

To: Stock Exchange

For immediate release:
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SECURITIES TRUST OF SCOTLAND plc
Results for the period from 15 April 2005 (date of incorporation) to 31 March 2006

Chairman's statement

Introduction

It is now just over a year since your company was incorporated – on 15 April 2005 – as part of the reconstruction proposals offered to shareholders of its then-namesake, following its successful defence of the hostile takeover bid mounted by Perpetual Income and Growth Investment Trust. The 'old' company is now in liquidation and, following shareholder approval and elections, the 'new' Securities Trust of Scotland listed on the Stock Exchange on 28 June 2005, with initial assets representing the formula asset value of the 'old' company as at 24 June. Hence, although this report technically refers to the period since incorporation, my comments – and those of the manager – relate to an investment period of just over nine months.

Performance

In this period, the company's net asset value (NAV) per share total return has been 25.7%, compared with the 22.7% outcome from the benchmark FTSE All-Share index. This excellent debut – in both absolute and relative terms – reflects a remarkably benign stockmarket performance where, despite a sluggish domestic economy, UK equities have benefited from both their international exposure and a low interest rate environment to generate robust earnings and, particularly important in our case, strong dividend growth. With a portfolio of, typically, just 50 to 60 companies, performance inevitably relies heavily on the manager's stock-picking abilities. I would like to congratulate Martin Currie on an excellent maiden innings.

In addition to equity exposure, the company's policy allows for investment of up to 10.0% of its assets in fixed interest securities. Initially, we operated at quite close to this limit, given the need to generate revenue to pay dividends. However, such has been the strength of dividend growth from UK equities over the period that, by 31 March 2006, fixed interest exposure was down to just 3.5% of total assets. That said, any exposure to fixed interest has been a drag on performance: the FTSE Government All Stocks index produced a total return of 2.6% over the investment period.

The company also has the power to utilise borrowings, up to a limit of 15% of net assets, to gear returns. A revolving credit facility has been in place throughout the period but, for much of that time, did little more than finance the fixed interest portfolio. Although this benefited the company's revenues, it was less helpful for relative capital returns, given the significant outperformance of equities over bonds. At 31 March 2006, gearing stood at 7.1% of net assets and effective equity exposure was 6.7%.

Discount management

For all that the company has delivered strong NAV per share performance, the board is conscious that the ultimate measure of investor return is the share price. Over the period, this has recorded a capital gain of 24.2%, compared with 19.8% for the index. Hence the discount has narrowed from 8.6% on 28 June 2005 – the first day of trading – to 7.4% on 31 March 2006.

The Board has adopted a discount management policy to seek to stabilise – and, ultimately, minimise – the discount at which the company's shares trade to their NAV. This policy involves a combination of ad hoc share buybacks and a specific measurement period of twelve weeks prior to the company's year-end of 31 March when, if the discount averages more than 7.5%, shareholders will be offered the opportunity to redeem their shares, at NAV less applicable costs. In the first measurement period, the average discount was 7.4% and the company bought back 4,261,967 shares. Earlier in the financial period, a further 1,749,164 shares had been repurchased, to make a total of 6,011,131, or 5.6% of those originally issued.

Revenue

The company's investment objective deliberately prioritises rising income in recognition of shareholders' desire for a high dividend yield – relative to that of the stockmarket – and growth in that dividend. Revenue return in the first period has been 3.19p per share, somewhat ahead of the outcome anticipated at the time of the company's listing. Hence, having declared a first interim dividend of 1.00p per share, paid on 31 March, the directors now announce a second payment of 1.85p per share, payable on 30 June to shareholders on the register on 9 June. This totals 2.85p per share, some 5.6% ahead of the 2.70p per share that the Board had expressed as its minimum intent at the time of the company's launch. Adding these payments to the 2.00p per share paid by the 'old' company on reconstruction, shareholders who remained with Securities Trust of Scotland will have received dividends totalling 4.85p per share in respect of the period to 31 March 2006, an increase of 3.2% on the 4.70p per share paid by the 'old' company in its last financial period.

The company will pay quarterly dividends in future – normally in September, December, March and June – and it is the directors' current intention – albeit this is not a forecast – to pay dividends totalling at least 4.85p per share in respect of the year to 31 March 2007.

Outlook

Shareholders have benefited from the rise in UK share prices since flotation of the company. Looking forward, the continued rise in profits and dividends expected from the corporate sector should again produce a positive return for shareholders, albeit at a slower pace than in recent months.

Manager's report

The period under review – from the company's flotation in June 2005 through to the end of March - has been characterised by the extremely strong performance of the UK stockmarket. The FTSE All-Share index delivered a total return of 22.7% over the period, a return far in excess of its long-term trend. The return of 25.7% delivered by the portfolio over the same timeframe exceeded even this handsome gain. This performance was produced despite the apparent handicap that holding equities with a higher than average yield (and a weighting in fixed interest investments of around 10%) might be thought to have imposed.

The strong returns generated by the stockmarket recently have stood in contrast to the more subdued performance of the UK economy, which grew at a below-trend rate during 2005. A sharp fall in turnover in the housing market in the spring of 2005 was a significant factor here, prompting a slowdown in consumer spending. In consequence, shares in retail stocks have underperformed the market, although shares in housebuilders did much better – Persimmon (one of the portfolio's holdings) was able to increase its full year dividend by 13%. However, the slowdown in the housing market was not the only factor at play - higher taxes and the impact of an increase in energy prices also constrained consumer expenditure. Many companies in the retail sector performed poorly in this environment, but this weakness gave the managers the opportunity to purchase a holding in Next at an attractive price. Short-term interest rates in the UK remained relatively stable over the period, with only one change being made by the Bank of England - a reduction to 4.5% last August.

The divergence between the performance of the UK economy and that of its stockmarket is less surprising than it might initially seem. UK-listed companies only derive approximately 35% of their profits (and falling) in this country. Instead, UK companies are far more exposed to the fortunes of the global economy.

The rise in share prices over the period reflected not just the strength of profits growth, but also the translation of these profits into increased dividend payments. The latter is particularly important for this portfolio, with its emphasis on companies with the potential for producing strong dividend growth. Future dividend growth is a key element that the managers look for when they are assessing whether to buy a holding for the portfolio, in order that the company is not forced to invest in very high yielding stocks with little potential for growth in either earnings or dividends.

The managers believe that the aerospace industry continues to offer good prospects for increased output and profitability. We increased the weighting in BAE Systems, and the company subsequently announced that it is likely to announce significant export contracts. Another new holding here was Smiths Group, which manufactures aerospace electronics, medical systems and sealing systems. It is also an important supplier of detection equipment to airports.

Consensus estimates are for dividends from the UK stockmarket to grow at over 7% per annum for the next two years, above the long-term trend rate and reflecting the strong profitability of the corporate sector. Many companies within the portfolio have produced dividend growth well in excess of this rate. The largest active position within the portfolio is in Scottish and Southern Energy, where the portfolio

position is more than 3% above its FTSE All-Share weighting. Despite being classified as a utility, it has consistently produced strong earnings and dividend growth. Similarly, Royal Bank of Scotland increased its 2005 dividend by 25%. The managers have increased the portfolio's weighting in this stock.

The higher than expected revenue being received from equities is one of the reasons the managers were able to reduce the portfolio's weighting in fixed interest investments to below 5%. This was accomplished by selling the majority of the preference shares that it formerly held. These investments had performed well in tandem with falling yields on long-dated gilts.

Stocks sold from the portfolio included Electrocomponents and Davis Service Group, where prospects for dividend growth were limited. The portfolio's overweight position in the tobacco sector has been reduced through a partial sale of the holding in Imperial Tobacco, which reflected the slowing growth in its European businesses. The holding in Lloyds TSB has also been significantly reduced. Although it still offers a very high yield, the dividend is not growing and the shares trade on a high rating relative to their peers.

Bids, both rumoured and actual, have been a particularly notable feature of the UK stockmarket. The portfolio benefited from this bout of M&A activity as its holdings in Exel, BOC, O2, and Hilton Group all became the subjects of takeovers. There is a ready supply of finance for takeovers from both the banks and the bond markets. The increase in stockmarket valuations is, however, beginning to make it more difficult for private equity funds to complete deals and an increasing number of companies are now rejecting their approaches.

The very strong returns from the FTSE All-Share Index over the last year have exceeded growth in profits, and therefore equities are now trading on a higher valuation than they were at the start of the period. Yet a prospective multiple of 13x 2006 earnings continues to offer reasonable value. One notable feature of the UK market has been the continuing outperformance of smaller companies and the underperformance of some of its largest constituents. This means that some of the largest companies in sectors such as banks, oil and gas and telecommunications now trade on lower ratings than the market average and offer good value to investors. The prospects for economic growth, both in this country and the rest of the world, are good and it is likely that there will be more takeover bids in the coming months. However, although share prices continue to be supported by profit and dividend growth, it is unlikely that returns over the next twelve months will match those earned over the period just ended.

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SECURITIES TRUST OF SCOTLAND plc

**INCOME STATEMENT FOR THE
PERIOD FROM 15 APRIL 2005 (DATE OF INCORPORATION) TO 31 MARCH 2006**

		Unaudited		
		Revenue £000	Capital £000	Total £000
Net gains on investments	- realised	-	6,110	6,110
	- unrealised	-	20,476	20,476
Currency gains		-	6	6
Income	- franked	3,915	639	4,554
	- unfranked	223	-	223
Investment management fee		(158)	(293)	(451)
Other expenses		(416)	-	(416)
Net return before finance costs and taxation		3,564	26,938	30,502
Finance costs	- debt	(166)	(308)	(474)
	- shareholders' funds	(1,031)	-	(1,031)
Return on ordinary activities before taxation		2,367	26,630	28,997
Taxation on ordinary activities		-	-	-
Return attributable to shareholders		2,367	26,630	28,997
 Return per ordinary redeemable share		 3.19p	 25.03p	 28.22p

The total column of this statement is the profit and loss account of the company.
The revenue and capital items are presented in accordance with the AITC SORP.
All revenue and capital items in the above statement derive from continuing operations.

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 board announces a second interim dividend of 1.85p per share. The dividend will be paid on 30 June 2006 to shareholders on the register on 9 June 2006. This is in addition to the 1.00p interim dividend already paid during the period.

The financial information contained within this preliminary announcement does not constitute the company's statutory financial statements as defined in section 240 of the Companies Act 1985 for the period ended 31 March 2006, but is derived from those financial statements. Statutory financial statements for 2006 will be delivered to the Registrar of Companies following the company's annual general meeting.

The terms of the preliminary announcement were approved by the board on 24 April 2006.

SECURITIES TRUST OF SCOTLAND plc

BALANCE SHEET

	As at 31 March 2006 (Unaudited)	
	£000	£000
Fixed assets		
Investments		
Listed on the Stock Exchanges in the UK		149,575
Current assets		
Debtors	4,408	
Cash at bank	3,359	
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	7,767	
Creditors		
Amounts falling due within one year	(15,916)	
Net current liabilities	<hr/>	(8,149)
Shareholders' funds		<hr/>
(prior to shareholders' redemption liability)		141,426
Creditors		
Distributable capital and reserves attributable to shareholders on redemption		(139,059)
		<hr/>
		2,367
Undistributable capital and reserves		<hr/>
Revenue reserve		2,367
		<hr/>
Net asset value per ordinary share		138.48p
(prior to shareholders' redemption liability)		
AITC net asset value per ordinary share		135.55p

SECURITIES TRUST OF SCOTLAND plc

STATEMENT OF CASH FLOW

	Period from 15 April 2005 (date of incorporation) to 31 March 2006 (Unaudited)	
	£000	£000
Operating activities		
Net dividends and interest received from investments	3,749	
Interest received from deposits	55	
Investment management fee	(299)	
Cash paid to and on behalf of directors	(58)	
Bank charges	(4)	
Other cash payments	(193)	
Net cash inflow from operating activities		3,250
Servicing of finance		
Finance costs - debt	(435)	
- equity	(1,031)	
Net cash outflow from servicing of finance		(1,466)
Capital expenditure and financial investment		
Payments to acquire investments	(159,189)	
Receipts from disposal of investments	38,335	
Net cash outflow from investing activities		(120,854)
Net cash outflow before use of liquid resources and financing		(119,070)
Financing		
Issue of ordinary share capital	119,518	
Repurchase of ordinary share capital	(7,089)	
Movement in short-term borrowings	10,000	
Net cash inflow from financing		122,429
Increase in cash for the period		3,359

Note

New accounting standards

The financial statements have been prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP) and have included the early adoption of the Statement of Recommended Practice for Financial Statements of Investment Trust Companies, issued in 2005. The statements have incorporated the requirements of FRS 21 "Events after the Balance Sheet Date", FRS 25 "Financial Instruments: Disclosure and Presentation", FRS 26 "Financial Instruments: Measurement". The impact of these new standards on the financial statements is detailed below:

- Under previous UK GAAP, dividends were reported in the financial period to which they related. FRS21 requires that they are accounted as a liability in the period in which they are approved.
- Under FRS 25, the ordinary share capital of the company is classified as a liability rather than equity. This classification arises from the company's prospectus, which allows shareholders to redeem their shares if the average discount exceeds 7.5% over the twelve week period before the financial year end. Accordingly, a long-term liability for net assets attributable to shareholders on redemption has been recognised.
- In relation to FRS26, the company's investments are classified as "financial assets at fair value through profit or loss" and are therefore valued at bid price. Under previous UK GAAP, investments were valued at middle market price.

Under previous UK GAAP the revenue column of the Statement of Total Return was deemed to be the profit and loss account of the company. An Income Statement is now disclosed. The total column of this statement is now regarded as the profit and loss account of the company.