

To: Stock Exchange

For immediate release:
31 October 2006

Securities Trust of Scotland plc
Interim results for the six months ended 30 September 2006

Chairman's statement

Introduction

I am pleased to report encouraging results for the six-month period ended 30 September 2006. The company's net asset value (NAV) total return was 2.3% in comparison to the benchmark FTSE All-Share index which returned 1.7%. Since flotation in June 2005, the NAV total return of 27.4% has exceeded the benchmark return of 25.7%. The company continues to seek rising income and long-term capital performance through investment in a balanced portfolio of UK stocks. This is described in more detail in the manager's review.

Revenue and dividends

The company's net revenue exceeded earlier estimates due to lower-than-forecast costs and higher dividend income. This enabled an increase in the proportion of the portfolio invested in equities, at the expense of fixed interest investments, and increased dividend payments. A first interim dividend of 1.05p for the year to 31 March 2007 has been paid, and a second interim dividend of 1.05p will be paid on 15 December to shareholders on the register on 17 November 2006, totalling 2.10p. The directors intend to declare two further interim dividends totalling at least 2.90p, giving a total payment of at least 5.00p per share for the year to 31 March 2007.

Discount

The company's share price has traded at a relatively stable discount to its NAV in recent months, moving gradually closer to the peer-group average. During the current financial year, only 160,150 shares have been purchased for cancellation. The directors believe that this illustrates continuing support for the company offering the highest yield in its peer group, and producing a better-than-average total return. Ross Watson has met numerous existing and potential shareholders to explain the company's investment policy and attractions.

Outlook

After falling back from the levels in the spring, UK shares have recently recovered. With relatively attractive valuations and continuing corporate activity, investors are more confident, and can continue to benefit from higher profits and dividends. While some volatility is inevitable, our outlook remains positive.

Manager's review

This six-month period was eventful as share prices reached their highest levels for five years in April and then, in common with other world equity markets, underwent a sharp correction during May and June. From this low point, shares have steadily recovered, as investors regain confidence and companies continue to provide good increases in profits and dividends.

The company has the power to utilise gearing to enhance performance, up to a limit of 15% of net assets. During the six months under review, we have geared the portfolio using short-term flexible debt at attractive rates. The average gearing level has been approximately 10% of net assets, but due to the holdings in fixed interest securities the effective equity gearing has been lower. At 30 September, gearing stood at 111% of net assets. Effective equity exposure was 106%.

The UK economy has performed reasonably well over the last six months with GDP currently growing at slightly above its trend level. This, coupled with the impact of higher energy and commodity prices, prompted the Bank of England to increase short-term interest rates to 4.75%. In fact, oil and other commodity prices have been falling and the retail price of petrol has already dropped. New gas supplies are now reaching the UK, although suppliers will be unable to reduce gas and electricity prices to consumers for many months. The squeeze on consumer incomes due to higher fuel and energy costs has not dampened the housing market, where prices and activity remain firm.

When examining opportunities for change within the portfolio, we look at individual stocks and assess their relative valuation and future prospects in profits and dividends. The relative weighting of the portfolio between the large-capitalisation stocks in the FTSE 100 index and smaller companies is of lesser importance. However, the portfolio weighting in the largest FTSE 100 companies has increased, as we have added to our positions in both BP and Vodafone. These companies have been trading on attractively low valuations relative to the market. Vodafone, in addition to increasing its dividend payment sharply, has recently made a significant capital return to shareholders.

The UK stockmarket has been alive with bid rumours in recent months. The focus of this activity is now shifting to the utilities sectors, where stable and regulated returns are attractive to debt-financed acquirers. We reduced our holding in water firm AWG after it became a bidding target.

The combination of takeover bids and capital returns means that the UK stockmarket's equity base has been shrinking in recent years. Some companies are raising new capital, however. Resolution had a large rights issue to finance the acquisition of a book of mostly closed life funds, in line with its key business strategy. The weighting of our holding increased significantly as a result of this issue. At the end of the period, our mining holding Xstrata also announced a rights issue, to finance part of the cost of acquiring Falconbridge, a Canadian mining business.

We have built two new positions in the media sector. Informa provides business information through journals, newspapers, electronic media and books. They also run trade exhibitions, which link to many of their other activities. Although the yield on their shares is relatively low (below that of the market), the P/E multiple was attractive and the prospects for sustained dividend growth are good. Since we purchased this stock, Informa has increased its interim dividend by 22%, well ahead of our expectations, and the share price has responded positively. The share price has subsequently risen further after announcing that they have received an approach that may lead to a takeover bid. We established a holding in EMAP for different reasons. Emap operates radio stations and publishes a wide range of consumer magazines. It is therefore much more exposed to advertising volumes and the consumer than Informa. Recent interim results were disappointing and the share price fell sharply, presenting us with the opportunity to acquire the holding.

After a steady recovery in recent months, UK share prices have returned to their highest levels of the year. Despite this, valuation levels are inexpensive, with the prospective P/E ratio for 2007 at 12X. With profits and dividends set to continue to grow – although not at the rates experienced recently – share prices can appreciate from here. Moreover, the prospect of further takeovers will act as a spur to valuations in certain sectors. A further increase in UK interest rates to 5% would not have a significant impact on UK corporate profits, which are more widely exposed to the world economy.

For more information, please contact:

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SECURITIES TRUST OF SCOTLAND plc
INCOME STATEMENT
for the six months ended 30 September 2006

		Unaudited		
		Revenue	Capital	Total
		£000	£000	£000
Gains / (losses) on investments	- realised	-	162	162
	- unrealised	-	(2,181)	(2,181)
Currency losses		-	(7)	(7)
Income	- franked	3,066	1,372	4,438
	- unfranked	150	-	150
Investment management fee		(77)	(142)	(219)
Other expenses		(195)	-	(195)
Net return before finance costs and taxation		2,944	(796)	2,148
Finance costs	- debt	(115)	(213)	(328)
	- shareholders' funds	(2,957)	-	(2,957)
Return on ordinary activities before taxation		(128)	(1,009)	(1,137)
Taxation on ordinary activities		(3)	-	(3)
Return attributable to shareholders		(131)	(1,009)	(1,140)
 Return per ordinary redeemable share		 2.77p	 (0.99p)	 1.78p

Returns per ordinary share (as defined by the Articles) are detailed in note 1.
The total 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 directors have declared an interim dividend of 1.05p per share, which will be paid on 15 December 2006 to shareholders on the register on 17 November 2006.

The interim results will be circulated to shareholders in the form of an interim report, copies of which will be available at the company's registered office, Saltire Court, 20 Castle Terrace, Edinburgh EH1 2ES.

SECURITIES TRUST OF SCOTLAND plc

INCOME STATEMENT
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
Currency losses		-	-	-
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		<u>1,567</u>	<u>8,957</u>	<u>10,524</u>
Finance costs	- debt	(66)	(122)	(188)
	- shareholders' funds	-	-	-
Return on ordinary activities before taxation		<u>1,501</u>	<u>8,835</u>	<u>10,336</u>
Taxation on ordinary activities		-	-	-
Return attributable to shareholders		<u>1,501</u>	<u>8,835</u>	<u>10,336</u>
 Return per ordinary redeemable share		 1.39p	 8.18p	 9.57p

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No operations were acquired or discontinued in the period.

SECURITIES TRUST OF SCOTLAND plc

**INCOME STATEMENT
for the period ended 31 March 2006**

		Audited		
		Revenue £000	Capital £000	Total £000
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

Returns per ordinary share (as defined by the Articles) are detailed in note 1.
The total column of this statement is the profit and loss account of the company.
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No operations were acquired or discontinued in the period.

SECURITIES TRUST OF SCOTLAND plc

BALANCE SHEET

	As at 30 September 2006 (unaudited)		As at 30 September 2005 (unaudited)		As at 31 March 2006 (audited)	
	£000	£000	£000	£000	£000	£000
Fixed assets						
Investments						
Listed on Exchanges in the UK		152,554		138,041		149,575
Current assets						
Debtors	794		4,183		4,408	
Cash at bank	1,712		3,234		3,359	
	2,506		7,417		7,767	
Creditors						
Amounts falling due within one year	(14,977)		(16,569)		(15,916)	
Net current liabilities		(12,471)		(9,152)		(8,149)
Shareholders' funds (prior to shareholders' redemption liability)		140,083		128,889		141,426
Creditors						
Distributable capital and reserves attributable to shareholders on redemption		(137,847)		(8,951)		(139,059)
		2,236		119,938		2,367
Undistributable capital and reserves						
Share premium		-		118,437		-
Revenue reserve		2,236		1,501		2,367
		2,236		119,938		2,367
Net asset value per ordinary redeemable share (prior to shareholders' redemption liability)		137.38p		120.18p		138.48p
AIC net asset value per ordinary share		135.67p		119.07p		135.55p

SECURITIES TRUST OF SCOTLAND plc

STATEMENT OF CASH FLOW

	Six months ended 30 September 2006 (unaudited)		Period ended 30 September 2005 (unaudited)		Period ended 31 March 2006 (audited)	
	£000	£000	£000	£000	£000	£000
Operating activities						
Net dividends and interest received from investments	4,732		850		3,749	
Interest received from deposits	41		12		55	
Investment management fee	(259)		-		(299)	
Cash paid to and on behalf of directors	(42)		(16)		(58)	
Bank charges	(6)		-		(4)	
Other cash payments	(239)		(22)		(193)	
Net cash inflow from operating activities		4,227		824		3,250
Servicing of finance						
Finance costs - debt	(327)		(127)		(435)	
- equity	(2,957)		-		(1,031)	
Net cash outflow from servicing of finance		(3,284)		(127)		(1,466)
Taxation						
Overseas taxation paid	(4)		-		-	
Net cash outflow from taxation		(4)		-		-
Capital expenditure and financial investment						
Payments to acquire investments	(27,047)		(134,522)		(159,189)	
Receipts from disposal of investments	19,914		3,006		38,335	
Net cash outflow from investing activities		(7,133)		(131,516)		(120,854)
Net cash outflow before use of liquid resources and financing		(6,194)		(130,819)		(119,070)
Financing						
Issue of ordinary share capital	-		119,518		119,518	
Repurchase of ordinary share capital	(203)		(965)		(7,089)	
Net movement in short-term borrowings	4,750		15,500		10,000	
Net cash inflow from financing		4,547		134,053		122,429
(Decrease)/increase in cash for the period		(1,647)		3,234		3,359

Notes

1. Returns and net asset value

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

	Six months ended 30 September 2006	Period ended 30 September 2005	Period ended 31 March 2006
Revenue return			
Revenue return attributable to shareholders	(£131,000)	£1,501,000	£2,367,000
Add back finance costs - shareholders' funds	£2,957,000	-	£1,031,000
	<u>£2,826,000</u>	<u>£1,501,000</u>	<u>£3,398,000</u>
Average number of shares in issue during period	101,973,904	108,058,258	106,407,347
Revenue return per ordinary redeemable share	2.77p	1.39p	3.19p
Capital return			
Capital return attributable to ordinary shareholders	(£1,009,000)	£8,835,000	£26,630,000
	<u></u>	<u></u>	<u></u>
Average number of shares in issue during period	101,973,904	108,058,258	106,407,347
Capital return per ordinary share	(0.99p)	8.18p	25.03p
Net asset value per share	As at 30 September 2006	As at 30 September 2005	As at 31 March 2006
Net assets attributable to shareholders	£140,083,000	£128,889,000	£141,426,000
	<u></u>	<u></u>	<u></u>
Number of shares in issue at period end	101,970,223	107,246,570	102,130,373
Net asset value per share	137.38p	120.18p	138.48p

2. Reconciliation of accounting and AIC net asset values

	As at 30 September 2006	As at 30 September 2005	As at 31 March 2006
Accounting net asset value per share	137.38p	120.18p	138.48p
Adjustment per share from bid to mid price valuation of investments	-	0.28p	-
Exclusion of undistributed current period revenue	(1.71p)	(1.39p)	(2.32p)
Re-classification of capital dividend	-	-	(0.63p)
Period-end accrual adjustments	-	-	0.02p
	<u></u>	<u></u>	<u></u>
AIC net asset value per share	135.67p	119.07p	135.55p