

To: Stock Exchange

**For immediate release:
26 October 2005**

**Securities Trust of Scotland plc
Interim results for the period ended 30 September 2005**

Chairman's Statement

Introduction

It gives me great pleasure to present the inaugural report of Securities Trust of Scotland. The company was incorporated on 15 April 2005 as 'New' Securities Trust of Scotland, being a successor to 'Old' Securities Trust of Scotland, which has been re-named STOS. You will recall that the 'old' company was subject to a hostile bid from Perpetual Income and Growth Investment Trust (PIGIT) and that, once that bid had failed, this 'new' company formed part of the reconstruction proposals that were offered to STOS shareholders. Your company was listed on 28 June, hence this report effectively refers to just over three months of investment activity, notwithstanding the earlier date of incorporation.

Although, strictly speaking, your company is an entirely separate entity from STOS, the links between the two are obvious and strong. I would thus like to take this opportunity to pay tribute to David Whitaker, the Chairman of the 'old' company, who stood down from the board on the successful completion of the reconstruction. David always led from the front, both with his enthusiasm and with his intellect, not least in defending STOS from the unwelcome attentions of PIGIT. His colleagues, who remain with me on the board of this company, will endeavour to direct the company's affairs as robustly as did David in his ten years as Chairman of STOS.

Investment objective and policy

The company's investment objective is to seek to achieve rising income and long-term capital growth through investment in a balanced portfolio constructed from the securities of UK companies. Initially, these securities were transferred from STOS's portfolio, and are characterised by their potential for strong earnings and dividend growth. The portfolio is likely to consist of approximately 50 to 60 securities, with the majority invested in larger stocks, being those with a market capitalisation of over £1 billion. Additionally, the company will also have the flexibility to invest up to 10% of the portfolio in fixed interest securities, as the managers think fit.

Conscious of the need to maintain a flexible capital structure, we have decided to adopt a prudent approach to gearing. It is anticipated that borrowings will be managed on a short-term basis, through a revolving credit facility, and that the amount of such borrowings will not exceed 15% of the company's net asset value.

The board also recognises the importance to shareholders that the company's shares do not trade at a significant discount to their prevailing net asset value. Hence, we have adopted a discount control mechanism, which allows shareholders to redeem their shares – at net asset value less costs - if the average discount exceeds 7.5% over the twelve week period prior to each financial year end. In addition, the company may use share buybacks from time to time if the board considers that it is in shareholders' interests so to do. In the period to 30 September, the company bought back just over one million shares – representing just under 1% of those initially issued, at discounts ranging from 8.2% to 9.9%.

Performance

Three months is far too short a period over which to judge the success, or otherwise, of a long-term investment strategy, such as that followed by your company. That said, initial indications are encouraging. In this first accounting period, the net asset value per share increased by 8.7%, ahead of the 7.9% gain recorded by the benchmark FTSE All-Share index, notwithstanding that the portfolio was approximately 10% invested in fixed interest securities, which delivered significantly lower returns. The share price stood at a 9.7% discount at 30 September.

Shareholders who elected for the company's shares in STOS's reconstruction might recall that they have received a dividend of 2.00p per share this financial year from the 'old' company. It remains the board's current intention to move to quarterly dividends, and to pay two dividends in respect of this

financial year totalling at least 2.70p per share. This would make a grand total of at least 4.70p per share for the year to 31 March 2006, identical to that paid by STOS in respect of the prior year. The company has earned 1.39p per share in this initial period.

Outlook

Although the period to 30 September has been a relatively benign one in which to establish the company, October has witnessed a significant correction in global stockmarkets. This appears to have been largely triggered by fears of mounting inflationary pressures, particularly in the US, and the consequent concern that American interest rates might increase more rapidly than expected. The impact on the UK is more one of sentiment, although expectations of further interest rate cuts here are probably misplaced. The UK economy remains sluggish but, with the stockmarket significantly exposed to overseas influences, strong growth in China, recovery in Japan and Europe, and a still robust United States provide a reasonable foundation for further progress by equities.

Managers' report

The majority of the holdings in the company's initial portfolio transferred across in specie from the portfolio of its predecessor. This avoided the dealing costs that would have been associated with selling and repurchasing stock. The managers also introduced a number of new names to the portfolio. One of these was Halfords, a retailer, which offers an attractive yield and whose sales have continued to grow despite a difficult trading environment for retailers. BAE Systems, a large defence contractor with a stake in Airbus, was also added to the portfolio.

The company's initial period of trading coincided with a strong rise in UK share prices. The best performances came from more cyclical sectors, particularly mining, where profits and share prices have responded to high commodity prices. The period also saw a sharp increase in the index weighting of the oil sector, as the reconstruction of Royal Dutch Shell more than doubled its weight in the UK market.

The UK stockmarket is currently seeing a high level of dividend growth. Companies are generating significant levels of cash and in many cases they are returning it to shareholders. There continued to be a high level of corporate activity, and the portfolio benefited from this. A holding in the life assurance sector merged with another business to create Resolution Life. Exel, a logistics and freight business, accepted a takeover which valued it at a 30% premium to its pre-bid share price. Since the end of the period, Hilton Group has received an approach for its hotel business. Meanwhile, two other portfolio holdings, Boots and Alliance Unichem, have announced their intention to merge.

The rating of shares on the UK stock market is not high, with a prospective price/earnings multiple of around 12.5x, which in our view represents good value. However, UK economic growth has slowed in recent months and GDP is only 1.5% higher than it was one year ago. Interest rates have been reduced but any further cuts may be delayed. The impact of higher energy prices is being felt in many areas of the economy and is affecting profits in those industries that are struggling to pass these costs on to customers. So, in the short-term share prices may consolidate around their current levels, but the longer-term outlook for the UK market remains firmly positive.

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For further information, please contact:

Ross Watson, Tom Maxwell or Michael Woodward
Martin Currie Investment Management Ltd
rwatson@martincurrie.com
tmaxwell@martincurrie.com
mwoodward@martincurrie.com

0131 229 5252

SECURITIES TRUST OF SCOTLAND plc

Statement of total return (incorporating the revenue account*) for the period ended 30 September 2005

		Unaudited		
		Revenue £000	Capital £000	Total £000
Gains on investments	- realised	-	114	114
	- unrealised	-	8,927	8,927
Income	- franked	1,631	-	1,631
	- unfranked	88	-	88
Investment management fee		(45)	(84)	(129)
Other expenses		(107)	-	(107)
Net return before finance costs and taxation		1,567	8,957	10,524
Interest payable and similar charges		(66)	(122)	(188)
Return on ordinary activities before taxation		1,501	8,835	10,336
Taxation on ordinary activities		-	-	-
Return attributable to shareholders		1,501	8,835	10,336
Return per ordinary share		1.39p	8.18p	9.57p

* The revenue column of this statement is the profit and loss account of the company. All revenue and capital items in the above statement derive from continuing operations. No operations were acquired or discontinued in the period.

The financial information contained within this announcement does not constitute the company's statutory financial statements as defined in section 240 of the Companies Act 1985.

The terms of the announcement were approved by the board on 26 October 2005.

SECURITIES TRUST OF SCOTLAND plc

Balance sheet

	As at 30 September 2005 (unaudited)	
	£000	£000
Investments at market value		
Listed on Stock Exchange in the UK		138,041
Current assets		
Debtors	4,183	
Cash at bank	3,234	
	<hr/>	
	7,417	
Creditors		
Amounts falling due within one year	(16,569)	
	<hr/>	
Net current liabilities		(9,152)
Shareholders' funds (prior to shareholders' redemption liability)		<hr/>
		128,889
Creditors		
Distributable capital and reserves attributable to shareholders on redemption		(8,951)
		<hr/>
		119,938
Undistributable capital and reserves		
Share premium		118,437
Revenue reserves		1,501
		<hr/>
		119,938
Net asset value per ordinary share (prior to shareholders' redemption liability)		120.18p
AITC net asset value per ordinary share		119.07p

SECURITIES TRUST OF SCOTLAND plc

Statement of cash flow

	Period to 30 September 2005 (unaudited)	
	£000	£000
Operating activities		
Net dividends and interest received from investments	850	
Interest received from deposits	12	
Cash paid to and on behalf of directors	(16)	
Other cash payments	(22)	
Net cash inflow from operating activities	<hr/>	824
Servicing of finance		
Interest paid	(127)	
Net cash outflow from servicing of finance	<hr/>	(127)
Capital expenditure and financial investment		
Payments to acquire investments	(134,522)	
Receipts from disposal of investments	3,006	
Net cash outflow from capital expenditure and financial investment	<hr/>	(131,516)
Net cash outflow before financing		(130,819)
Financing		
Issue of new ordinary share capital	119,518	
Repurchase of ordinary share capital	(965)	
Movement in short-term borrowings	15,500	
Net cash inflow from financing	<hr/>	134,053
Increase in cash for the period		<hr/> 3,234 <hr/>

SECURITIES TRUST OF SCOTLAND plc

Notes

1. Accounting policies

These statements have incorporated the requirements of FRS 25 "Financial Instruments: Disclosure and Presentation" and FRS 26 "Financial Instruments: Measurement". The impacts of these new standards on the financial statements are:

- 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 FRS 26, the company's investments are classified as "financial assets at fair value through profit and loss" and are therefore valued at bid price.

2. Returns and net asset value

The return and net asset value per share are calculated with reference to the following figures:

	Period ended 30 September 2005
Revenue return	
Revenue return attributable to ordinary shareholders	£1,501,000
Average number of shares in issue during period	108,058,258
Revenue return per ordinary share	1.39p

Capital return

Capital return attributable to ordinary shareholders	£8,835,000
Average number of shares in issue during the period	108,058,258
Capital return per ordinary share	8.18p

Net asset value per share

As at 30 September 2005

Total assets less current liabilities	£128,889,000
Number of shares in issue at period end	107,246,570
Net asset value per share	120.18p

Reconciliation of accounting and AITC net asset values

As at 30 September 2005

Accounting net asset value per share	120.18p
Adjustment per share from bid to mid price valuation of investments	0.28p
Exclusion of undistributed current period revenue	(1.39p)
AITC net asset value per share	119.07p