



To: Stock Exchange

For immediate release  
22 September 2004

**Securities Trust of Scotland plc**  
**Repayment of debt and strategic update**

The Board wishes to reduce the amount of the Company's debt that cannot be repaid flexibly and redrawn at its discretion. Accordingly:

(a) on 14 September 2004, the Company announced that it had purchased £10m nominal of TrustCo Finance PLC 11.5% Debenture Stock 2016, and that it intended to surrender this to TrustCo, which will have the effect of extinguishing all of the Company's existing £10m loan from TrustCo;

(b) today, the Company announces that it is calling a meeting of the holders of its 12% Debenture Stock 2013 to consider a proposal to repay this early at a price that would give a yield of 0.30% over the reference gilt; and

(c) the Company has a £50m 7.43% term loan that falls due for repayment on 3 December 2004. It is the current intention of the Board that this loan will be repaid on schedule and be replaced, in part, by a short-term revolving credit facility of up to £25m. This facility and the £50m 6.25% Debenture Stock 2031 (which will remain outstanding) will then represent all of the company's debt.

The overall effect of these proposed changes is that the Company's debt will fall from £125m to a range of £50-75m, depending on the use of the short-term facility. As a percentage of shareholders' funds of £319.2m (as at 31 August 2004) gearing will therefore fall from 39% to a range of 16-24%.

The Company currently adopts an accounting policy whereby 70% of finance costs and investment management fees are charged to capital, and 30% to revenue. The proposed repayment of debt, together with the associated removal of the investment management fee on the debt repaid, represents, on an annualised basis, savings of £2.1m to the revenue account and £4.9m to the capital account. The latter figure is equivalent to 1.5% of shareholders' funds as at 31 August 2004. It is estimated that the early repayment of the two debentures will cost approximately £11.5m, equivalent to 3.6% of shareholders' funds as at 31 August 2004.

Notwithstanding the ongoing savings from the change to the Company's capital structure, the reduction in total assets will require a marginal increase in the yield on the Company's equity portfolio in order to maintain the Company's progressive dividend policy. It is anticipated that, assuming a full drawdown of the £25m short-term facility, the Company will typically invest 85-90% of its total assets in equities, at an average yield relative of 110-115% of that of the FTSE All-Share index, and 10-15% in cash and fixed interest securities. The Board has imposed a restriction on the investment managers that equity gearing may not exceed 120%, nor be less than 80%.

These limits will be subject to regular review, with the manager having to take into consideration the Company's absolute, and not just relative, return. Following the increased polarisation of the UK market over recent years, the Board has also agreed that the managers should have greater freedom to deviate from the benchmark index, thereby allowing greater emphasis on stock picking. The main focus will be on an above-average yielding portfolio with scope to deliver superior dividend growth.

It is the Board's current intention, barring unforeseen circumstances, to pay dividends in respect of the financial year to 31 March 2005 totalling no less than the 4.55p per share paid in respect of the financial year to 31 March 2004; on current estimates, this will be covered by earnings. With effect from the start of the financial year to 31 March 2006, the Company intends to pay dividends on a quarterly basis.

The Company is scheduled to release its interim results for the year to 31 March 2005 on 27 October 2004, at which time a further statement will be made on progress in revising the Company's capital structure.

Further information:

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This announcement has been approved for the purposes of section 21 of the Financial Services and Markets Act 2000 by Cazenove & Co. Ltd, which is regulated by the Financial Services Authority.