2.0
Amlin	Non-life Insurance	25,949	1.8
Centrica	Gas & Water Multiutilities	25,873	1.8
Legal & General	Life Insurance	24,737	1.7
Babcock International	Support Services	23,762	1.7
G4S	Support Services	23,269	1.6
Shaftesbury	Real Estate Investment Trusts	21,777	1.5
BTG	Pharmaceuticals & Biotechnology	21,421	1.5
Rentokil Initial	Support Services	16,592	1.2
Thirty Top Holdings		**1,210,984**	**85.1**
London Stock Exchange	Financial Services	15,682	1.1
KCOM	Fixed Line Telecommunications	14,802	1.0
Raven Russia – Preference	Real Estate Investment & Services	10,421	
– Ordinary		4,157	
		14,578	1.0
Lancashire	Non-life Insurance	14,282	1.0
Derwent London	Real Estate Investment Trusts	13,534	1.0
NewRiver Retail AIM	Real Estate Investment Trusts	13,486	1.0
Serco	Support Services	13,002	0.9
IP Group	Financial Services	12,325	0.9
Beazley	Non-life Insurance	11,373	0.8
HomeServe	Support Services	10,539	0.8
Forty Top Holdings		**1,344,587**	**94.6**

INVESTMENT	SECTOR	MARKET VALUE £'000	% OF PORTFOLIO
CLS	Real Estate Investment & Services	10,365	0.7
PayPoint	Support Services	9,946	0.7
Vectura	Pharmaceuticals & Biotechnology	9,481	0.7
Catlin – *US common stock*	Non-life Insurance	9,401	0.7
Thomas Cook	Travel & Leisure	9,063	0.7
Brown (N)	General Retailers	7,328	0.5
Stobart	Industrial Transportation	6,274	0.4
Burford Capital[AIM]	Investment Instruments	4,912	0.4
Chemring	Aerospace & Defence	4,081	0.3
Barclays Bank – *Nuclear Power Notes 28 Feb 2019*[(1)]	Investment Instruments	2,310	0.2
Fifty Top Holdings		**1,417,748**	**99.9**
Helphire[AIM]	Financial Services	1,593	0.1
Eurovestech – *Unquoted*	Financial Services	501	—
Proximagen – *Rights 12 Sept 2014 – Unquoted*	Pharmaceuticals & Biotechnology	378	—
Total Holdings (53)		**1,420,220**	**100.0**

(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.

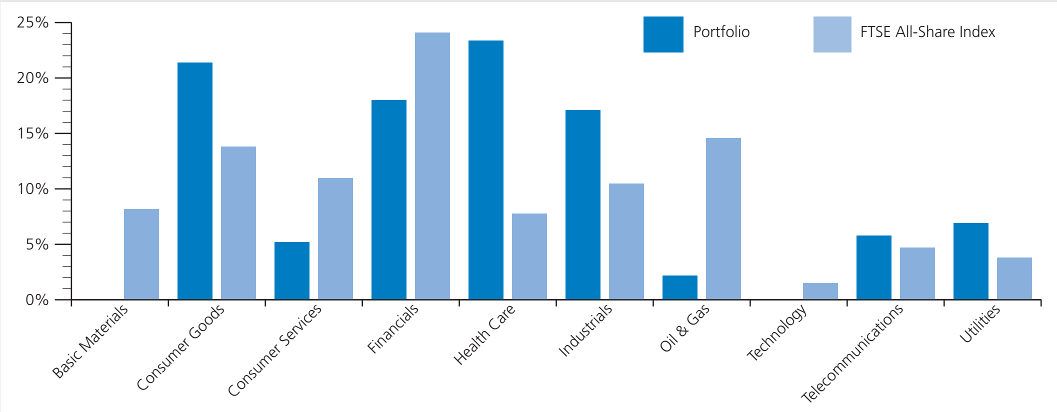
Analysis of Portfolio by Industry

As at 31 March 2014 and 2013



Comparison of Portfolio to FTSE All-Share Index by Industry

At 31 March 2014



DIRECTORS

Jim Pettigrew[1]

Jim Pettigrew was appointed to the Board on 27 October 2005 and became the Chairman on 22 July 2011. He is a Chartered Accountant and is presently Deputy President of the Institute of Chartered Accountants of Scotland. 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 of 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, Aberdeen Asset Management plc, AON UK Limited, Clydesdale Bank plc and Crest Nicholson Holdings plc.

Gordon McQueen[2]

Gordon McQueen was appointed to the Board on 31 May 2011 and is Chairman of the Audit Committee. 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 Scottish Mortgage Investment Trust Plc and JPMorgan Midcap Investment Trust Plc.

Victoria Hastings[2]

Victoria Hastings was appointed to the Board on 23 May 2013. She has nearly 25 years' experience in the investment management industry and is a non-executive director of Henderson Global Trust plc and Impax Environmental Markets plc. Her roles have included investment director at JO Hambro Capital Management; chief investment officer, private clients at Merrill Lynch Investment Managers (London); a fund manager in the Merrill Lynch European Equity team; and non-executive director of Charter European Trust.

Glen Suarez[2]

Glen Suarez was appointed to the Board on 24 May 2013. Glen is Deputy CEO of Knight Vinke Asset Management. Prior to joining Knight Vinke, he was a Partner in Soditic Limited and before that he was Head of European Utilities at Morgan Stanley. He is a specialist in the banking and energy sectors, and is a Fellow of the Institute of Chartered Accountants in England and Wales and the Royal Society of Arts.

Maxwell Ward[2]

Maxwell Ward was appointed to the Board on 8 August 2011. Mr Ward joined Baillie Gifford in 1971 becoming a partner in the firm in 1975 and was head of the UK Equity Department from 1981 until his retirement in April 2000. He was also a member of the firm's Management and Investment Policy Committees and Chairman of Baillie Gifford Overseas. From 1989 until 2000 he was manager of Scottish Mortgage and Trust plc. Following his retirement from Baillie Gifford, he floated The Independent Investment Trust plc and has been its managing director since. He is a former non-executive Director of Aegon UK plc and Foreign and Colonial Investment Trust plc.

Sir Nigel Wicks[2]

Sir Nigel Wicks, GCB, CVO, CBE was appointed to the Board in 2005 and is the Senior Independent Director. 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 was formerly the Chairman of Euroclear plc and a Commissioner of the Jersey Financial Services Commission. He is Chairman of The British Bankers' Association.

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

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

THE COMPANY'S GOVERNANCE FRAMEWORK

The Board and Committees

Responsibility for good governance lies with the Board. The governance framework of the Company reflects the fact that as an Investment Company it has no employees and outsources investment management to the Manager and administration to the Manager and other external service providers.

The Board

Chairman – Jim Pettigrew

Senior Independent Director – Sir Nigel Wicks

Six non-executive directors (NEDs)

Key responsibilities:

– to set strategy, values and standards;
– to provide leadership within a framework of prudent effective controls which enable risk to be assessed and managed; and
– to challenge constructively and scrutinise performance of all outsourced activities.

Management Engagement Committee

All NEDs

Chairman – Jim Pettigrew

Key responsibilities:

– to review regularly the management contract and the performance of the Manager.

Audit Committee

All NEDs excluding Jim Pettigrew

Chairman – Gordon McQueen

Key responsibilities:

– to oversee the control environment and financial reporting;
– to make recommendation for the appointment of the auditor; and
– to review the performance of other service providers, including the auditor.

Nominations Committee

All NEDs

Chairman – Jim Pettigrew

Key responsibilities:

– to review regularly the Board's structure and composition and performance; and
– to make recommendations for any changes or new appointments.

Remuneration Committee Function

The Board as a whole performs this function

Key responsibilities:

– to set the remuneration policy of the Company.

The Portfolio Manager

The portfolio manager, Mark Barnett, is based in Henley-on-Thames. Mark is Head of UK Equities at Invesco Perpetual, specialising in UK equity income investing. Mark started his investment career in 1992 at Mercury Asset Management joined Perpetual in 1996. He graduated in French and Politics from Reading University in 1992 and has passed the associate examinations of the Association for Investment Management and Research (AIMR).

CORPORATE GOVERNANCE STATEMENT

FOR THE YEAR ENDED 31 MARCH 2014

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

The Board has considered the principles and recommendations of the 2013 AIC Code of Corporate Governance (AIC Code) by reference to the AIC Corporate Governance Guide for Investment Companies (AIC Guide). The AIC Code, as explained by the AIC Guide, addresses all the principles set out in the UK Corporate Governance Code (UK Code), as well as setting out additional principles and recommendations on issues that are of specific relevance to investment trusts.

The AIC Code is available from the Association of Investment Companies (www.theaic.co.uk). The UK Code is available from the Financial Reporting Council website (www.frc.org.uk).

The Company has complied with the recommendations of the AIC Code and the relevant provisions of the UK Code, except the 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 as explained in the UK Code, the Board considers these provisions are not relevant to the position of The Edinburgh Investment Trust plc, being an externally managed investment company with no executive employees and in view of the Manager having an internal audit function. The Company has therefore not reported further in respect of these provisions.

Information on how the Company has applied the principles of the AIC Code and the UK Code is provided in the Directors' Report as follows:

- the composition and operation of the Board and its committees are summarised on pages 24 to 26, and pages 21 to 23 in respect of the Audit Committee;
- the Company's approach to internal control and risk management is summarised on page 23;
- the contractual arrangements with, and assessment of, the Manager are summarised on page 28;
- the Company's capital structure and voting rights are summarised on page 30;
- the most substantial shareholders in the Company are listed on page 31;
- the rules concerning the appointment and replacement of directors are contained in the Company's Articles of Association and are discussed on page 26. There are no agreements between the Company and its directors concerning compensation for loss of office; and
- powers to issue or buy back the Company's shares, which are sought annually, and any amendments to the Company's Articles of Association require a special resolution to be passed by shareholders.

By order of the Board

Invesco Asset Management Limited
Company Secretary

Perpetual Park
Perpetual Park Drive,
Henley-on-Thames,
Oxfordshire RG9 1HH

27 May 2014

AUDIT COMMITTEE REPORT
FOR THE YEAR ENDED 31 MARCH 2014

Committee Composition and Role

The Audit Committee comprises all the Directors with the exception of Jim Pettigrew, under my chairmanship.

The Committee has written terms of reference which clearly define its authority, meetings, duties and reporting. These were updated during the year, to ensure good practice and compliance with the latest AIC Code. They will be available for inspection at the AGM and can be inspected at the registered office of the Company or viewed on the Manager's website.

Audit Committee Duties include:

– consideration of the integrity of the annual and half-yearly financial reports prepared by the Manager, the appropriateness of the accounting policies applied and any financial judgements and key assumptions, together with ensuring compliance with relevant statutory and listing requirements;

– at the Board's request, advising it on whether the Committee believes the annual financial report taken as a whole is fair, balanced and understandable and provides the necessary information for shareholders to assess the Company's performance, business model and strategy;

– evaluation of the effectiveness of the internal control systems and risk management systems, including reports received on the operational controls of the Company's service providers and the Manager's whistleblowing arrangements;

– consideration of the scope of work undertaken by the Manager's internal audit and compliance departments, monitoring and reviewing the effectiveness of the Manager's internal audit and reviewing the Company's procedures for detecting fraud; and

– management of the relationship with the external auditor, including evaluation of their reports and the scope, effectiveness, independence and objectivity of their audit, as well as making recommendations to the Board in respect of their appointment, re-appointment and removal and for the terms of their audit engagement.

Audit Committee Activities

The Committee meets three times a year to review the internal financial and non-financial controls, accounting policies and, if applicable, the contents of the half-yearly and annual financial reports. In addition, the Committee reviews the auditor's independence, objectivity and effectiveness, the quality of the services provided to the Company and, together with the Manager, reviews the Company's compliance with financial reporting and regulatory requirements as well as risk management processes. Representatives of the Manager's Compliance and Internal Audit Departments attend at least two meetings each year. Representatives of the auditor, KPMG Audit plc, attend the Committee meeting at which the draft half-yearly and annual financial report are reviewed and are given the opportunity to speak to Committee members in the absence of representatives of the Manager.

The audit programme and timetable are drawn up and agreed with the auditor in advance of the end of the financial period and matters for audit focus are discussed and agreed. The auditor ensures that these matters are given particular attention during the audit process and reports on them, and other matters as required, in their report to the Committee. This report, together with reports from the Manager, and the Manager's Internal Audit and Compliance Departments, form the basis of the Committee's consideration and discussions with the various parties, prior to approval and signature of the financial statements.

AUDIT COMMITTEE REPORT
continued

Key Areas of Consideration

For the year end, the accounting matters that were identified for specific consideration by the Committee follow:

SIGNIFICANT AREA	HOW ADDRESSED
Accuracy of the portfolio valuation, with emphasis on the investments held at Directors' valuation.	Actively traded listed investments are valued using stock exchange prices provided by third party pricing vendors. Investments that are unlisted or not actively traded are valued using a variety of techniques to determine their fair value. This is set out in accounting policies note 1(c)(v). All such valuations are carefully considered by the Manager's pricing committee and the Committee.
Proof of existence of portfolio holdings.	The Manager and the Auditor both confirmed that the holdings shown in the accounting records agreed with the Custodian records.
Recognition of investment income, with emphasis on special dividend income.	Investment income is recognised in accordance with accounting policies note 1(e). The Manager provides detailed revenue estimates for the Board's review, and income is tested to ensure complete and accounted for correctly. Careful consideration is given to special dividends. These are allocated to revenue or capital according to the nature of the payment by the underlying company, and the allocation is also reviewed by the auditor.
Correct calculation of the performance fee.	The year end performance fee calculation is prepared and reviewed by the Manager and reviewed in depth by the Committee with reference to the investment management agreement.
The allocation of management and finance costs to capital.	The allocation is reviewed by the Committee annually taking into account the long-term split of returns from the portfolio, both historic and projected; yield; the objective of the Company; and the latest market practice of peers.

These matters were discussed with the Manager and the auditor in pre year end audit planning, and were satisfactorily addressed through consideration of reports provided by, and discussed with, the Manager and the auditor at the conclusion of the audit process.

Consequently, and following a thorough review process of the 2014 annual financial report, the Audit Committee advised the Board that the report taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

The Chairman of the Audit Committee will be present at the AGM to answer questions relating to the annual financial report.

Review of the External Auditor, including Non-Audit Services and Re-appointment

Prior to any engagement for non-audit services, the Audit Committee consider whether the skills and experience of the auditor make them a suitable supplier of such services and ensures there is no threat to objectivity and independence in the conduct of the audit as a result. Excluding VAT and any expenses, the annual audit fee was £19,765 and the non-audit fee was £6,500; this latter item covered the review of the half-yearly financial report and the annual certificates of compliance to the trustees of the debenture stocks. The Committee does not believe that this has impaired the auditor's independence and objectivity. Non-audit services up to £5,000 do not require approval in advance of the Audit Committee; amounts in excess of this require the approval of the Audit Committee.

The Committee evaluated the performance and effectiveness of the external auditor and their audit process. This included a review of the audit planning, execution and reporting and the quality of the audit work, results and audit team. This review also sought the view of the Manager in their dealings with the auditor. In addition, the Committee considered the independence of KPMG Audit plc (KPMG) and the objectivity of the audit process. From these, and the Audit Committee Chairman's and the Committee's direct interaction with KPMG, the Committee concluded that it continued to be satisfied with the performance of KPMG and that they continued to display the necessary attributes of objectivity and independence.

During the year the Audit Committee placed the audit out to tender. After detailed consideration of submissions from a number of audit firms and interview of the proposed audit partner and manager, the Committee recommended to the Board the re-appointment of the incumbent, KPMG, under the remit of a new audit engagement partner.

Due to a legal reorganisation within KPMG, the specific entity being appointed for 2015 will be KPMG LLP rather than KPMG Audit Plc as currently. The Board has, therefore, decided to put KPMG Audit Plc's parent entity, KPMG LLP, forward to be appointed as auditor and a resolution concerning their appointment will be put to a shareholder vote at the Annual General Meeting on 18 July 2014.

Under European draft audit legislation, mandatory auditor rotation will be implemented. Transition arrangements will vary depending on the length of the audit appointment at the date the new rules come into force, but if the auditor has been in place for twenty years or more (as in the Company's case) the first rotation must take place within six years of the regulations coming into force. The Company was incorporated in 1889 and the tenure of KPMG, including its predecessor firms, as auditor, is at least fifty years. Under the committee's interpretation of current and proposed regulations the Company, having now completed an audit tender, will not be required to tender or rotate the auditor again for another five years. However, the Committee will keep the situation under review.

Audit Information

The Directors confirm that, so far as they are aware, there is no relevant audit information of which the Company's auditor is 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 auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Internal Controls and Risk Management

The Committee assesses the risks arising in relation to the Company's operations and identifies the controls exercised to mitigate them by the Board and its delegates – the Manager and other service providers. These are recorded in the Company's risk matrix which effectively highlights and monitors the principal risks, details of which are provided in the Strategic Report. The Committee also receives and considers, together with representatives of the Manager, reports in relation to the operational controls of the investment manager, accounting administrator, custodian, company secretary and registrar. These reviews identified no issues of significance in the last year.

Internal Audit

Due to the nature of the Company, being an externally managed investment company with no executive employees, and in view of the Manager having an internal audit function the Company does not have its own internal audit function.

Gordon McQueen

Chairman of the Audit Committee

27 May 2014

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 MARCH 2014

The Directors present their report for the year ended 31 March 2014.

Business and Status

The Company was incorporated and registered in Scotland on 1 March 1889 as a public limited company, registered number SC1836. It is an investment company as defined by section 833 of the Companies Act 2006 and operates as an investment trust within the meaning of the Corporation Tax Act 2010 and the Investment Trust (Approved Company) (Tax) Regulations 2011. HM Revenue & Customs have approved the Company's status as an investment trust and, in the opinion of the Directors, the Company has conducted its affairs so as to enable it to maintain such approval.

Corporate Governance

The Corporate Governance Statement set out on page 20 is included in this Directors' Report by reference.

The Board

At the year end the Board comprised six non-executive Directors. Brief biographical details of the Directors are shown on page 18. The Company's Corporate Governance Framework is set out on page 19. This shows the key objectives of the Board and also the membership and key objectives of the Board's supporting committees which deal with specific aspects of the Company's affairs: the Audit, Management Engagement and Nomination Committees.

The Board regards all of the Directors to be wholly independent of the Company's Manager. 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.

Chairman

The Chairman of the Company is Jim Pettigrew. He has been a member of the Board since 2005 and was the audit committee chairman until 22 July 2011, when he was appointed as Chairman.

Senior Independent Director

The Company's Senior Independent Director is Sir Nigel Wicks.

Board Responsibilities

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 is committed to the prevention of corruption in the conduct of the Company's affairs and, taking account of the nature of the Company's business and operations, has put in place procedures for and on behalf of the Company that the Board considers adequate to prevent persons associated with it from engaging in bribery.

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; selecting an appropriate Manager, approving accounting policies and dividend policy; determining dividends payable; managing the capital structure; setting long-term strategy; reviewing investment performance; assessing risk; approving loans and borrowing; assessing risks; and reviewing, and if agreed approving, recommendations made by the Audit Committee. The schedule of matters reserved for the Board will be available for inspection at the AGM and is otherwise available at the registered office of the Company and on the Manager's website.

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.

Finally, 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.

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.

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 composition and activities of the Audit Committee are summarised in the Audit Committee Report on pages 21 to 23, which is included in this Directors' Report by reference.

The Management Engagement Committee

The Management Engagement Committee comprises all directors under the chairmanship of Jim Pettigrew. The Committee has written terms of reference which clearly define its responsibilities and duties, including its role and authority, and are available for inspection at the AGM and the registered office of the Company and are available via the Manager's website. The Committee meets at least annually to review the investment management agreement with the Company's Manager and to review the services provided by the Manager.

The Nominations Committee

All Directors are members of the Nomination Committee which is chaired by Jim Pettigrew. The Nomination Committee has written terms of reference which clearly define its duties and responsibilities and these are available for inspection at the AGM, at the registered office of the Company and are also available on the Manager's website. The terms of reference include regularly reviewing the composition of the Board and its committees and evaluating whether they have the appropriate balance of skills, experience, independence and knowledge of the Company; and making recommendations to the Board for the re-election of directors at AGMs.

The Committee is also responsible for identifying and nominating to the Board suitable candidates taking into consideration the above requirements; the ability of any new director to devote sufficient time to the Company to carry out his or her duties effectively; and with due regard for the benefits of diversity (including gender). The Board has not set any measurable objectives in respect of the latter.

The Board has noted the inference of provisions in the UK Corporate Governance Code that non-executive directors who have served for more than nine years should be presumed not to be independent. The AIC does not believe that this presumption is appropriate for investment companies and therefore does not recommend that long-serving directors be prevented from forming part of the independent majority of an investment trust board. Accordingly, the Board considers that the independence of Jim Pettigrew and Sir Nigel Wicks, who have served on the Board just over nine years, is not compromised by their length of service.

At the end of 2012, the Nominations Committee appointed an external search consultancy, Odgers Berndtson, to seek two new directors. As a result, during the year the Board appointed Victoria Hastings and Glen Suarez as Directors of the Company with effect from 23 May and 24 May 2013, respectively. Shareholders subsequently supported the Board’s resolutions for the election of these two directors at the Company’s 2013 AGM.

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 and will also be available at the AGM. A Director can be removed from office without notice or compensation upon being served with a written notice signed by all his co-Directors.

Appointment, Re-election and Tenure

Directors are appointed by ordinary resolution at a general meeting of ordinary shareholders and Directors have the power to appoint a Director. 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. All Directors served throughout the year, with the exception of Victoria Hastings and Glen Suarez who, as stated above, were appointed on 23 May and 24 May 2013, respectively.

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

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 of the Board and individual Directors.

During the year, the Board appointed an external consultant, Lintstock Limited, to undertake an extensive review of the Board structure, the Committees and individual Directors together with consideration of their independence. The conclusion was that the performance of the Board as a whole, the Committees, the Chairman and individual Directors was deemed satisfactory.

Attendance at Board and Committee Meetings

All Directors are considered to have a good attendance record at Board and Committee meetings of the Company. The following table sets out the number of scheduled Directors’ meetings 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	4	3	1	1
Meetings attended:				
Jim Pettigrew	4	3(1)	1	1
Victoria Hastings	4	3	1	n/a(2)
Gordon McQueen	4	3	1	1
Nicola Ralston(3)	2	1	1	1
Glen Suarez	4	3	1	n/a(2)
Maxwell Ward	4	3	1	1
Sir Nigel Wicks	4	3	1	1

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

(2) Victoria Hastings and Glen Suarez were appointed Directors of the Company following the Nomination Committee in May 2013.

(3) Retired as a Director on 19 July 2013.

Board members also attended a significant number of unscheduled meetings (both formal and informal) in the second half of the financial year to discuss the resignation of Neil Woodford from

Invesco Pepetual and the appointment of his named successor, and the associated revisions to the investment management agreement.

Directors

Directors' Interests in Shares

The Directors' interests in the ordinary share capital of the Company are disclosed in the Directors' Remuneration Report on page 34.

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.

Director's Indemnities and Insurance

The Company maintains Directors' and Officers' liability insurance which provides appropriate cover for any legal action brought against its Directors. In addition, deeds of indemnity have been executed on behalf of the Company for each of the Directors under the Company's Articles of Association.

Subject to the provisions of UK legislation, these deeds provide that the Directors may be indemnified out of the assets of the Company in respect of liabilities they may sustain or incur in connection with their appointment.

Conflicts of Interest

A Director must avoid a situation where he or she 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.

Internal Controls and Risk Management

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

The Company's internal controls and risk management systems have been reviewed with the Manager against risk parameters approved by the Board.

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 controls 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 were taken to remedy any significant failings or weaknesses identified from their review. No significant failings or weaknesses occurred throughout the year ended 31 March 2014 and up to the date of this annual financial report.

The Board reviews financial reports and performance against 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.

Going Concern

The financial statements have been prepared on a going concern basis. The Directors consider this is the appropriate basis as they have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, being taken as 12 months after the signing of the balance sheet. In considering this, the Directors took into account the maturity of the debentures, 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. The Directors also considered the revenue forecasts for the forthcoming year and future dividend payments in concluding on the going concern basis.

The Manager

As discussed in the Chairman's statement, during the second half of the financial year the Board held extensive discussions with the Company's professional advisers, major shareholders and the Manager concerning the variety of options for the future management of the Company.

This included careful consideration of the Manager's investment style and strategy for the portfolio, having regard to the Company's twin investment objectives of providing a rising income and long term capital growth, and an assessment of their management resources. At the same time, the Board conducted a review of the Company's management fees in light of the changing market conditions with a view to achieving a simple, transparent and competitive structure.

As a result, the Board decided to retain the Manager and that Mark Barnett would take responsibility as the Company's named portfolio manager with effect from 28 January 2014. Mark's biographical details are set out on page 19. The Board also agreed amendments to the management fees as shown below.

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, as amended on 28 January 2014. The agreement is terminable by either party by giving not less than three months' notice.

Prior to 31 March 2014, the management fees chargeable to the Company were as follows:

– The management fee was calculated on 0.05% of the market capitalisation of the Company's ordinary shares at each month end and paid monthly in arrears.

– In addition, the Manager was entitled to a performance fee not greater than 1% of the period end net asset value, prior to deduction of the current period's performance fee. The performance fee was based on 15% of the outperformance of the Company's net assets over its benchmark – the FTSE All-Share Index – after a hurdle rate of 1.25% per annum, and on average quarterly net asset values (debt at par) of the Company over the previous three accounting years ended at the balance sheet date. This gave rise to a performance fee for the year of £12,326,000 (2013:£11,492,000).

From 1 April 2014, the fee is calculated on 0.0458333% of the market capitalisation of the Company's ordinary shares at each month end and paid monthly in arrears, and no performance fee. The Board also agreed with the Manager a reduction of up to £7.5 million in the amount of any performance fee in respect of the year ended 31 March 2014; this to mitigate the portfolio transition costs arising from the change in the named portfolio manager, Mark Barnett. As a result the performance fee payable for the year to 31 March 2014 was reduced to £4,826,000, substantially below the figure that would have otherwise been due.

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 both on its recent review of activities and an in depth review of the Manager's proposals and subsequent appointment of Mark Barnett as the Company's new named portfolio manager, considers that the continuing appointment of Invesco Asset Management Limited is in the interests of shareholders as a whole.

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.

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

AIFM

The Board is taking independent legal advice in relation to the AIFM Directive and has decided in principle to appoint Invesco Fund Managers Limited (IFML) as the Company's AIFM, pending IFML's approval as such by the FCA. IFML is an associated company of Invesco Asset Management Limited (IAML), the current Manager, and it is expected that IAML will continue to manage the Company's investments under delegated authority from IFML.

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.

Stewardship

The Board considers that the Company has a responsibility as a shareholder towards ensuring that high standards of Corporate Governance are maintained in the companies in which it invests. To achieve this, the Board does not seek to intervene in daily management decisions, but aims to support high standards of governance and, where necessary, will take the initiative to ensure those standards are met. The principal means of putting shareholder responsibility into practice is through the exercise of voting rights. The Company's voting rights are exercised on an informed and independent basis.

The Company's stewardship functions have been delegated to the Manager. The Manager 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. A copy of the Manager's policy on Corporate Governance and Stewardship can be found at *www.invescoperpetual.co.uk*.

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 reports, 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 of the net asset value of the Company's ordinary shares, interim management statements and by monthly and daily fact sheets produced by the Manager. This information can be accessed at the Manager's investment trust website at *www.invescoperpetual.co.uk/investmenttrusts.* At each AGM, a presentation is made by the investment manager following the formal business of the meeting and shareholders have the opportunity to attend, vote and most importantly to communicate directly with the whole Board.

There is a regular dialogue between the Manager and major 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 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.

Social and Environmental Policies

As an investment trust with no employees, property or activities outside investment, 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, competitive advantage 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.

The Company is able to supply documents or information to shareholders in electronic form (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.

Greenhouse Gas Emissions

The Company has no employees or premises and does not purchase electricity, heat, steam or cooling for its own use. Accordingly, the quantifiable amount of carbon dioxide equivalent produced by the Company annually is zero tonnes.

Share Capital

Capital Structure

At the year end, the Company’s allotted and fully paid share capital consisted of 195,116,734 ordinary shares of 25p each. To enable the Board to take action to deal with any significant overhang or shortage of shares in the market, it seeks approval from shareholders every year to buy back and issue shares, however, no shares were bought back or issued in the year.

Restrictions

There are no restrictions concerning the transfer of securities in the Company, no special rights with regard to control attached to securities, no agreements between holders of securities regarding their transfer known to the Company, and no agreements to which the Company is party that might affect its control following a successful takeover bid.

Voting

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.

Repurchase Powers

The Board’s current powers to repurchase shares and proposals for their renewal are disclosed on page 32.

Substantial Holdings in the Company

The Company has been notified of the following holdings of 3% and over of the Company's share capital carrying unrestricted voting rights:

	AS AT 30 APRIL 2014		AS AT 31 MARCH 2014	
	HOLDING	%	HOLDING	%
Brewin Dolphin, Stockbrokers	11,430,758	5.9	11,577,249	5.9
Hargreaves Lansdown, Stockbrokers	10,568,758	5.4	10,523,336	5.4
Charles Stanley, Stockbrokers	9,931,312	5.1	9,925,235	5.1
Alliance Trust Savings	9,032,651	4.6	9,046,134	4.6
Aberdeen Retail Plans	8,828,599	4.5	8,867,895	4.5
Rathbones	8,604,588	4.4	8,692,254	4.5
Investec Wealth & Investment	7,378,986	3.8	7,438,499	3.8

Individual Savings Account (ISA)

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

Business of the Annual General Meeting

The following summarises the business of the forthcoming AGM of the Company, which is to be held on 18 July 2014 at 11.00 am. The notice of the AGM and related notes can be found on pages 59 to 62. All resolutions are ordinary resolutions unless otherwise identified.

Resolution 1 is for members to receive this Annual Financial Report (AFR), including the financial statements and auditor's report.

Resolution 2 is to approve the Directors' Remuneration Policy. This is a new requirement and the vote is binding. The Directors' Remuneration Policy is set out on page 33 of this AFR.

Resolution 3 is to approve the Annual Statement and Report on Remuneration. It is mandatory for listed companies to put their Annual Statement and Report on Remuneration to an advisory shareholder vote. The Annual Statement and Report on Remuneration is set out on pages 33 and 34 of this AFR.

Resolution 4 is to declare the final dividend for the year.

Resolutions 5 to 10 are to re-elect Directors. Biographies of the Directors can be found on page 18.

Resolutions 11 and 12 are to appoint the auditor and to authorise the Directors to determine their remuneration. KPMG Audit Plc have notified the Company that they are not seeking reappointment. KPMG LLP have expressed their willingness to hold office until the conclusion of the next AGM of the Company.

Special Business

Ordinary Resolution 13: Update of Investment Objective and Investment Policy

To approve the Investment Objective and Investment Policy set out on page 8 as follows: to change the borrowing limit from £200 million to 25% of net assets; and clarify some of the wording in the investment objective and policy, without changing the substance. These changes are discussed in depth in the Chairman's Statement and on page 8.

Ordinary Resolution 14 and Special Resolution 15: Authority to Allot Shares

Resolution 14 is an Ordinary Resolution seeking renewal of the current 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 27 May 2014.

Resolution 15 is a Special Resolution which seeks renewal of the current authority to allot equity securities pursuant to a rights issue or to issue up to 10% of the issued ordinary share capital otherwise than in connection with a rights issue, dis-applying preemption 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 dilute the interests of existing shareholders by using the authority to issue shares at a price which is less than the Net Asset Value (calculated with debt at market 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 16: Authority to Buy Back Shares

This resolution 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 27 May 2014. The authority will expire at the Company's next AGM or 15 months following the passing of this resolution, if earlier. The principal purpose of share buy backs is to 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 Conduct 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 17: Notice Period for General Meetings

The EU Shareholder Rights Directive 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 17 will propose that the period of notice for general meetings of the Company (other than AGMs) shall not be less than 14 days' notice.

The Directors have carefully considered all the resolutions proposed in the Notice of AGM and, in their opinion, consider them all to be in the best interests of shareholders as a whole. The Directors therefore recommend that shareholders vote in favour of each resolution.

By order of the Board

Invesco Asset Management Limited
Company Secretary
Perpetual Park
Perpetual Park Drive
Henley-on-Thames
Oxfordshire RG9 1HH

27 May 2014

DIRECTORS' REMUNERATION REPORT
FOR THE YEAR ENDED 31 MARCH 2014

Introduction

This report has been prepared under the requirements of The Large and Medium-sized Companies and Group (Accounts and Reports)(Amendment) Regulations 2013 and in accordance with the Listing Rules of the Financial Conduct Authority. Ordinary resolutions for the approval of the Directors' Remuneration Policy (binding) and the Annual Statement and Report on Remuneration (advisory) will be put to shareholders at the Annual General Meeting.

The Company's auditor is required to audit certain of the disclosures provided in this Report. Where disclosures have been audited, they are indicated in this Report. The independent auditor's opinion is included on pages 37 and 38.

Remuneration Responsibilities

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.

Directors' Remuneration Policy

The policy is that the remuneration of Directors: be fair and reasonable in relation to that of other investment trusts and to the time commitment and responsibilities undertaken; be reviewed relative to movements in the Retail Price Index; be sufficient to retain and motivate appointees, as well as ensure that candidates of a high calibre are recruited to the Board but not be more than necessary for the purpose; and take into consideration any committee memberships and chairmanship duties.

Fees for the Directors are determined by the Board within the limits stated in the Company's Articles of Association (Articles). The maximum currently is £250,000 in aggregate per annum.

Directors do not have service contracts. Directors are appointed under letters of appointment, copies of which are available for inspection at the registered office of the Company. Directors are entitled to be reimbursed for any reasonable expenses properly incurred by them in the performance of their duties. Directors are not eligible for bonuses, pension benefits, share options or other incentives or benefits. There are no agreements between the Company and its Directors concerning compensation for loss of office.

Notwithstanding the above, the Company's Articles also provide that additional discretionary payments can be made for services which, in the opinion of the Directors, are outside the scope of the ordinary duties of a Director.

The level of Directors' remuneration is normally reviewed annually, although such review will not automatically result in any changes. This Directors' Remuneration Policy will apply to any new directors, who will be paid the appropriate fee based on the Directors' fees level in place at the date of appointment. The Board will consider, where raised, shareholders' views on Directors' remuneration.

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

This Directors' Remuneration Policy is the same in all material respects as that currently followed by the Board and summarised in the last Directors' Remuneration Report. This policy is intended to take effect immediately upon its approval by shareholders.

The Company has no employees and consequently has no policy on the remuneration of employees.

Chairman's Annual Statement on Directors' Remuneration

For the year ended 31 March 2014, fees paid to the directors were:

Chairman £44,000 per annum; Senior Independent Director £27,500 per annum; Audit Committee Chairman £27,000 per annum; Other Directors £24,200 per annum

No additional discretionary payments were made in the year, or in the previous year.

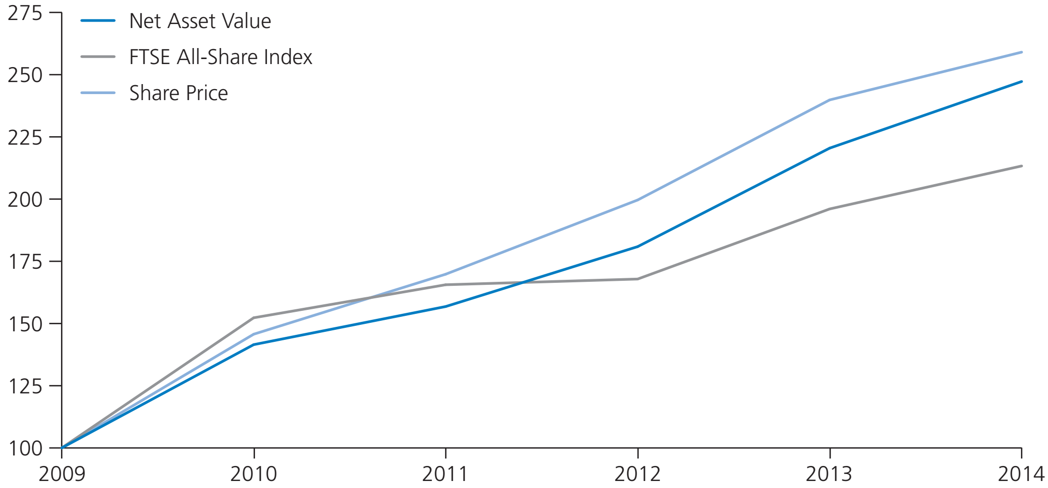
Directors' fees, which have remained unchanged since 1 April 2007, were reviewed during the year although not increased. The Board considered information supplied by the Manager at their request. This included the fee rates of comparable investment companies. No external consultant was used.

Report on Remuneration for the Year Ended 31 March 2014

The Company's Performance

The graph below plots, in annual increments, 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 five years to 31 March 2014. This index is the benchmark adopted by the Company for comparison purposes.

Figures have been rebased to 100 at 31 March 2009.



Directors' Emoluments for the Year (Audited)

The Directors who served during the year received the following total emoluments, all of which were in the form of fees:

	2014 £	2013 £
Jim Pettigrew (Chairman)	44,000	44,000
Richard Barfield (retired 20 July 2012)	—	8,382
Victoria Hastings (appointed 23 May 2013)	20,763	—
Gordon McQueen (Chairman of the Audit Committee)	27,000	27,000
Nicola Ralston (retired 19 July 2013)	7,310	24,200
William Samuel (retired 31 December 2012)	—	18,150
Glen Suarez (appointed 24 May 2013)	20,697	—
Maxwell Ward	24,200	24,200
Sir Nigel Wicks (Senior Independent Director)	27,500	26,547
Total	171,470	172,479

Directors' Shareholdings and Share Interests (Audited)

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

	31 MARCH 2014 £	31 MARCH 2013 £
Jim Pettigrew	45,000	20,000
Victoria Hastings	5,000	—
Gordon McQueen	2,000	2,000
Glen Suarez	2,000	2,000
Maxwell Ward	20,000	20,000
Sir Nigel Wicks	3,500	3,500

Save as aforesaid, no Director had any interests, beneficial or otherwise, in the ordinary shares or debenture stock of the Company during the year. No changes to these holdings have been notified since the year end. No connected person interests have been notified.

Directors hold shares in the Company at their discretion. Share ownership is encouraged, but no guidelines have been set.

Relative Importance of Spend on Pay

The Company has no employees. The following chart compares the remuneration paid to the non-executive Directors with aggregate distributions to shareholders in the year to 31 March 2014 and the prior year:

	2014 £'000	2013 £'000	CHANGE £'000
Aggregate Directors' Emoluments	171	172	(1)
Aggregate Shareholder Distributions	44,487	42,926	1,561

Voting at Last Annual General Meeting

At the Annual General Meeting of the Company held on 19 July 2013 an advisory resolution was put to shareholders to approve the remuneration report set out in the 2013 annual financial report. This resolution was passed on a show of hands. The proxy votes registered in respect of the resolution were: For 41,860,903 (99.36%); Against 270,665 (0.64%); Withheld 155,330.

Approval

This Directors' Remuneration Report was approved by the Board of Directors on 27 May 2014.

Jim Pettigrew
Chairman

Signed on behalf of the Board of Directors

STATEMENT OF DIRECTORS' RESPONSIBILITIES

IN RESPECT OF THE ANNUAL FINANCIAL REPORT AND THE FINANCIAL STATEMENTS

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

Company law requires the Directors to prepare financial statements for each financial year. Under the law the Directors have elected to prepare financial statements in accordance with UK Accounting Standards.

Under company law, the Directors must not approve the financial statements 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 Strategic Report, Directors' Report, a Directors' Remuneration Report and a Corporate Governance Statement that complies 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;
- 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; and
- they consider that this annual financial report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

Jim Pettigrew
Chairman

Signed on behalf of the Board of Directors

27 May 2014

Electronic Publication

The annual financial report is published on *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 AUDITOR'S REPORT

TO THE MEMBERS OF THE EDINBURGH INVESTMENT TRUST PLC

Opinions and conclusions arising from our audit

1. Our opinion on the financial statements is unmodified

We have audited the financial statements of The Edinburgh Investment Trust plc for the year ended 31 March 2014 set out on pages 39 to 58. In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2014 and of its total return for the year then ended;
- have been properly prepared in accordance with UK accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

2. Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements, the risks of material misstatement that had the greatest effect on our audit were as follows:

Carrying amount of Listed and Quoted Investments (£1,417 million)

Refer to page 22 (Audit Committee Report), page 42 (accounting policy) and notes 9 and 17 (financial disclosures).

- The risk: The Company's portfolio of listed investments makes up 98.4% of total assets (by value) and is considered to be a key driver of the Company's capital and revenue performance. We do not consider these investments to be at high risk of significant misstatement, or to be subject to a significant level of judgement, because they comprise liquid, quoted investments. However, due to their materiality in the context of the financial statements as a whole, they are considered to be one of the areas which had the greatest effect on our overall audit strategy and allocation of resources in planning and completing our audit.
- Our response: Our procedures over the existence, completeness and valuation of the Company's portfolio of listed investments included, but were not limited to:
  - documenting and assessing the processes in place to record investment transactions and to value the portfolio;
  - agreeing the valuation of 100% of the investments to externally quoted prices; and
  - agreeing 100% of the investment holdings to independently received third party confirmations.

3. Our application of materiality and an overview of the scope of our audit

The materiality for the financial statements as a whole was set at £28.4 million. This has been determined with reference to a benchmark of the Total Assets figure (of which it represents 2%). The Total Assets figure is primarily composed of the Company's investment portfolio, which is considered the key driver of the Company's capital and revenue performance and, as such, we consider it to be one of the principal considerations for members of the Company in assessing the financial performance of the Company.

In addition, we applied a materiality of £3.3 million to income from investments, management fees (including performance fee) and finance cost of borrowings for which we believe misstatements of lesser amounts than materiality as a whole could reasonably be expected to influence the economic decisions of the members of the Company taken on the basis of the financial statements.

We agreed with the Audit Committee to report to it all corrected and uncorrected misstatements we identified through our audit with a value in excess of £1.42 million, in addition to other audit misstatements below that threshold that we believe warranted reporting on qualitative grounds.

Our audit of the Company was undertaken to the materiality level specified above and was all performed at the Company's service provider, Invesco Asset Management Limited, based in London.

4. Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion:

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

5. We have nothing to report in respect of the matters on which we are required to report by exception

Under International Standards of Auditing (UK and Ireland) (ISAs) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the Directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy; or
- the Audit Committee Report does not appropriately address matters communicated by us to the Audit Committee.

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

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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, set out on page 28, in relation to going concern; and
- the part of the Corporate Governance Statement on page 20 relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

Scope of report and responsibilities

As explained more fully in the Directors' Responsibilities Statement set out on page 36, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2013a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

Salim Tharani (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
Saltire Court, 20 Castle Terrace
Edinburgh EH1 2EG

27 May 2014

INCOME STATEMENT

FOR THE YEAR ENDED 31 MARCH

	NOTES	2014 REVENUE £'000	2014 CAPITAL £'000	2014 TOTAL £'000	2013 REVENUE £'000	2013 CAPITAL £'000	2013 TOTAL £'000
Gains on investments	9(c)	—	112,468	112,468	—	185,241	185,241
Foreign exchange profits/(losses)		—	154	154	—	(377)	(377)
Income	2	55,360	22	55,382	52,887	—	52,887
Investment management fee	3	(2,084)	(9,689)	(11,773)	(1,804)	(15,699)	(17,503)
Other expenses	4	(785)	(2)	(787)	(722)	(2)	(724)
Net return before finance costs and taxation		52,491	102,953	155,444	50,361	169,163	219,524
Finance costs	5	(5,850)	(13,651)	(19,501)	(5,850)	(13,651)	(19,501)
Return on ordinary activities before tax		46,641	89,302	135,943	44,511	155,512	200,023
Tax on ordinary activities	6	(1,417)	—	(1,417)	(1,565)	—	(1,565)
Return on ordinary activities after tax for the financial year		45,224	89,302	134,526	42,946	155,512	198,458
Return per ordinary share							
Basic	7	23.2p	45.8p	69.0p	22.0p	79.7p	101.7p

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 CAPITAL £'000	SHARE PREMIUM £'000	CAPITAL REDEMPTION RESERVE £'000	CAPITAL RESERVE £'000	REVENUE RESERVE £'000	TOTAL £'000
Balance at 31 March 2012	48,779	6,639	24,676	841,659	60,425	982,178
Dividends paid – note 8	—	—	—	—	(42,890)	(42,890)
Net return on ordinary activities	—	—	—	155,512	42,946	198,458
Balance at 31 March 2013	48,779	6,639	24,676	997,171	60,481	1,137,746
Dividends paid – note 8	—	—	—	—	(44,461)	(44,461)
Net return on ordinary activities	—	—	—	89,302	45,224	134,526
Balance at 31 March 2014	48,779	6,639	24,676	1,086,473	61,244	1,227,811

The accompanying notes are an integral part of these statements.

BALANCE SHEET

FOR THE YEAR ENDED 31 MARCH

	NOTES	2014 £'000	2013 £'000
Fixed assets			
Investments held at fair value through profit or loss	9(a)	1,420,220	1,340,948
Current assets			
Debtors	10	10,500	9,410
Cash and cash funds		7,025	87
		17,525	9,497
Creditors: amounts falling due within one year	11	(112,068)	(15,084)
Net current liabilities		(94,543)	(5,587)
Total assets less current liabilities		1,325,677	1,335,361
Creditors: amounts falling due after more than one year	12	(97,866)	(197,615)
Net assets		1,227,811	1,137,746
Capital and reserves			
Share capital	13	48,779	48,779
Share premium	14	6,639	6,639
Capital redemption reserve	14	24,676	24,676
Capital reserve	14	1,086,473	997,171
Revenue reserve	14	61,244	60,481
Shareholders' funds		1,227,811	1,137,746
Net asset value per ordinary share			
Basic	15	628.18p	581.89p

These financial statements were approved and authorised for issue by the Board of Directors on 27 May 2014.

Signed on behalf of the Board of Directors

Jim Pettigrew
Chairman

The accompanying notes are an integral part of this statement.

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 MARCH

	NOTES	2014 £'000	2013 £'000
Cash inflow from operating activities	16(a)	32,888	38,965
Servicing of finance	16(b)	(19,250)	(19,250)
Capital expenditure and financial investment	16(b)	37,761	23,055
Equity dividends paid	8	(44,461)	(42,890)
Net cash inflow/(outflow) before management of liquid resources and financing		6,938	(120)
Management of liquid resources	16(b)	(6,800)	160
Increase in cash		138	40
Reconciliation of net cash flow to movement in net debt			
Increase in cash		138	40
Cashflow from movement in liquid resources		6,800	(160)
Debenture stock non-cash movement		(251)	(251)
Movement in net debt in the year		6,687	(371)
Net debt at beginning of year		(197,528)	(197,157)
Net debt at end of year	16(c)	(190,841)	(197,528)

The accompanying notes are an integral part of this statement.

1. Principal Accounting Policies

Accounting policies describe the Company's approach to recognising and measuring transactions during the year and the position of the Company at the year end.

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 and Segmental Reporting

(i) *Functional and presentational currency*

The financial statements are presented in sterling, which is the Company's functional and presentational 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.

(iii) *Segmental reporting*

The Directors are of the opinion that the Company is engaged in a single segment of business of investing in equity and debt securities, issued by companies quoted mainly on the UK or other recognised stock exchanges.

(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.

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 recognised in the income statement and taken to capital reserves.

Futures contracts may be entered into for hedging purposes and are valued at the quoted price of the contract. Profits and losses on the closure or revaluation of positions are recognised in the income statement and taken to 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 capital or revenue 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 principally from capital returns on the portfolio.

Transaction costs are recognised as capital in the income statement. All other expenses are allocated to revenue in the income statement.

1. Principal Accounting Policies (continued)

(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

This note shows the income generated from the portfolio (investment assets) of the Company and income received from any other source.

	2014 £'000	2013 £'000
Income from listed investments		
UK dividends		
– Ordinary dividends	40,502	40,609
– Special dividends	3,441	462
Overseas dividends		
– Ordinary dividends	10,125	10,986
– Special dividends	311	—
Scrip dividends	969	823
Income from money market funds	11	7
	55,359	52,887
Other income		
Underwriting commission	1	—
Total income	55,360	52,887

A special dividend of £22,000 was recognised in capital during the year (2013: £nil).

3. Investment Management Fees

This note shows the fees due to the Manager. These are made up of the management fee calculated and paid monthly and a performance fee calculated and paid annually. The rate of the investment management fee was changed subsequent to the year end, and a performance fee will no longer be charged. Page 28 of the Directors' Report explains the changes.

	2014			2013		
	REVENUE £'000	CAPITAL £'000	TOTAL £'000	REVENUE £'000	CAPITAL £'000	TOTAL £'000
Investment management fee	2,084	4,863	6,947	1,804	4,207	6,011
Performance fee	—	4,826	4,826	—	11,492	11,492
	2,084	9,689	11,773	1,804	15,699	17,503

Details of the investment management agreement are disclosed on page 28 in the Report of the Directors. At 31 March 2014 investment management fees of £579,000 (2013: £558,000) and a performance fee of £4,826,000 (2013: £11,492,000) were accrued.

4. Other Expenses

The other expenses of the Company are presented below; those paid to the Directors and the auditor are separately identified.

	2014 REVENUE £'000	2014 CAPITAL £'000	2014 TOTAL £'000	2013 REVENUE £'000	2013 CAPITAL £'000	2013 TOTAL £'000
Other expenses	785	2	787	722	2	724
Other expenses include the following:						
Directors' fees	171	—	171	172	—	172
Fees payable to the Company's auditor in relation to:						
– the audit of the Company's annual accounts (including expenses)	21	—	21	23	—	23
– audit related assurance services	7	—	7	7	—	7

The maximum Directors' fees authorised by the Articles of Association are £250,000 per annum.

The Directors' Remuneration Report provides further information on Directors' fees. Included within other expenses is £16,000 (2013: £16,600) of employer's National Insurance payable on Directors' fees. As at 31 March 2014, the amount outstanding on Director's fees and employer's National Insurance was £16,900 (2013: £14,900).

Fees payable to the Company's auditor for audit related assurance services are 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

Finance costs arise on any borrowing facilities the Company has in place, being in this case £200 million of debentures.

	2014 REVENUE £'000	2014 CAPITAL £'000	2014 TOTAL £'000	2013 REVENUE £'000	2013 CAPITAL £'000	2013 TOTAL £'000
Interest payable on borrowings repayable not by instalments:						
Debenture stocks repayable within 1 year	3,450	8,050	11,500	—	—	—
Debenture stocks repayable within 1-2 years	—	—	—	3,450	8,050	11,500
Debenture stocks repayable after 5 years	2,325	5,425	7,750	2,325	5,425	7,750
Amortised debenture stock discount and issue costs	75	176	251	75	176	251
	5,850	13,651	19,501	5,850	13,651	19,501

6. Taxation

As an investment trust the Company pays no tax on capital gains. As the Company invests principally in UK equities, it has little overseas tax and the overseas tax charge is the result of withholding tax deducted at source. This note also clarifies the basis for the Company to have no deferred tax asset or liability.

(a) Current tax charge

	2014 £'000	2013 £'000
Overseas tax	1,417	1,565

(b) Reconciliation of current tax charge

	2014 £'000	2013 £'000
Total return on ordinary activities before taxation	135,943	200,023
UK Corporation Tax rate of 23% (2013: 24%)	31,267	48,006
Effect of:		
– non-taxable gains on investments	(25,868)	(44,458)
– non-taxable (gains)/losses on foreign exchange movements	(35)	90
– non-taxable UK dividends and scrip dividends	(10,258)	(10,054)
– non-taxable overseas dividends	(2,400)	(2,637)
– expenses and finance costs in excess of taxable income for the year carried forward	7,294	9,052
– disallowed expenses	—	1
– overseas tax	1,417	1,565
Current tax charge for the year	1,417	1,565

(c) Deferred tax

Owing to the Company's status as an investment company, and its intention to continue meeting the conditions required to maintain that 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 £389,865,000 (2013: £358,111,000) that are available to offset future taxable revenue. A deferred tax asset of £77,973,000 (2013: £82,365,000), measured at the standard corporation tax rate of 20% (2013: 23%), 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

Return per share is the amount of gain generated for the financial year divided by the weighted average number of ordinary shares in issue.

The basic, capital and total returns per ordinary share are based on each return on ordinary shares after tax and on 195,116,734 (2013: 195,116,734) ordinary shares, being the number of shares in issue during the year.

8. Dividends

Dividends represent the distribution of income to shareholders. The Company pays four dividends a year – three interim and one final dividend.

	2014		2013	
	pence	£'000	pence	£'000
Dividends paid and recognised in the year:				
Third interim paid in respect of previous year	5.00	9,756	5.00	9,756
Final paid in respect of previous year	7.80	15,219	7.00	13,658
First interim paid	5.00	9,756	5.00	9,756
Second interim paid	5.00	9,756	5.00	9,756
	22.80	44,487	22.00	42,926
Unclaimed dividends	—	(26)	—	(36)
	22.80	44,461	22.00	42,890
Dividends on shares payable in respect of the year:				
First interim	5.00	9,756	5.00	9,756
Second interim	5.00	9,756	5.00	9,756
Third interim	5.00	9,756	5.00	9,756
Proposed final	8.50	16,585	7.80	15,219
	23.50	45,853	22.80	44,487

The proposed final dividend is subject to approval by ordinary shareholders at the AGM.

9. Investments

The portfolio comprises investments which are listed, or traded on a recognised stock exchange, and a small proportion of investments which are valued by the Directors as they are unlisted or not regularly traded.

Gains and losses in the year are either:

- **realised, usually arising when investments sold; or**
- **unrealised, being the difference from cost on those investments still held at the year end.**

(a) Analysis of investments by listing status

	2014 £'000	2013 £'000
Investments listed on a recognised stock exchange	1,397,040	1,329,964
AIM quoted investments	19,991	6,077
Unlisted and unquoted investments at Directors' valuation	3,189	4,907
	1,420,220	1,340,948

9. Investments (continued)

(b) Analysis of investments gains

	2014 £'000	2013 £'000
Opening book cost	960,092	954,023
Opening investment holding gains	380,856	221,052
Opening valuation	1,340,948	1,175,075
Movements in year:		
Purchases at cost	411,824	149,276
Sales – proceeds	(445,020)	(168,644)
– net realised gains on sales	127,476	25,437
Movement in investment holding (losses)/gains	(15,008)	159,804
Closing valuation	1,420,220	1,340,948
Closing book cost	1,054,372	960,092
Closing investment holding gains	365,848	380,856
Closing valuation	1,420,220	1,340,948

There were no purchases or sales of unlisted investments during the year (2013: £nil).

(c) Gains on investments

	2014 £'000	2013 £'000
Realised gains on sales	127,476	25,437
Movement in investment holding (losses)/gains	(15,008)	159,804
Gains on investments	112,468	185,241

(d) Transaction costs

Transaction costs on purchases of £2,368,000 (2013: £886,000) and on sales of £796,000 (2013: £221,000) are included within gains and losses on investments.

(e) Significant holdings

At 31 March 2014 the Company had holdings of 3% or more of the number in issue of the following investments:

Name of undertaking	*Country of Incorporation*	*Instrument*	*% held*
NewRiver Retail	England & Wales	Ordinary shares	4.9
Barclays Bank	England & Wales	Nuclear Power Notes 28 February 2019	4.4

10. Debtors

Debtors are amounts which are due to the Company, such as monies due from brokers for investments sold and income which has been earned (accrued) but not yet received.

	2014 £'000	2013 £'000
Prepayments and accrued income	8,842	7,125
Unrealised profit on forward currency contracts	—	617
Tax recoverable	1,658	1,668
	10,500	9,410

11. Creditors: amounts falling due within one year

Creditors are amounts which must be paid by the Company and are split between those payable within 12 months of the balance sheet date and those payable after that time. The main creditors are the two debentures – one of which will be repaid in full by the Company on 30 June 2014. The other creditors include any amounts due to brokers for the purchase of investments or amounts owed to suppliers (accruals) such as the Manager and auditor.

	2014 £'000	2013 £'000
Amounts due to brokers	3,596	—
Interest due on debenture stocks	2,836	2,836
Accruals	810	756
Performance fee	4,826	11,492
Debenture Stock:		
11½% redeemable 30 June 2014	100,000	—
	112,068	15,084

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

These creditors are amounts that must be paid, as shown by note 11, but are due more than one year after the balance sheet date.

	2014 £'000	2013 £'000
Debenture Stock:		
11½% redeemable 30 June 2014	—	100,000
7¾% redeemable 30 September 2022	100,000	100,000
	100,000	200,000
Unamortised discount and issue expenses on debenture stocks	(2,134)	(2,385)
	97,866	197,615

Each debenture is secured by a floating charge on the Company, under which borrowing must not exceed a sum equal to the Adjusted Total of Capital and Reserves. The interest on the debentures is payable in half-yearly instalments. The interest on the 7¾% debenture is payable in March and September, each year. The last interest payment on the 11½% debenture will be paid, together with the nominal amount, on 30 June 2014.

The effect on the net asset value of deducting the debenture stocks at market value, rather than at par, is disclosed in note 15.

13. Share Capital

Share capital represents the total number of shares in issue, on which dividends accrue.

	2014		2013	
	NUMBER	£'000	NUMBER	£'000
Allotted, called-up and fully paid				
Ordinary shares of 25p each	195,116,734	48,779	195,116,734	48,779

14. Reserves

This note explains the different reserves attributable to shareholders. The aggregate of the reserves and share capital (see previous note) make up total shareholders' funds.

The share premium comprises the net proceeds received by the Company following the issue of shares, after deduction of the nominal amount of 25 pence and any applicable issue costs. The capital redemption reserve maintains the equity share capital arising from any buy back and cancellation of shares; both are non-distributable.

The capital reserve comprises net realised gains on investments sold and net holding gains on investments still held at the year end, being the difference between cost and market value at the balance sheet date, totalling £365,848,000 (2013: £380,856,000). The revenue and capital reserves are both distributable by way of dividend or share buy backs.

15. Net Asset Value (NAV) per Ordinary Share

The Company's total net assets (total assets less total liabilities) are often termed shareholders' funds and are converted into NAV per ordinary share by dividing by the number of shares in issue.

The NAV – debt at par is the NAV with the value of the £200 million debentures (the debt) at their nominal (equivalent to the par) value of £200 million. The NAV – debt at market value reflects the debenture stock at the value that a third party would be prepared to pay for the debt, and this amount fluctuates owing to various factors including changes in interest rates and the remaining life of the debt. The number of ordinary shares in issue at the year end was 195,116,734 (2013: 195,116,734).

(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:

	2014 NAV PER SHARE PENCE	2014 SHAREHOLDERS' FUNDS £'000	2013 NAV PER SHARE PENCE	2013 SHAREHOLDERS' FUNDS £'000
Shareholders' funds	629.27	1,227,811	583.11	1,137,746
Less: Unamortised discount and expenses arising from debenture issue	(1.09)	(2,134)	(1.22)	(2,385)
NAV – debt at par	628.18	1,225,677	581.89	1,135,361

(b) NAV – debt at market value

The market value of the debenture stocks is determined by reference to the daily closing price, and is subject to review against various 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:

	2014 NAV PER SHARE PENCE	2014 SHAREHOLDERS' FUNDS £'000	2013 NAV PER SHARE PENCE	2013 SHAREHOLDERS' FUNDS £'000
NAV – debt at par	628.18	1,225,677	581.89	1,135,361
Debt at par	102.50	200,000	102.50	200,000
Debt at market value				
– 11½% Debenture Stock 2014	(52.91)	(103,231)	(57.64)	(112,469)
– 7¾% Debenture Stock 2022	(64.52)	(125,892)	(67.74)	(132,162)
NAV – debt at market value	613.25	1,196,554	559.01	1,090,730

16. Notes to the Cash Flow Statement

The cash flow statement shows the cash flows of the Company from its operating, investing and financing activities. The main cash flows arise from the purchase and sale of investments.

(a) Reconciliation of operating return to operating cash flows

	2014 £'000	2013 £'000
Total return before finance costs and taxation	155,444	219,524
Scrip dividends received as income	(969)	(823)
Adjustment for gains on investments	(112,468)	(185,241)
Adjustment for exchange profits/(losses)	617	(514)
Increase in debtors	(1,707)	(385)
(Decrease)/increase in creditors and provisions	(6,612)	7,969
Tax on overseas investment income	(1,417)	(1,565)
Net cash inflow from operating activities	32,888	38,965

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

	2014 £'000	2013 £'000
Servicing of finance		
Interest paid on debenture stocks	(19,250)	(19,250)
Net cash outflow from servicing of finance	(19,250)	(19,250)
Capital expenditure and financial investment		
Purchase of investments, excluding scrip dividends received as income	(407,259)	(148,477)
Sale of investments	445,020	171,532
Net cash inflow from capital expenditure and financial investments	37,761	23,055
Management of liquid resources		
Cash movement on cash funds and short term deposits	(6,800)	160
Net cash outflow from management of liquid resources	(6,800)	160

(c) Analysis of changes in net debt

	31 MARCH 2013 £'000	CASH FLOW £'000	DEBENTURE STOCK NON-CASH MOVEMENT £'000	31 MARCH 2014 £'000
Cash at bank	87	138	—	225
Cash fund short term deposits	—	6,800	—	6,800
Debentures	(197,615)	—	(251)	(197,866)
Net debt	(197,528)	6,938	(251)	(190,841)

17. Risk Management and Financial Instruments

Financial instruments comprise the Company's investment portfolio, derivative financial instruments held (if any), as well as any cash, borrowings, other receivables and other payables.

Financial instruments

The Company's financial instruments mainly comprise its investment portfolio (as shown on page 16) 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 main financial risks that the Company faces from its financial instruments are market risk, liquidity risk and credit risk. These 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 Directors' Report.

As an investment trust the Company invests in equities and other investments for the long-term so as to fulfil 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 has meetings in each calendar quarter to assess risk and review investment performance, as disclosed in the Board Responsibilities on page 24. Any borrowing to gear the investment portfolio is used to enhance returns but also increases the Company's exposure to market risk and volatility. During the two years to 31 March 2014, the £200 million debentures provided structural gearing. As explained more fully in the Chairman's Statement, future borrowings will be a mix of debenture structural debt and a bank committed unsecured revolving facility.

Currency risk

The majority of the Company's assets and all of its liabilities are denominated in sterling. There is some exposure to Euro, US dollar and Swiss franc.

Management of the currency risk

The Manager monitors the Company's direct exposure to foreign currencies on a daily basis and reports to the board on a regular basis. Forward currency contracts can be used to reduce the Company's exposure to foreign currencies arising naturally from the Manager's choice of securities. All contracts are limited to currencies and amounts commensurate with the assets denominated in currencies.

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

The Company may invest up to 20% of the portfolio in securities listed on non-UK stock exchanges. At the year end holdings of non-UK securities total £235.7 million (2013: £255.9 million) representing 16.6% (2013: 19.1%) of the portfolio.

Currency exposure

The fair values of the Company's monetary items that have currency exposure at 31 March are shown below. Where the Company's equity investments (which are not monetary items) are priced in a foreign currency, they have been included separately in the analysis so as to show the overall level of exposure.

	2014			2013		
	EURO £'000	USD £'000	CHF £'000	EURO £'000	USD £'000	CHF £'000
Forward currency sales	—	—	—	(24,499)	—	—
Foreign currency exposure on net monetary items	—	—	—	(24,499)	—	—
Investments at fair value through profit or loss that are equities	29,537	98,270	107,904	25,532	108,030	122,323
Total net foreign currency exposure	29,537	98,270	107,904	1,033	108,030	122,323

The above may not be representative of the exposure to risk during the year, because the levels of foreign currency exposure may change significantly throughout the year.

Currency sensitivity

In respect of the Company's direct foreign currency exposure to investments denominated in currencies, if sterling had weakened by 3.4% for the US dollar, 1.3% for the Swiss franc and 1.5% for the Euro during the year, the income statement capital return and net assets of the Company would have increased by £5.3 million (2013: £5.7 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 ±3.4% for US dollar, ±1.3% for Swiss francs and ±1.5% for Euro (2013: US dollar ±2.1%, Swiss Franc ±2.2% and Euro ±2.9%) have been determined based on market volatility in the year, using the standard deviation of sterling's fluctuation to the applicable currency. This sensitivity takes no account of any impact on the market values of the Company's investments arising from the foreign currency mix of their respective revenues, expenses, assets and liabilities.

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 was largely unused during the year.

All of the Company's 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 15(b).

The Company can invest in fixed income securities although at the year end none were held (2013: £nil).

NOTES TO THE FINANCIAL STATEMENTS
continued

17. Risk Management and Financial Instruments (continued)

Risk Management Policies and Procedures (continued)

Interest rate risk (continued)

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.

	2014 WITHIN ONE YEAR £'000	2014 BETWEEN ONE AND FIVE YEARS £'000	2014 MORE THAN FIVE YEARS £'000	2014 TOTAL £'000
Exposure to floating interest rates:				
Cash and money market funds	7,025	—	—	7,025
Exposure to fixed interest rates:				
Debentures, excluding unamortised discount and issue expenses	(100,000)	—	(100,000)	(200,000)
Total exposure to interest rates	(92,975)	—	(100,000)	(192,975)

	2013 WITHIN ONE YEAR £'000	2013 BETWEEN ONE AND FIVE YEARS £'000	2013 MORE THAN FIVE YEARS £'000	2013 TOTAL £'000
Exposure to floating interest rates:				
Cash and money market funds	87	—	—	87
Exposure to fixed interest rates:				
Debentures, excluding unamortised discount and issue expenses	—	(100,000)	(100,000)	(200,000)
Total exposure to interest rates	87	(100,000)	(100,000)	(199,913)

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 portfolio 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 £142 million (2013: £134 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 same amounts.

Liquidity risk is minimised as the majority of the Company's investments constitute 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.

Liquidity risk exposure

The contractual maturities of the financial liabilities at the year end, based on the earliest date on which payment can be required, are as follows:

	2014			
	THREE MONTHS OR LESS £'000	MORE THAN THREE MONTHS BUT LESS THAN ONE YEAR £'000	MORE THAN ONE YEAR £'000	TOTAL £'000
Debenture stocks	100,000	—	100,000	200,000
Interest on debenture stocks	5,750	7,750	58,125	71,625
Amounts due to brokers	3,596	—	—	3,596
Accruals	810	—	—	810
Performance fee	4,826	—	—	4,826
	114,982	7,750	158,125	280,857

	2013			
	THREE MONTHS OR LESS £'000	MORE THAN THREE MONTHS BUT LESS THAN ONE YEAR £'000	MORE THAN ONE YEAR £'000	TOTAL £'000
Debenture stocks	—	—	200,000	200,000
Interest on debenture stocks	5,750	13,500	71,625	90,875
Amounts due to brokers	—	—	—	—
Accruals	756	—	—	756
Performance fee	11,492	—	—	11,492
	17,998	13,500	271,625	303,123

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 Short-Term Investments Company (Global Series) plc, a triple-A rated money market fund.

17. Risk Management and Financial Instruments (continued)

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 offer value at the balance sheet date, are as follows:

	BOOK VALUE 2014 NUMBER	FAIR VALUE 2014 £'000	BOOK VALUE 2013 NUMBER	FAIR VALUE 2013 £'000
Debentures repayable between within one year:				
11½% Debenture Stock 2014	100,000	103,231	—	—
Debentures repayable between one and five years:				
11½% Debenture Stock 2014	—	—	100,000	112,469
Debentures repayable in more than five years:				
7¾% Debenture Stock 2022	100,000	125,892	100,000	132,162
Discount on issue of debentures	(2,134)	—	(2,385)	—
	197,866	229,123	197,615	244,631

Incorporating the fair value of the debentures results in the reduction of the net asset value per ordinary share to 613.25p (2013: 559.01p).

Fair Value of Hierarchy Disclosures

All except three 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. The sole investment in Level 2 comprised the Company's holding of Barclays Bank – Nuclear Power Notes 28 February 2019. The two investments in Level 3 arose in the previous year ended 31 March 2013 as a result of corporate events on securities already held: Eurovestech delisted from AIM and Proximagen CVRs arose as a partial cash alternative on the original Proximagen equity holding. The holdings of these two securities did not change during the year.

	2014			
	LEVEL 1 £'000	LEVEL 2 £'000	LEVEL 3 £'000	TOTAL £'000
Financial assets designated at fair value through profit or loss				
Quoted investments:				
Equities	1,417,031	—	—	1,417,031
Other securities	—	2,310	—	2,310
Unquoted investments	—	—	879	879
Total for financial assets	1,417,031	2,310	879	1,420,220

	2013 LEVEL 1 £'000	LEVEL 2 £'000	LEVEL 3 £'000	TOTAL £'000
Financial assets designated at fair value through profit or loss				
Quoted investments:				
Equities	1,336,041	—	—	1,336,041
Other securities	—	3,851	—	3,851
Unquoted investments	—	—	1,056	1,056
Total for financial assets	1,336,041	3,851	1,056	1,340,948

A reconciliation of the fair value movements in Level 3 is set out below:

	2014 £'000	2013 £'000
Opening fair value of Level 3	1,056	—
Transfer from Level 1 to Level 3	—	1,056
Movement in market value	(177)	—
Closing fair value of Level 3	879	1,056

Capital Management

The Company's total capital employed at 31 March 2014 was £1,425,677,000 (2013: £1,335,361,000) comprising debenture borrowings of £197,866,000 (2013: £197,615,000) and equity share capital and other reserves of £1,227,811,000 (2013: £1,137,746,000).

The Company's total capital employed is managed to achieve the Company's objective and investment policy as set out on page 8, including that borrowings may be used to provide gearing of the equity portfolio up to the maximum authorised by shareholders, currently £200 million. Net gearing was 15.7% (2013: 17.6%) at the balance sheet date. The Company's policies and processes for managing capital were unchanged throughout the year and the preceding year.

The main risks to the Company's investments are shown in the Strategic Report under the 'Principal Risks and Uncertainties' section on pages 10 to 13. These also explain that the Company is able to use borrowings to gear and that gearing will amplify the effect on equity of changes in the value of the portfolio.

The Board can manage the capital structure directly since it has taken the powers, which it is seeking to renew, to issue and buy-back shares and it also determines dividend payments.

The Company is subject to externally imposed capital requirements with respect to the obligation and ability to pay dividends by Corporation Tax Act 2010 and by the Companies Act 2006, respectively, and with respect to the availability of the overdraft facility by the terms imposed by the custodian. The Board regularly monitors, and has complied with, the externally imposed capital requirements. This is unchanged from the prior year. Borrowings comprise the debenture stocks, details of which are contained in note 12 and an overdraft facility which may be used for short-term funding requirements.

18. Contingencies, Guarantees and Financial Commitments

This note would show any liabilities the Company is committed to honour, but which are dependent on future circumstances or events occurring.

There are no contingencies, guarantees or financial commitments of the Company at the year end (2013: £nil).

19. Related Party Transactions and Transactions with the Manager

A related party is a company or individual who has direct or indirect control or who has significant influence over the Company. Under accounting standards, the Manager is not a related party but disclosures are made in accordance with industry practice.

Under UK GAAP, the Company has identified the Directors as related parties. The Directors' remuneration and interests have been disclosed on pages 33 to 35 with additional disclosure in note 4. No other related parties have been identified.

Invesco Asset Management Limited (IAML), a wholly owned subsidiary of Invesco Limited, acts as Manager to the Company. Details of the investment management agreement are disclosed in the Directors' Report and management fees payable to IAML are shown in note 3.

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 fifth 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, 18 July 2014 at 11.00 am, for the following purposes:

Ordinary Business

1. To receive the Annual Financial Report for the year ended 31 March 2014;
2. To approve the Directors' Remuneration Policy;
3. To approve the Chairman's Annual Statement and Report on Remuneration;
4. To approve a final dividend on the ordinary shares;
5. To re-elect Jim Pettigrew as a Director of the Company;
6. To re-elect Gordon McQueen as a Director of the Company;
7. To re-elect Maxwell Ward as a Director of the Company;
8. To re-elect Victoria Hastings as a Director of the Company;
9. To re-elect Glen Suarez as a Director of the Company;
10. To re-elect Sir Nigel Wicks as a Director of the Company;
11. To appoint KPMG LLP as Auditor of the Company; and
12. To authorise the Directors to determine the remuneration of the Auditor.

Special Business

To consider and, if thought fit, to pass the following resolutions of which 13 and 14 will be proposed as Ordinary Resolutions and resolutions 15, 16 and 17 as Special Resolutions:

13. THAT:

    the changes to the Investment Objective and Investment Policy wording set out on page 8 of the Annual Financial Report be and are hereby approved.

14. THAT:

    in substitution for any existing authority under section 551 of the Companies Act 2006 (the 'Act') but without prejudice to the exercise of any such authority prior to the date of this resolution the Directors of the Company 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 27 May 2014, such authority to expire at the conclusion of the next Annual General Meeting of the Company or the date fifteen months after the passing of this resolution, whichever is the earlier unless the authority is renewed or revoked at any other general meeting prior to such time, 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.

15. THAT:

subject to the passing of resolution number 14 set out in the notice of this meeting (the 'Section 551 Resolution') and in substitution for any existing authority under sections 570 and 573 of the Companies Act 2006 (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 the Section 551 Resolution 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, regulatory 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 27 May 2014

and this power shall expire at the conclusion of the next Annual General Meeting of the Company or the date fifteen months after the passing of this resolution, whichever is the earlier unless the authority is renewed or revoked at any other general meeting prior to such time, 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.

16. THAT:

the Company be generally and subject as hereinafter appears unconditionally authorised in accordance with section 701 of the Companies Act 2006 (the 'Act') to make market purchases (within the meaning of section 693(4) 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 27 May 2014);

(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 the date fifteen months after the passing of this resolution, whichever is the earlier, unless the authority is renewed or revoked 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.

(g) any shares so purchased shall be cancelled, or, if the Directors so determine and subject to the provisions of Section 724 to 731 of the Companies Act 2006 and any applicable regulations of the United Kingdom Listing Authority, be held (or otherwise dealt with in accordance with Section 727 or 729 of the Companies Act 2006) as Treasury Shares.

17. THAT:

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

For an explanation of all Special Business please refer to page 31 of the Report of the Directors' Report.

Dated this 27th May 2014

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, speak and 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 Capital Registrar's website *www.capitashareportal.com*; or
   - in hard copy form by post, by courier or by hand to the Company's Registrars, Capita Asset Services, PXS 1, 34 Beckenham Road, Beckenham, Kent BR3 4ZF; 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.

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 Asset Services, PXS 1, 34 Beckenham Road, Beckenham, Kent BR3 4ZF by no later than 11.00 am on 16 July 2014.

4. A person entered on the Register of Members at close of business on 16 July 2014 (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 AGM and will also be available at the AGM 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. Under section 319A of the Companies Act 2006 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 27 May 2014 (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.invescoperpetual.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 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 AGM for the financial year beginning on 1 April 2013; or (ii) any circumstance connected with an auditor of the Company appointed for the financial year beginning on 1 April 2013 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 AGM.

    The Company may not require the members requesting any such website publication to pay its expenses in complying with sections 527 or 528 of the Companies Act 2006. Where the Company is required to place a statement on a website under section 527 of the Companies Act 2006, 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 AGM includes any statement that the Company has been required under section 527 of the Companies Act 2006 to publish on a website.

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 this 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 Company in a straightforward and low cost way.

Invesco Perpetual Investment Trust ISA

The Invesco Perpetual Investment Trust ISA allows investments up to the current ISA limit. For the tax year 2014/15 this will be increased to £15,000 from 1 July 2014; up to that date £11,880 can be invested. 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.

Net Asset Value (NAV) Publication

The 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 Financial Times, Daily Telegraph, The Times and The Scotsman. In addition, share price information can be found using the EDIN ticker code.

Internet addresses:

Invesco Perpetual	www.invescoperpetual.co.uk/investmenttrusts
The 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.

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

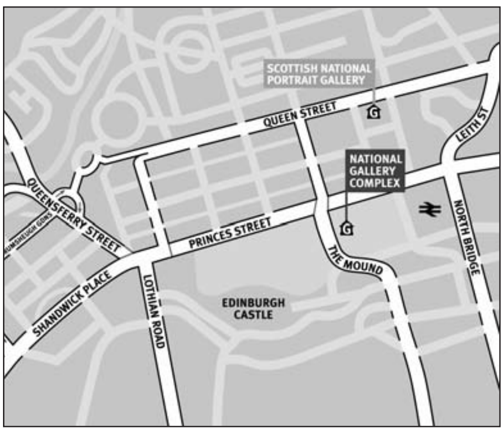
In addition, the Company publishes information according to the following calendar:

Announcements	
Annual Financial Report	May/June
Half-yearly Financial Report	November
Interim Management Statements	July and January
Ordinary Share Dividends	
1st interim payable	November
2nd interim payable	February
3rd interim payable	May
Final payable	July
Debenture Stock	
Interest payable:	
11½% 2014 (last payment)	June 2014
7¾% 2022	September and March
Annual General Meeting	July
Year End	31 March

Location of Annual General Meeting

The one hundred and twenty fifth Annual General Meeting of the Company will be held at the Weston Link, National Galleries of Scotland, Princes Street, Edinburgh on 18 July 2014 at 11.00 am.

The portfolio manager, Mark Barnett, will make a presentation about the Company after the AGM.



ADVISERS AND PRINCIPAL SERVICE PROVIDERS

All of the following were in place throughout the year.

Manager and Company Secretary

Invesco Asset Management Limited
Correspondence address
6th Floor
125 London Wall
London EC2Y 5AS
☎ 020 3753 1000
Company Secretarial Contacts: Kelly Nice and Kevin Mayger

Registered Office

Quartermile 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 you from 8.30 am to 6 pm, Monday to Friday (excluding Bank Holidays). Current valuations, statements and literature can be ordered, however, no investment advice can be given.
☎ 0800 085 8677
www.invescoperpetual.co.uk/investmenttrusts

Banker and Custodian

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

Auditor

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

Broker

Canaccord Genuity Limited
88 Wood Street
London EC2V 7QR

Lawyer

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

Registrars

Capita Asset Services
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.
From outside the UK: +44 20 8639 3399.
Lines are open from 9.00 am to 5.30 pm, Monday to Friday (excluding Bank Holidays).

Shareholders can also access their holding details via Capita's websites:
www.capitaassetservices.com or
www.capitashareportal.com.

The 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* or
☎ 0871 664 0454.
Calls cost 10p per minute plus network charges.
From outside the UK: +44 20 3367 2699.
Lines are open from 8.00 am to 4.30 pm, Monday to Friday (excluding Bank Holidays).

Savings Scheme and ISA Administration

For queries relating to both the Invesco Perpetual Investment Trust Savings Scheme and ISA, please contact:
Invesco Perpetual
P.O. Box 11150
Chelmsford
CM99 2DL
☎ 0800 085 8677.

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 gearing percentage reflects the amount of borrowings that a company has invested, with debt at par. This figure indicates the extra amount by which shareholders' funds would move if a company's investments were to rise or fall. A positive percentage indicates the extent to which shareholders' funds are geared; a nil gearing percentage, or 'nil', shows a company is ungeared. A negative percentage indicates that a company is not fully invested.

There are several methods of calculating gearing and the following has been used in this report:

Gross Gearing
This reflects the amount of gross borrowings in use by a company and takes no account of any cash balances. It is based on gross borrowings as a percentage of shareholders' funds.

Net Gearing
This reflects the amount of net borrowings invested, ie borrowings less cash and investments in money market funds. It is based on net borrowings as a percentage of 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.

Net Cash

This reflects the Company's net exposure to cash and cash equivalents expressed as a percentage of shareholders' funds after any offset against its gearing.

Ongoing Charges Ratio

This is calculated in accordance with guidance issued by the AIC as follows: the annualised ongoing charges, including those charged to capital but excluding interest, incurred by the Company, expressed as a percentage of the average undiluted net asset value (at market value) reported in the period.

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.

Share Price Total Return

The share price total return reflects the change in the share price with dividends reinvested in the period, and is also known as total shareholder return.

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 Conduct Authority.

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

Invesco is one of the largest independent global investment management firms, with assets under management in excess of $779.4 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.

** Assets under Management as at 30 April 2014.*

SPECIALIST FUNDS MANAGED BY INVESCO PERPETUAL

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

The Edinburgh Investment Trust plc

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 has two debenture stocks in issue.

City Merchants High Yield Trust Limited

A Jersey-incorporated closed-ended Company that aims to generate a high level of income from a variety of fixed income instruments. The Company may use bank borrowings.

Invesco Income Growth Trust plc

Aims to produce income and capital growth superior to that of the UK stock market and dividends paid quarterly that, over time, grows at above the rate of inflation. The Company may use bank borrowings.

Invesco Perpetual Enhanced Income Limited (formerly 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 uses repo financing to enhance returns.

Invesco Perpetual Select Trust plc – Managed Liquidity Portfolio

Aims to generate income from a variety of fixed income instruments combined with a high degree of security. Income will reduce during periods of very low interest rates.

Invesco Perpetual Select Trust plc – UK Equity Portfolio

Aims to generate long-term capital and income growth with real growth in dividends from investment, primarily in the UK equity market. The portfolio may use bank borrowings.

Invesco Property Income Trust Limited

The Company is a closed-ended investment company with limited liability incorporated in Jersey. The objective is to repay its bank borrowings and other liabilities and, having met these obligations, to provide a return for shareholders. The Company holds a diversified portfolio of European commercial properties and 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 has debenture stocks in issue.

Perpetual Income and Growth Investment Trust plc

Aims to provide shareholders with capital growth and real growth in dividends over the medium to longer term from a portfolio of securities listed mainly in the UK equity and fixed interest markets. The Company has a debenture stocks in issue and, in addition, may use bank borrowings.

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 sized UK-quoted companies. The Company may use bank borrowings.

Investing Internationally

Invesco Asia Trust plc

Aims to provide 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 MSCI All Countries Asia Pacific Ex Japan Index, measured in sterling. The Company may use bank borrowings.

Invesco Perpetual Select Trust plc – Global Equity Income Portfolio

Aims to provide an attractive and growing level of income return and capital appreciation over the long term, predominantly through investment in a diversified portfolio of equities worldwide. The portfolio may use bank borrowings.

Investing for Total Returns

Invesco Perpetual Select Trust plc – Balanced Risk Portfolio

Aims to provide shareholders with an attractive total return in differing economic and inflationary environments and with low correlation to equity and bond market indices by gaining exposure to three asset classes: debt securities, equities and commodities.

The portfolio is constructed so as to balance risk, is long-only, using mainly transparently-priced exchange-traded futures contracts and other derivative instruments to gain such exposure and to provide leverage.

Investing in Multiple Asset Classes

Invesco Perpetual Select Trust plc

- UK Equity Portfolio
- Global Equity Income Portfolio
- Managed Liquidity Portfolio
- Balanced Risk Portfolio

A choice of four investment policies and objectives, each intended to generate attractive risk-adjusted returns from segregated portfolios, with the ability to switch between them, four times a year, free from capital gains tax liability. Dividends are paid quarterly, apart from Balanced Risk which will not normally pay dividends.

Please contact our Investor Services Team on 0800 085 8677 if you would like more information about the investment trusts or other specialist funds listed above. Further details are also available on the following website: www.invescoperpetual.co.uk/investmenttrusts.

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