

THE INDEPENDENT INVESTMENT TRUST PLC

Results for the year to 30 November 2009

18 January 2010

THE INDEPENDENT INVESTMENT TRUST PLC

Chairman's Statement

After two years of disappointing results, it is something of a relief to be reporting on a year of recovery.

Over the year to 30 November 2009, our net asset value per share rose by 34.8% from 144.6p to 194.9p. By comparison, the FTSE All Share Index rose by 24.1% over the same period. The NAV total return figures for the year can be found in the managing director's report on page 5. A narrowing of the discount from 18.7% to 13.8% meant that the share price rose by 43% over the year.

The board is very concerned about the implications for investment trusts, and especially self managed trusts such as ours, of the EU Directive on Alternative Investment Fund Managers. In its current form, the Directive would require fundamental changes in the structure of self managed trusts, creating uncertainties over the role of the board and the independence of the company, and increasing costs. This is ironic, since self managed trusts rank among the least complicated and lowest cost investment media available to the private investor. We are working hard along with our peers to achieve exemption from the directive, which was not drawn up with investment trusts in mind.

Our year began with the global financial system in disarray and economic activity in free fall throughout the world. The response of governments and central banks to this worrying situation has been to provide unprecedented levels of fiscal and monetary stimulus. The initial effect of the measures they took was to boost prices in a variety of different asset markets, but more recently there have been signs of improvement in economic activity. These signs have been less convincing in the UK than elsewhere, perhaps because the scale of the current fiscal deficit is perceived as being incompatible with the maintenance of the country's creditworthiness. The main issue confronting investors in western markets has been, and remains, that of whether a recovery can be sustained once the prodigious support measures are withdrawn. We do not feel confident enough to take a side in this debate and so have followed a strategy that should allow us to benefit if a sustainable recovery does emerge without leaving us destitute if it does not. The salient features of this strategy are: significant cash balances; a substantial commitment to businesses, such as tobacco companies and non life insurance companies, that we believe to be well insulated from fluctuations in the economy; and an emphasis, in our exposure to cyclical companies, on sustainable balance sheets. We are pleasantly surprised that this approach, which is more defensive than our usual investment style, has delivered good results in a strong market.

Despite the tribulations of recent years, our longer term performance remains satisfactory. Between 18 October 2000 and 30 November 2009, we produced an NAV total return of 137.1%, equivalent to a rate of roughly 10.1% per annum, of which 2.6% per annum can be offset by RPI inflation. By comparison, the notional return available from the FTSE All Share Index over the period amounted to 21.9%, or roughly 2.2% per annum. We continue to believe that the best way to achieve good long term results from investing in equities is to accept a measure of short term volatility.

After two years of hectic activity as we adjusted to the upheavals in the financial system, we have had a quieter year. Much of our activity has been directed at the management of our cash balances. These amounted to 15% of our shareholders' funds at 30 November 2008, rose to over 30% in the early part of 2009 and then fell back, reaching 18% at 31 May and 11% at 30 November 2009. The overall shape of our portfolio has not changed significantly, although defensive areas, such as tobacco, insurance, utilities and pharmaceuticals, are either more heavily represented or new arrivals altogether. Our performance would have been significantly better but for an ill timed reduction in our exposure to energy and mining. Further comments on the portfolio can be found in the managing director's report.

Earnings per share for the year were 4.16p (2008: 6.34p). We are proposing a final dividend of 3p (2008: 3p), payable 1 April 2010, to make a total regular dividend for the year of 5p (2008: 5p). At the time of our flotation in 2000, we gave no commitment but set out to achieve a progressive trend in our regular dividends. We are now of the view that we should adopt a more flexible approach to the generation and distribution of income, which may result in lower levels of dividend in the future. In compensation for the possible shortfall, we have decided to propose the distribution of part of our revenue reserves as a 3p special dividend (2008: 0.75p), payable 1 April 2010.

The recovery in our net asset value has, together with a significant decline in the absolute level of our expenses, brought about a welcome decline in our Total Expense Ratio – from 0.59% of year end shareholders' funds to 0.41%. We take considerable pride in our status as one of the most thrifty companies in the investment trust sector, itself a low cost provider of investment services.

We have continued to buy back shares in an opportunist way. The main purpose of buy-backs is to provide liquidity in our shares when this can be done without prejudicing the interests of continuing shareholders. In the year under review, we bought back just under 2.9m shares on terms that added approximately 1.3p to our year end net asset value.

With the recovery in financial markets and the corresponding easing in credit markets, there is a clear sense that the crisis has passed, but its legacy is still unclear. At some point, measures will be needed to tighten fiscal policy and monetary policy. Applied too early, these measures will bring the threat of renewed recession; left too late, they risk the re-emergence of inflation as a threat to prosperity. We believe that our current portfolio is relatively well placed to cope with either eventuality and we retain significant fire power – in the form of our cash balances – to take advantage of any special opportunities that may be presented by periods of market turbulence.

I should like to thank Baillie Gifford for their continued excellent secretarial service, the faultless Vivien Judge, who holds our small operation together, and the managing director, who has held his nerve through a difficult period and has turned in a good year.

Once again, we should like to encourage you to come to the AGM, which is to be held in the Baillie Gifford offices at Calton Square at 4.30pm on 19 March 2010. It will help our planning if we know how many shareholders are likely to attend, and I shall be grateful if you will mark the proxy form accordingly and return it to the Company's registrars. I look forward to seeing as many of you as possible there.

THE INDEPENDENT INVESTMENT TRUST PLC

Managing Director's Report

During the year to 30 November 2009, The Independent Investment Trust produced an NAV total return of 39.8%. This represents a strong recovery from a depressed base. Theoretical investments in the FTSE All Share Index and the FTSE World Index would have produced total returns of 29.3% and 27.7% respectively.

The centrepiece of our portfolio remains our energy stake. This stake performed well during the year, growing in value from £30.2m at 30 November 2008 to £31.0m at 30 November 2009 despite net sales of £6.6m.

We have found the energy background difficult to read over the last two years. We foresaw neither the increase in oil prices to over \$140 per barrel nor their subsequent collapse to under \$40 per barrel. We do not regard either development as inconsistent with our view that there is a serious – and growing – risk of a supply crunch in the oil market in the years ahead, which would lead to much higher oil prices and do considerable damage to the world economy. We now recognize, however, that we need to be more disciplined than we have been in the selection of investments to protect us against this risk. In retrospect, both our tar sands investments and our small Canadian gas companies were too exposed to commodity prices to be able to ride comfortably through a long period of depressed prices. By contrast, our offshore drillers, with their long contracts and their prodigious capacity to generate cash, are much better placed to cope with commodity price fluctuations, as is Schlumberger with its commanding competitive position and strong balance sheet. Thus it is that the great bulk of our energy stake is now invested in Schlumberger and the offshore drillers. We also have a holding in Wellstream, which should benefit from the expansion we expect in deep water oil production, and small holdings in BP and BPZ Resources. The former looks to us like a cheap and defensive blue chip investment while the latter is a small company with an interesting portfolio of exploration prospects.

The task of predicting short term movements in oil prices remains too difficult for us, but we think it reasonable to base our investment case on the assumption that, over time, they will provide a fair incentive to exploration companies looking for oil in deep water. This should be enough to ensure an attractive operating environment for our drillers and our service companies, a prospect which does not yet appear to be reflected in their share prices.

Our large exposure to retailers has at last rewarded us despite a premature selling programme: a stake worth £9.4m at 30 November 2008 had grown in value to £13.7m by 30 November 2009 after net sales of £4.9m. Topps Tiles saw its share price treble as fears of bankruptcy receded, but the biggest impact came from our large holding in Dunelm, the share price of which rose by over 170% as the company produced a superb trading performance in generally unhelpful conditions. It is now by some margin our biggest holding.

We have benefited from the well timed addition we made to our recruitment stake in 2008: although the value of our stake fell from £10.7m to £9.3m in the year to 30 November 2009, this was only after net sales of £6.6m. Trading conditions remained very difficult for the industry throughout the year, but investors were prepared to ignore this in the belief that the industry would be a prime beneficiary of economic recovery. We share this belief, but felt that share prices in the sector have run too far too fast – hence our reduction. A new name for us is Healthcare Locums, which has enjoyed strong growth on the back of a general shortage of healthcare workers.

Our renewed enthusiasm for the non life insurance industry has yet to prove justified: after net purchases of £3.4m, our stake in the industry rose from £4.7m at 30 November 2008 to £8.1m at 30 November 2009. Our holdings have produced good results and continue to enjoy benign market conditions, but some of our more ambitious hopes for insurance rates now look misplaced. We still like the sector, both because it appears to represent good value and because its prospects should be well insulated from fluctuations in the general economy.

Elsewhere in the portfolio, we have enjoyed strong recoveries in our depleted exposures to mining, European property and housebuilding. New commitments to utilities, brewing and pharmaceuticals, together with additions to our holdings in tobacco and transport, have yet to show worthwhile benefits, but additions to Aggreko and IG Group have yielded good profits, as has a new purchase of IMI. Our big holding in Herald has also done well, despite a frustrating widening in its discount.

THE INDEPENDENT INVESTMENT TRUST PLC

The following is the unaudited preliminary statement for the year to 30 November 2009 which was approved by the board on 15 January 2010. The directors of The Independent Investment Trust PLC are recommending to the Annual General Meeting of the Company to be held on Friday 19 March 2010 the payment of a final dividend of 3.00p (3.00p last year) per ordinary share (making a total regular dividend of 5.00p (5.00p last year) per ordinary share) for the year ended 30 November 2009. A special dividend of 3.00p (0.75p last year) per ordinary share is also proposed. The total dividend of 6.00p, if approved, will be paid on 1 April 2010 to all shareholders on the register at the close of business on 5 March 2010.

INCOME STATEMENT (unaudited)

	For the year ended 30 November 2009			For the year ended 30 November 2008		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gains/(losses) on investments	-	33,202	33,202	-	(57,849)	(57,849)
Currency (losses)/gains	-	(1,219)	(1,219)	-	2,318	2,318
Income (note 2)	3,265	-	3,265	4,866	-	4,866
Administrative expenses	(494)	-	(494)	(554)	-	(554)
Net return before finance costs and taxation	2,771	31,983	34,754	4,312	(55,531)	(51,219)
Finance costs of borrowings	(40)	-	(40)	(67)	-	(67)
Net return on ordinary activities before taxation	2,731	31,983	34,714	4,245	(55,531)	(51,286)
Tax on ordinary activities	(92)	-	(92)	(61)	-	(61)
Net return on ordinary activities after taxation	2,639	31,983	34,622	4,184	(55,531)	(51,347)
Net return per ordinary share: (note 3)						
Basic	4.16p	50.42p	54.58p	6.34p	(84.16)p	(77.82)p
Dividends paid and payable per ordinary share (note 4)	8.00p			5.75p		

The total column of this statement is the profit and loss account of the Company.

All revenue and capital items in this statement derive from continuing operations. No operations were acquired or discontinued during the year.

A statement of Total Recognised Gains and Losses is not required as all gains and losses of the Company have been reflected in the above statement.

THE INDEPENDENT INVESTMENT TRUST PLC

BALANCE SHEET at 30 November 2009 (unaudited)

	At 30 November 2009		At 30 November 2008	
	£'000	£'000	£'000	£'000
FIXED ASSETS				
Investments held at fair value through profit or loss		108,008		87,747
CURRENT ASSETS				
Debtors	404		603	
Cash at bank and in hand	13,047		6,300	
	<u>13,451</u>		<u>6,903</u>	
CREDITORS				
Amounts falling due within one year	<u>(27)</u>		<u>(411)</u>	
NET CURRENT ASSETS		<u>13,424</u>		<u>6,492</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>121,432</u>		<u>94,239</u>
CAPITAL AND RESERVES				
Called-up share capital	15,576		16,295	
Share premium	15,242		15,242	
Special distributable reserve	33,600		37,377	
Capital redemption reserve	956		237	
Capital reserve	51,677		19,694	
Revenue reserve	4,381		5,394	
		<u>121,432</u>		<u>94,239</u>
SHAREHOLDERS' FUNDS		<u>121,432</u>		<u>94,239</u>
NET ASSET VALUE PER ORDINARY SHARE (note 5)		<u>194.9p</u>		<u>144.6p</u>

THE INDEPENDENT INVESTMENT TRUST PLC
RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS
(unaudited)

For the year ended 30 November 2009

	Share capital £'000	Share premium £'000	Special distributable reserve £'000	Capital redemption reserve £'000	Capital reserve* £'000	Revenue reserve £'000	Total shareholders' funds £'000
Shareholders' funds at 1 December 2008	16,295	15,242	37,377	237	19,694	5,394	94,239
Net return on ordinary activities after taxation	-	-	-	-	31,983	2,639	34,622
Shares bought back for cancellation	(719)	-	(3,777)	719	-	-	(3,777)
Dividends paid during the year	-	-	-	-	-	(3,652)	(3,652)
Shareholders' funds at 30 November 2009	15,576	15,242	33,600	956	51,677	4,381	121,432

*Capital reserve as at 30 November 2009 included an investment holding loss of £818,000.

For the year ended 30 November 2008

	Share capital £'000	Share premium £'000	Special distributable reserve £'000	Capital redemption reserve £'000	Capital reserve* £'000	Revenue reserve £'000	Total shareholders' funds £'000
Shareholders' funds at 1 December 2007	16,532	15,242	38,663	-	75,225	4,512	150,174
Net return on ordinary activities after taxation	-	-	-	-	(55,531)	4,184	(51,347)
Shares bought back for cancellation	(237)	-	(1,286)	237	-	-	(1,286)
Dividends paid during the year	-	-	-	-	-	(3,302)	(3,302)
Shareholders' funds at 30 November 2008	16,295	15,242	37,377	237	19,694	5,394	94,239

* Capital reserve as at 30 November 2008 included an investment holding loss of £44,733,000.

THE INDEPENDENT INVESTMENT TRUST PLC

CASH FLOW STATEMENT

(unaudited)

	For the year ended 30 November 2009		For the year ended 30 November 2008	
	£'000	£'000	£'000	£'000
NET CASH INFLOW FROM OPERATING ACTIVITIES		2,888		4,039
SERVICING OF FINANCE				
Interest Paid	(50)		(118)	
Net cash outflow from servicing of finance		(50)		(118)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT				
Acquisitions of investments	(29,205)		(87,418)	
Disposals of investments	42,119		77,143	
Realised currency (loss)/gain	(1,219)		2,519	
NET CASH INFLOW/(OUTFLOW) FROM CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT		11,695		(7,756)
EQUITY DIVIDENDS PAID		(3,652)		(3,302)
NET CASH INFLOW/(OUTFLOW) BEFORE FINANCING		10,881		(7,137)
FINANCING				
Shares bought back for cancellation	(4,134)		(929)	
Net bank loans repaid	-		(10,007)	
NET CASH OUTFLOW FROM FINANCING		(4,134)		(10,936)
INCREASE/(DECREASE) IN CASH		6,747		(18,073)
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS				
Increase/(decrease) in cash in the year		6,747		(18,073)
Decrease in bank loans		-		10,007
Exchange movement on bank loans		-		(13)
MOVEMENT IN NET FUNDS IN THE YEAR		6,747		(8,079)
NET FUNDS AT 1 DECEMBER		6,300		14,379
NET FUNDS AT 30 NOVEMBER		13,047		6,300
RECONCILIATION OF NET RETURN BEFORE FINANCE COSTS AND TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES				
Net return before finance costs and taxation		34,754		(51,219)
(Gains)/losses on investments		(33,202)		57,849
Amortisation of fixed interest book cost		27		26
Currency losses/(gains)		1,219		(2,318)
Decrease/(increase) in accrued income		197		(213)
Decrease/(increase) in debtors		2		(22)
Decrease in creditors		(17)		(3)
Overseas tax		(92)		(61)
NET CASH INFLOW FROM OPERATING ACTIVITIES		2,888		4,039

THE INDEPENDENT INVESTMENT TRUST PLC

NOTES

1. The financial statements for the year to 30 November 2009 have been prepared on the basis of the same accounting policies set out in the Company's Annual Financial Statements at 30 November 2008. The early adoption of the January 2009 Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' had no effect on the financial statements of the Company, other than the requirement to present tax reconciliations based on the total column of the Income Statement rather than the revenue column as was previously recommended.

	Year to 30 November 2009 £'000	Year to 30 November 2008 £'000
2. Income		
Income from investments and interest receivable	3,247	4,846
Other income	18	20
	<u>3,265</u>	<u>4,866</u>

	Year to 30 November 2009			Year to 30 November 2008		
	Revenue	Capital	Total	Revenue	Capital	Total
3. Net return per ordinary share						
Net return on ordinary activities after taxation (£'000)	2,639	31,983	34,622	4,184	(55,531)	(51,347)
Weighted average number of ordinary shares in issue during the year	63,428,586			65,985,599		
Net return per ordinary share:						
Basic	4.16p	50.42p	54.58p	6.34p	(84.16)p	(77.82)p

Returns per ordinary share are based on the return for the financial year and on the weighted average number of ordinary shares in issue during the year as shown above.

For the years to 30 November 2009 and 30 November 2008 there was no dilution of returns as no shares would have been issued for no consideration as the average share price was below the average exercise price.

4. **Ordinary dividends**

	Year to 30 November 2009		Year to 30 November 2008	
	Pence	£'000	Pence	£'000
Amounts recognised as distributions in the year:				
Previous year's final dividend paid 7 April 2009	3.00	1,915	3.00	1,984
Previous year's special dividend paid 7 April 2009	0.75	479	-	-
Interim dividend paid 28 August 2009	2.00	1,258	2.00	1,318
	<u>5.75</u>	<u>3,652</u>	<u>5.00</u>	<u>3,302</u>

Set out below are the total dividends paid and payable in respect of the financial year, which is the basis on which the requirements of section 842 of the Income and Corporation Taxes Act 1988 are considered. The revenue available for distribution by way of dividend for the year is £2,639,000 (2008 - £4,184,000).

THE INDEPENDENT INVESTMENT TRUST PLC

NOTES (CTD)

4. Ordinary dividends (continued)

	Year to 30 November 2009		Year to 30 November 2008	
	Pence	£'000	Pence	£'000
Amounts paid and payable in respect of the year:				
Interim dividend paid 28 August 2009	2.00	1,258	2.00	1,318
Proposed final dividend payable 1 April 2010	3.00	1,869	3.00	1,955
	5.00	3,127	5.00	3,273
Proposed special dividend payable 1 April 2010	3.00	1,869	0.75	489
	8.00	4,996	5.75	3,762

If approved, the final and special dividends will be paid on 1 April 2010 to all shareholders on the register at the close of business on 5 March 2010. The ex dividend date is 3 March 2010.

	At 30 November	At 30 November
	2009	2008
	£000	£'000
5. Net asset value per ordinary share		
Net asset value attributable to ordinary shares	<u>121,432</u>	<u>94,239</u>

Net asset value per share is based on net assets (as shown above) and on 62,305,000 shares (2008 – 65,180,000) being the number of shares in issue at the year end.

During the year, the Company bought back 2,875,000 ordinary shares for cancellation at a cost of £3,777,000. At 30 November 2009 the Company had authority to buy back a further 8,026,115 shares.

Between 1 December 2009 and 15 January 2010 the Company bought a further 120,000 ordinary shares (nominal value £30,000) for cancellation. The total consideration for these shares was £208,000.

- At 30 November 2009, the Company had no borrowings (30 November 2008 - nil).
- Transaction costs incurred on the purchase and sale of the investments are added to the purchase cost or deducted from the sale proceeds, as appropriate. During the year, transaction costs on purchases amounted to £193,000 (2008 - £393,000) and transaction costs on sales amounted to £70,000 (2008 - £105,000).
- The financial information set out above does not constitute the Company's statutory accounts for the year ended 30 November 2009. The financial information for 2008 is derived from the statutory accounts for 2008 which have been delivered to the Registrar of Companies. The Auditors have reported on the 2008 accounts; their report was unqualified and it did not contain a statement under section 237(2) or (3) of the Companies Act 1985. The audit report for the financial statements for the year ended 30 November 2009 has yet to be signed but it is expected that the statutory accounts for 2009 will be finalised on the basis of the financial information presented in this preliminary announcement and will be delivered to the Registrar of Companies following the Company's Annual General Meeting.
- The Report and Accounts will be available on the Company's website www.independentinvestmenttrust.co.uk on or around 12 February 2010.

None of the views expressed in this document should be construed as advice to buy or sell a particular investment.