

**THE INDEPENDENT INVESTMENT TRUST PLC**

**Results for the year to 30 November 2010**

**21 January 2011**

## **THE INDEPENDENT INVESTMENT TRUST PLC**

### **Chairman's Statement**

The Independent Investment Trust PLC was floated on 18 October 2000. It is gratifying to record that over the period from its flotation to 30 November 2010, The Independent produced the best net asset value total return of all the trusts listed in the Thomson Datastream/J.P. Morgan Cazenove global growth sector.

Over the year to 30 November 2010, our net asset value per share rose by 20.3% from 194.9p to 234.5p. By comparison, the FTSE All Share Index rose by 8.0% over the same period. The NAV total return figures for the year can be found in the managing director's report. A marginal narrowing of the discount from 13.8% to 13.2% meant that the share price rose by 21.1% over the year.

Levels of economic activity have generally shown improvement during the year, but the growth rates of western economies have typically been below those normally expected in the early stages of recovery from recession. In the case of the weaker Eurozone countries, governments have been forced by the straitjacket of the European Currency Union to adopt policies that appear inappropriately deflationary. The accumulations of debt which brought about the financial crisis of 2007-09 have yet to be unwound, while the palliatives of money creation and fiscal deficits, recently beneficial to financial markets, cannot run indefinitely without risks in terms of inflation and interest rates.

We have struggled to reach a view on whether the recovery can be sustained or not and so have continued our policy of blending exposure to continued recovery through economically sensitive businesses with a more defensive approach combining companies with little or no economic sensitivity and significant cash balances (net liquid assets represented 11.3% of our shareholders' funds at 30 November 2010). In choosing our economically sensitive businesses, we continue to place great emphasis on sustainable finances in order to limit our refinancing risk in a potentially hostile economic environment.

We are acutely conscious of the fact that those who bought shares in The Independent in the middle of the decade have had a disappointing experience, but our longer term record remains encouraging. Between 18 October 2000 and 30 November 2010, we produced an NAV total return of 195.0%, equivalent to a rate of roughly 11.4% per annum, of which 2.8% 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 35.9%, or roughly 3.1% per annum. We continue to believe that a willingness to accept periods of poor performance improves our chances of achieving good long term results.

A pleasing feature of the year under review has been the level of turnover in the portfolio, which has been well below that of any previous year. A substantial reduction in our energy stake and a premature rebuilding of our exposure to housebuilders have been the only significant strategic moves, although share price movements have led to a big increase in the value of our retail stake. Further comments on the portfolio can be found in the managing director's report.

Earnings per share for the year were 5.72p (4.16p in 2009). We are proposing a final dividend of 3p (3p in 2009), payable 6 April 2011, to make a total dividend for the year of 5p (for the previous year we paid a regular dividend of 5p and a special dividend of 3p). We must emphasize again that there is no assurance that this level of dividend can be maintained in the future.

The continuing recovery in our net asset value has led to a further decline in our Total Expense Ratio – from 0.41% of year end shareholders’ funds to 0.35%, which we think may be around the lowest of any investment trust. Our ability to run a relatively small trust on such an economical basis is a source of considerable pride to us. Sharp eyed readers of this report may fear that we are putting this policy at risk by raising the directors’ fees. Our defence is that this is only the second increase in ten years, and that the primary financial interest of each director continues to be through his shareholding rather than his fee.

We have once again used our powers to buy back shares. Our buy-back policy has the twin objectives of providing liquidity in our shares and enhancing the interests of continuing shareholders. In the year under review, we bought back 1.045m shares on terms that added approximately 0.98p to our year end net asset value.

The EC proposals for regulating investment funds (the catchy acronym is AIFMD) proceed gradually to a conclusion and are likely to be implemented in 2-3 years time. We are hopeful that smaller companies such as ourselves may be excused some of the heavier requirements. Elsewhere on the governance scene, new initiatives abound. One which we shall ignore is the suggestion by the Financial Reporting Council that companies should no longer be required to publish annual reports. We enjoy the annual tension in the production of the Report between trying on the one hand to provide full, clear and concise information and on the other to minimise the cumbersome and sometimes tautological verbiage which is imposed on us by the authorities.

We have been greatly encouraged by the trading conditions enjoyed by most of our companies over the last year and we remain excited by their longer term prospects. The immediate outlook is dependent on the state of the global economy, but we think we have taken sufficient defensive measures to leave us relatively well placed in the event that this should disappoint.

I should like to thank Baillie Gifford for their continued excellent secretarial service, Vivien Judge for the smooth running of our small office and the managing director for the good result achieved in the year under review.

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 24 March 2011. 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 2010, The Independent Investment Trust PLC produced an NAV total return of 24.9%. Theoretical investments in the FTSE All Share Index and The FTSE World Index would have produced total returns of 11.5% and 12.6% respectively. This is a most satisfactory outcome, but it may have borrowed something from future years: the share prices of a number of our most successful holdings rose by so much during the year that it may take some time for their fundamentals to catch up.

One of the major issues guiding our policy in recent years has been a concern over the medium term outlook for oil supply. Although we have always assigned a low probability to the possibility of an imminent supply crunch, it did seem to us that that probability was rising in a worrying way over the period 2006-8. This led us to build a large stake in the energy sector, the centrepiece of which was our commitment to the offshore drilling industry.

Our experience with this big energy stake has not been a happy one. First, energy prices fell further than we had thought possible over the nine month period to March 2009, depressing demand for service companies and drillers alike. Then, just as the offshore drilling market was recovering, in April 2010 the Deepwater Horizon accident on the Macondo well precipitated a drilling ban in the Gulf of Mexico. This has caused major problems for the deepwater drilling industry as customers have declared force majeure, potential customers have shied off making commitments and idled rigs have had to seek work in other parts of the world, exerting downward pressure on rates. We were slow to recognize the extent of the disruption caused by these problems, but have belatedly cut back our drilling stake.

Overall, our energy stake fell in value from £31.0m on 30 November 2009 to £20.7m on 30 November 2010, £7.3m of the reduction being attributable to net sales. In very rough terms, this is equivalent to a drag of the order of 5 percentage points on our overall performance.

We have also taken this opportunity to review our overall energy strategy. We continue to believe that the availability in the medium term of an adequate supply of oil remains a serious concern and that offshore prospects offer the best hope of the new discoveries the world needs. We recognize, however, that the probability of an imminent supply crunch has declined since 2008 for a number of reasons. Global demand has suffered as a result of the recession; non OPEC supply has surpassed expectations; some OPEC producers, notably Saudi Arabia, have been successful in increasing their productive capacity; and, finally, there now appears to be a realistic prospect of a major increase in Iraqi production. All of this suggests to us that the need for an insurance policy against a major hiatus in the oil market has reduced, but that the longer term outlook for offshore drillers, service companies and some production companies remains excellent. We expect at least a partial rebuilding of our energy stake in the years ahead, but feel we currently have the luxury of being able to wait for the right investments at the right prices.

Two years ago the thought that we might be able to look back with pride on the overall results of our investment efforts in the retail sector would have been greeted with derision, not least by us. Yet, an extraordinary performance in the year under review following the very strong performance in the previous year has left us in exactly that position. In the year under review, a stake worth £13.7m at 30 November 2009 had grown in value to £27.9m by 30 November 2010, £1.1m of the increase being attributable to net purchases. Our old favourite, Dunelm, has been a characteristically stalwart performer as management has once again delivered an exemplary trading performance in conditions that many competitors found difficult. But the real impetus has come from our new holding, SuperGroup. The

share price of SuperGroup has trebled since its initial public offering in March as other investors have grasped the scale of the opportunity facing the company in its attempt to establish a genuinely global fashion brand. The problems to be overcome before it can claim success in this attempt are still daunting, but progress to date has been most encouraging. The issue of whether the risks attending the business are properly reflected in its valuation is a regular topic for debate at board meetings of The Independent, but the decision to buy the shares at a price of £5 in March still looks a good one.

Recruitment has been an area of missed opportunity for us in the year under review. We have long recognized the attractions of the sector in an improving economic environment, but on this occasion we made a net reduction in an already modest position and, worse still, allowed ourselves to be lured into an investment (actually made in the autumn of 2009) in a specialist healthcare recruitment business which experienced a major deterioration in its prospects just as those for our mainstream recruiters were improving dramatically. Our position in mainstream recruiters increased in value from £6.7m on 30 November 2009 to £7.3m at 30 November 2010 despite net sales of £1.2m.

Of our more defensive investments, both tobacco and our holding in Vodafone have performed well, and utilities satisfactorily. Insurance, on the other hand, has been mildly disappointing, as has our small holding in GlaxoSmithKline.

Elsewhere in the portfolio, Aggreko, Herald, IMI, Renishaw and IG have all been strong performers, while both our mining and our transport holdings have contributed positively. Our small commercial property holdings, however, have continued to disappoint and our tentative return to the housebuilding sector looks premature. Marston's was sold after a good recovery in its share price and the small holding in Alliance Trust was sold to fund more adventurous ideas.

## THE INDEPENDENT INVESTMENT TRUST PLC

The following is the unaudited preliminary statement for the year to 30 November 2010 which was approved by the board on 21 January 2011. The directors of The Independent Investment Trust PLC are recommending to the Annual General Meeting of the Company to be held on Thursday 24 March 2011 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 plus a special dividend of 3.00p last year) per ordinary share) for the year ended 30 November 2010. The final dividend of 3.00p, if approved, will be paid on 6 April 2011 to all shareholders on the register at the close of business on 25 February 2011.

### INCOME STATEMENT (unaudited)

	For the year ended 30 November 2010			For the year ended 30 November 2009		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gains on investments	-	24,723	24,723	-	33,202	33,202
Currency gains/(losses)	-	741	741	-	(1,219)	(1,219)
Income (note 2)	4,105	-	4,105	3,265	-	3,265
Administrative expenses	(502)	-	(502)	(494)	-	(494)
<b>Net return before finance costs and taxation</b>	<b>3,603</b>	<b>25,464</b>	<b>29,067</b>	2,771	31,983	34,754
Finance costs of borrowings	(17)	-	(17)	(40)	-	(40)
<b>Net return on ordinary activities before taxation</b>	<b>3,586</b>	<b>25,464</b>	<b>29,050</b>	2,731	31,983	34,714
Tax on ordinary activities	(61)	-	(61)	(92)	-	(92)
<b>Net return on ordinary activities after taxation</b>	<b>3,525</b>	<b>25,464</b>	<b>28,989</b>	2,639	31,983	34,622
<b>Net return per ordinary share: (note 3)</b>						
Basic	<b>5.72p</b>	<b>41.35p</b>	<b>47.07p</b>	4.16p	50.42p	54.58p
 <b>Dividends paid and payable per ordinary share (note 4)</b>	 <b>5.00p</b>			 8.00p		

*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 2010 (unaudited)

	At 30 November 2010		At 30 November 2009	
	£'000	£'000	£'000	£'000
<b>FIXED ASSETS</b>				
Investments held at fair value through profit or loss		<b>127,049</b>		108,008
<b>CURRENT ASSETS</b>				
Debtors		<b>3,019</b>		404
Cash at bank and in hand		<b>13,603</b>		13,047
		<b>16,622</b>		13,451
<b>CREDITORS</b>				
Amounts falling due within one year		<b>(24)</b>		(27)
<b>NET CURRENT ASSETS</b>		<b>16,598</b>		13,424
<b>TOTAL NET ASSETS</b>		<b>143,647</b>		121,432
<b>CAPITAL AND RESERVES</b>				
Called-up share capital		<b>15,315</b>		15,576
Share premium		<b>15,242</b>		15,242
Special distributable reserve		<b>31,763</b>		33,600
Capital redemption reserve		<b>1,217</b>		956
Capital reserve		<b>77,141</b>		51,677
Revenue reserve		<b>2,969</b>		4,381
<b>SHAREHOLDERS' FUNDS</b>		<b>143,647</b>		121,432
<b>NET ASSET VALUE PER ORDINARY SHARE (note 5)</b>		<b>234.5p</b>		194.9p

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

**For the year ended 30 November 2010**

	Share capital	Share premium	Special distributable reserve	Capital redemption reserve	Capital reserve*	Revenue reserve	Total shareholders' funds
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Shareholders' funds at 1 December 2009	15,576	15,242	33,600	956	51,677	4,381	121,432
Net return on ordinary activities after taxation	-	-	-	-	25,464	3,525	28,989
Shares bought back for cancellation	(261)	-	(1,837)	261	-	-	(1,837)
Dividends paid during the year	-	-	-	-	-	(4,937)	(4,937)
Shareholders' funds at 30 November 2010	<b>15,315</b>	<b>15,242</b>	<b>31,763</b>	<b>1,217</b>	<b>77,141</b>	<b>2,969</b>	<b>143,647</b>

\*Capital reserve as at 30 November 2010 included an investment holding gain of £26,181,000.

**For the year ended 30 November 2009**

	Share capital	Share premium	Special distributable reserve	Capital redemption reserve	Capital reserve*	Revenue reserve	Total shareholders' funds
	£'000	£'000	£'000	£'000	£'000	£'000	£'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	<b>15,576</b>	<b>15,242</b>	<b>33,600</b>	<b>956</b>	<b>51,677</b>	<b>4,381</b>	<b>121,432</b>

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

# THE INDEPENDENT INVESTMENT TRUST PLC

## CASH FLOW STATEMENT

(unaudited)

	For the year ended 30 November 2010		For the year ended 30 November 2009	
	£'000	£'000	£'000	£'000
NET CASH INFLOW FROM OPERATING ACTIVITIES		3,564		2,888
SERVICING OF FINANCE				
Interest Paid	(20)		(50)	
Net cash outflow from servicing of finance		(20)		(50)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT				
Acquisitions of investments	(20,230)		(29,205)	
Disposals of investments	23,275		42,119	
Realised currency gain/(loss)	741		(1,219)	
NET CASH INFLOW FROM CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT		3,786		11,695
EQUITY DIVIDENDS PAID		(4,937)		(3,652)
NET CASH INFLOW BEFORE FINANCING		2,393		10,881
FINANCING				
Shares bought back for cancellation	(1,837)		(4,134)	
NET CASH OUTFLOW FROM FINANCING		(1,837)		(4,134)
<b>INCREASE IN CASH</b>		<b>556</b>		<b>6,747</b>
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS				
Increase in cash in the year		556		6,747
MOVEMENT IN NET FUNDS IN THE YEAR		556		6,747
NET FUNDS AT 1 DECEMBER		13,047		6,300
NET FUNDS AT 30 NOVEMBER		13,603		13,047
<b>RECONCILIATION OF NET RETURN BEFORE FINANCE COSTS AND TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES</b>				
Net return before finance costs and taxation		29,067		34,754
Gains on investments		(24,723)		(33,202)
Amortisation of fixed interest book cost		-		27
Currency (gains)/losses		(741)		1,219
Decrease in accrued income		22		197
Decrease in debtors		-		2
Decrease in creditors		-		(17)
Overseas tax		(61)		(92)
<b>NET CASH INFLOW FROM OPERATING ACTIVITIES</b>		<b>3,564</b>		<b>2,888</b>

# THE INDEPENDENT INVESTMENT TRUST PLC

## NOTES

1. The financial statements for the year to 30 November 2010 have been prepared on the basis of the same accounting policies set out in the Company's Annual Financial Statements at 30 November 2009.

	<b>Year to 30 November 2010 £'000</b>	Year to 30 November 2009 £'000
<b>2. Income</b>		
Income from investments and interest receivable	4,088	3,247
Other income	17	18
	<u>4,105</u>	<u>3,265</u>

	<b>Year to 30 November 2010</b>			Year to 30 November 2009		
	Revenue	Capital	Total	Revenue	Capital	Total
<b>3. Net return per ordinary share</b>						
Net return on ordinary activities after taxation (£'000)	3,525	25,464	28,989	2,639	31,983	34,622
Weighted average number of ordinary shares in issue during the year	61,588,730			63,428,586		
Net return per ordinary share:						
Basic	5.72p	41.35p	47.07p	4.16p	50.42p	54.58p

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 2010 and 30 November 2009 there was no dilution of returns.

4. **Ordinary dividends**

	<b>Year to 30 November 2010</b>		Year to 30 November 2009	
	Pence	£'000	Pence	£'000
<b>Amounts recognised as distributions in the year:</b>				
Previous year's final dividend paid 1 April 2010	3.00	1,856	3.00	1,915
Previous year's special dividend paid 1 April 2010	3.00	1,856	0.75	479
Interim dividend paid 27 August 2010	2.00	1,225	2.00	1,258
	<u>8.00</u>	<u>4,937</u>	<u>5.75</u>	<u>3,652</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 1158 of the Corporation Taxes Act 2010 (previously 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 £3,525,000 (2009 - £2,639,000).

# THE INDEPENDENT INVESTMENT TRUST PLC

## NOTES (CTD)

### 4. Ordinary dividends (continued)

	Year to 30 November 2010		Year to 30 November 2009	
	Pence	£'000	Pence	£'000
<b>Amounts paid and payable in respect of the year:</b>				
Interim dividend paid 27 August 2010	2.00	1,225	2.00	1,258
Proposed final dividend payable 6 April 2011	3.00	1,838	3.00	1,856
	<b>5.00</b>	<b>3,063</b>	5.00	3,114
Special dividend paid 1 April 2010	-	-	3.00	1,856
	<b>5.00</b>	<b>3,063</b>	8.00	4,970

If approved, the final dividend will be paid on 6 April 2011 to all shareholders on the register at the close of business on 25 February 2011. The ex dividend date is 23 February 2011.

	At 30 November 2010 £000	At 30 November 2009 £'000
5. <b>Net asset value per ordinary share</b>		
Net asset value attributable to ordinary shares	<b><u>143,647</u></b>	<u>121,432</u>

Net asset value per share is based on net assets (as shown above) and on 61,260,000 shares (2009 – 62,305,000), being the number of shares in issue at the year end.

During the year, the Company bought back 1,045,000 ordinary shares for cancellation at a cost of £1,837,000. At 30 November 2010 the Company had authority to buy back a further 8,677,065 shares.

The Company transacted no buybacks between 1 December 2010 and 21 January 2011.

- At 30 November 2010, the Company had no borrowings (30 November 2009 - 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 £103,000 (2009 - £193,000) and transaction costs on sales amounted to £58,000 (2009 - £70,000).
- The financial information set out above does not constitute the Company's statutory accounts for the year ended 30 November 2010. The financial information for 2009 is derived from the statutory accounts for 2009 which have been delivered to the Registrar of Companies. The Auditors have reported on the 2009 accounts; their report was unqualified and it did not contain a statement under sections 495 to 497 of the Companies Act 2006. The audit report for the financial statements for the year ended 30 November 2010 has yet to be signed but it is expected that the statutory accounts for 2010 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](http://www.independentinvestmenttrust.co.uk) on or around 16 February 2011.

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