

THE INDEPENDENT INVESTMENT TRUST PLC

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the year ended 30 November 2010

CONTENTS

1	Company Summary
2	Board of Directors
3	Chairman's Statement
5	Managing Director's Report
7	List of Investments
8	Long Term Record
9	Directors' Report
19	Statement of Directors' Responsibilities
20	Directors' Remuneration Report
22	Independent Auditor's Report
23	Income Statement
24	Balance Sheet
25	Reconciliation of Movements in Shareholders' Funds
26	Cash Flow Statement
27	Notes to Financial Statements
37	Notice of Annual General Meeting

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the action you should take, you are recommended to seek your own independent financial advice from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under the Financial Services and Markets Act 2000 if you are in the United Kingdom or, if not, from another appropriately authorised financial adviser. If you have sold or otherwise transferred all your ordinary shares in The Independent Investment Trust PLC, please forward this document, together with the accompanying documents immediately to the purchaser or transferee, or to the stockbroker, bank or agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

OBJECTIVE AND POLICY

The Company's objective is to provide good absolute returns over long periods by investing the great majority of its assets in UK and international quoted securities. When appropriate, the directors will sanction relatively high levels of gearing and a relatively concentrated portfolio structure. The portfolio is constructed without reference to the composition of any stockmarket index. Further details of the Company's investment policy are given in the Directors' Report.

RISKS

The principal risks facing the Company relate to the Company's investment activities. These risks are market price risk, interest rate risk, foreign currency risk, liquidity risk and credit risk. An explanation of these risks and how they are managed is contained in note 18 in the Financial Statements. Other risks faced by the Company are detailed in the Directors' Report. The Company's policy is designed to allow the Company an unusually high degree of freedom to exploit the directors' judgement. To the extent that the directors' judgement is flawed, future results could be unusually poor.

SUMMARY STATISTICS

for the year ended 30 November 2010

	2010	2009	% change
Net asset value per share	234.5p	194.9p	20.3
Revenue earnings per share	5.72p	4.16p	37.5
Proposed dividend per share (Including interim dividend paid of 2.00p (2009 – 2.00p))	5.00p	5.00p	–
Special dividend per share	–	3.00p	
Share price	203.5p	168.0p	21.1

None of the views expressed in this document should be construed as advice to buy or sell a particular investment. Past performance is not a guide to future performance.

The Independent Investment Trust PLC, as a listed company, is subject to the requirements of the Listing Rules of the Financial Services Authority (FSA) but it is not directly regulated by the FSA, either as a collective investment scheme or as an authorised person. Moreover, its employees are not registered with the FSA as authorised persons. If you are in any doubt about the Company's regulatory status, you should consult your stockbroker or financial adviser.

Douglas McDougall OBE Chairman

Douglas McDougall was a partner in Baillie Gifford & Co from 1969 until April 1999. From 1989, when he was appointed joint senior partner, until his retirement in 1999, he was in overall charge both of the firm's investment departments and of its investment policy committee. He is chairman of The Law Debenture Corporation plc, The European Investment Trust plc and The Scottish Investment Trust PLC and a director of The Monks Investment Trust PLC, Pacific Horizon Investment Trust PLC, Herald Investment Trust plc and Stramongate Assets PLC and a member of the University of Cambridge Investment Board. He is a former chairman of IMRO, the Association of Investment Companies and the Fund Managers' Association.

Max Ward Managing Director

Max Ward was a partner in Baillie Gifford & Co from 1975 until April 2000, and was head of the firm's UK Equity Department from 1981 until his retirement in 2000. From 1989 until 2000 he was the manager of Scottish Mortgage Investment Trust PLC. He is a director of various UK companies in the AEGON group and of Foreign and Colonial Investment Trust plc.

James Ferguson Senior Independent Director

James Ferguson joined Stewart Ivory (previously Stewart Fund Managers) in 1970. He was appointed a director in 1974, and became chairman in 1989, a post he held until his retirement in 2000. He is chairman of Value & Income Trust plc, The Monks Investment Trust PLC, The Scottish Oriental Smaller Companies Trust plc, Edinburgh U.S. Tracker Trust plc and Northern 3 VCT plc, and a director of Audax Properties PLC. He is a former deputy chairman of the Association of Investment Companies and is a former member of the Executive Committee of the Fund Managers' Association.

The Hon. Robert Laing

Robert Laing was admitted as a solicitor in England in 1977 and in Scotland in 1985. He worked for Slaughter and May from 1975 until 1983, when he joined Maclay Murray & Spens. He has been a partner in Maclay Murray & Spens (now Maclay Murray & Spens LLP) since 1985 and chairman since 1 June 2010.

All the directors are members of the audit committee and nomination committee and all the directors except Max Ward are members of the remuneration committee. Douglas McDougall is the chairman of all three committees.

INVESTMENT MANAGEMENT

The board maintains overall control over the formulation of the Company's investment policy and has overall responsibility for the Company's activities. The board has delegated responsibility for day-to-day investment management to Max Ward, the Company's managing director. Max Ward has a rolling twelve month contract for services with the Company under which he received a salary of £100,000 for the year under review.

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 on page 5. 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 on page 5.

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.

Douglas McDougall
31 January 2011

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.

Max Ward
31 January 2011

LIST OF INVESTMENTS AS AT 30 NOVEMBER 2010

Sector	Name	At November 2010		At November
		Value £'000	%	2009 Value £'000
Housebuilders	Berkeley Group	1,615	1.1	1,736
	Persimmon	3,045	2.1	-
		<u>4,660</u>	<u>3.2</u>	
Industrials	Aggreko	8,790	6.1	5,155
	IMI	2,566	1.8	1,474
	Renishaw	2,250	1.6	-
		<u>13,606</u>	<u>9.5</u>	
Retailing	Dunelm Group	12,575	8.7	11,850
	SuperGroup	14,175	9.9	-
	Topps Tiles	1,190	0.8	1,800
		<u>27,940</u>	<u>19.4</u>	
Recruitment	Michael Page International	3,055	2.1	2,151
	SThree	4,292	3.0	3,524
		<u>7,347</u>	<u>5.1</u>	
Technology and Telecommunications	Herald Investment Trust	8,720	6.1	6,240
	Vodafone Group	1,607	1.1	-
		<u>10,327</u>	<u>7.2</u>	
Mining	BHP Billiton	1,713	1.2	1,393
	BlackRock World Mining Trust	3,557	2.5	2,652
		<u>5,270</u>	<u>3.7</u>	
Offshore Drillers	Diamond Offshore Drilling – USA	2,077	1.4	7,278
	Noble Corporation – USA	12,193	8.5	10,069
		<u>14,270</u>	<u>9.9</u>	
Oilfield Services	Schlumberger – USA	6,452	4.5	5,061
Tobacco	British American Tobacco	5,826	4.0	4,618
	Imperial Tobacco	2,829	2.0	2,651
		<u>8,655</u>	<u>6.0</u>	
Pharmaceuticals	GlaxoSmithKline	1,818	1.3	1,885
Leisure	Marston's	998	0.7	1,665
Transport	First Group	1,446	1.0	1,564
	Go-Ahead Group	949	0.7	972
	Stagecoach Group	2,957	2.0	2,886
		<u>5,352</u>	<u>3.7</u>	
Utilities	National Grid	3,972	2.8	3,300
	Scottish & Southern Energy	2,240	1.6	2,232
		<u>6,212</u>	<u>4.4</u>	
Insurance	Amlin	2,252	1.6	2,220
	Beazley	1,656	1.1	1,463
	Catlin Group	994	0.7	921
	Chaucer Holdings	1,940	1.3	1,802
	Hiscox Insurance Portfolio Fund	1,919	1.3	1,648
		<u>8,761</u>	<u>6.0</u>	
Property	Tamar European Industrial Fund	1,538	1.1	2,050
	Orchid Developments Group	405	0.3	645
		<u>1,943</u>	<u>1.4</u>	
Miscellaneous Financials	IG Group Holdings	3,438	2.4	2,215
Value of investments sold or matured during the year				12,888
TOTAL INVESTMENTS		127,049	88.4	108,008
Net liquid assets		16,598	11.6	13,424
SHAREHOLDERS' FUNDS		<u>143,647</u>	<u>100.0</u>	<u>121,432</u>

All holdings are in equities domiciled in the UK unless otherwise stated.

Capital

<i>At 30 November</i>	Total assets* £'000	Bank loans £'000	Shareholders' funds £'000	Net asset value per share p	Share price p	Premium/(discount) § %
2001	67,314	9,506	57,808	109.0	113.50	4.1
2002	79,073	12,640	66,433	111.8	122.50	9.6
2003	104,333	11,047	93,286	143.0	150.50	5.2
2004	109,818	6,801	103,017	157.9	158.50	0.4
2005 ▲	166,379	29,032	137,347	210.6	213.75	1.5
2006	225,149	38,279	186,870	282.6	292.00	3.3
2007	160,168	9,994	150,174	227.1	207.00	(8.9)
2008	94,239	–	94,239	144.6	117.50	(18.7)
2009	121,432	–	121,432	194.9	168.00	(13.8)
2010	143,647	–	143,647	234.5	203.50	(13.2)

*Total assets comprise total assets less current liabilities and deferred tax, before deduction of bank loans. § Premium/(discount) is the difference between Independent's quoted share price and its underlying net asset value expressed as a percentage of net asset value. ▲ The figures prior to 2005 have not been restated for changes in accounting policies implemented in 2006.

Revenue

<i>Period to 30 November</i>	Revenue return £'000	Revenue return per ordinary share p	Dividends per ordinary share		Total expense ratio †† %	Actual gearing/(net cash) ††† %
			Regular p	Special p		
2001 (from 18 October 2000**)	1,907	3.60	2.00	1.00	0.65	4
2002	1,745	3.17	2.50	–	0.54	11
2003	2,446	3.95	3.00	–	0.43	3
2004	2,972	4.56	3.75	–	0.39	(5)
2005	3,258	4.99	4.25	–	0.32	15
2006	3,121	4.78	4.50	–	0.26	13
2007	3,544	5.36	5.00	–	0.33	(14)
2008	4,184	6.34	5.00	0.75	0.59	(15)
2009	2,639	4.16	5.00	3.00	0.41	(11)
2010	3,525	5.72	5.00	–	0.35	(11)

†† Ratio of total operating costs (excluding any tax relief) against closing shareholders' funds. ††† Total assets (including all debt used for investment purposes) less all cash and fixed interest securities (ex convertibles) divided by shareholders' funds.

Cumulative Performance (taking 18 October 2000** as 100)

<i>At 30 November</i>	Net asset value per share	Share price §§	FTSE All-share Index §§	Net asset value total return §§	Share price total return §§	FTSE All-share total return §§	Regular dividend per ordinary share***	Retail price index §§***
2000**	100	100	100	100	100	100	–	–
2001	111	114	85	110	111	88	100	100
2002	114	123	68	116	123	72	125	103
2003	145	151	73	153	155	80	150	105
2004	161	159	80	173	166	90	188	109
2005	214	214	93	233	229	109	213	112
2006	287	292	106	319	319	128	225	116
2007	231	207	111	259	230	139	250	121
2008	147	118	72	168	134	94	250	124
2009	198	168	90	237	200	122	250	125
2010	238	204	97	295	253	136	250	127
Compound annual returns								
5 year	2.2%	(1.0%)	0.9%	4.8%	2.0%	4.5%	3.3%	3.2%
Since inception **	9.1%	7.4%	(0.3%)	11.4%	9.7%	3.1%	10.7%	2.8%

§§ Source: Thomson Reuters Datastream. ** Launch date of Company. *** Regular dividend and Retail price index taking 2001 as 100. ▲▲ 9 year compound annual return for Regular dividends. Past performance is not a guide to future performance.

The directors have pleasure in submitting their Report together with the financial statements of the Company for the year ended 30 November 2010.

Business Review

Business and Status

The Company is an investment company within the meaning of section 833 of the Companies Act 2006.

The Company carries on business as an investment trust. It was approved as an investment trust for the year ended 30 November 2009, subject to matters that may arise from any subsequent enquiry by HM Revenue & Customs into the Company's tax return. In the opinion of the directors, the Company has subsequently conducted its affairs so as to enable it to obtain approval by HM Revenue & Customs as an investment trust under Section 1158 of the Corporation Tax Act 2010 (formerly Section 842 of ICTA 1988).

Investment Objective and Policy

The Company's objective is to provide good absolute returns over long periods by investing the great majority of its assets in quoted securities and index futures.

The Company's asset allocation policy is essentially opportunistic: the directors will sanction the allocation of money to those geographic areas that appear to offer the most favourable combinations of risk and reward. There are no maximum exposure limits on the amounts to be allocated to individual geographic areas, but in determining the allocation to an individual area the directors will consider the quality and quantity of information about that area available to the Company. They will also consider the difficulty the Company might have in monitoring its investments in that area in the context of a limited managerial resource. An important reason for the Company's historical commitment to UK equities has been the easy access it has had to an abundant supply of information on UK companies.

The Company has the freedom to invest up to 10% of its assets in unquoted securities, but the directors have no current intention of investing in unquoted securities.

The Company may use derivatives (futures, options and the like) to protect shareholders' funds, to hedge currency exposure, as a cost effective alternative to conventional gearing or in order to obtain or adjust its exposure to individual markets. The Company's investment policy in relation to the use of derivative instruments shall be subject to the following restrictions:

- (a) the Company's strategy for the use of derivative instruments must have the prior authorisation of the board;
- (b) the Company shall not use derivative instruments to the extent that such use would achieve an economic exposure within the Company's portfolio which would not be permitted by the other requirements of the Company's investment policy including asset allocation, risk diversification and maximum exposures; and
- (c) the Company shall aggregate the effective gearing of all of its outstanding derivative instruments with its borrowings and shall not invest in a derivative instrument if, immediately following such investment, the Company's aggregate gearing would exceed a sum equal to 50% of its net assets.

It has been the policy of the directors since the Company's inception to sanction levels of exposure to individual companies and industries that would be considered unusually high by many conventional equity managers. In such cases, considerable care is taken by the directors at the time that the positions are established to ensure that the risk associated with them is reasonable in the context of the potential they offer. In particular, great emphasis is placed on the fundamental characteristics of the businesses and on their valuations. The directors will not sanction new investment in any sector that makes up more than 40% of the Company's shareholders' funds or in any company that makes up more than 15% of the Company's shareholders' funds.

The directors are aware that in some quarters it is believed that the composition of market indices is a good starting point for the measurement of portfolio risk. The directors do not share this belief and pay no attention to the composition of market indices when assessing the level of risk within the portfolio. Instead, they consider the fundamental characteristics of the individual investments – such as cyclical, profitability, balance sheet structure and valuation – to arrive at a subjective assessment

of the level of risk associated with each. They then make a further subjective assessment of the extent to which levels of concentration in particular industries leaves the Company exposed to unexpected external events. It is the conscious policy of the directors to operate with less diversification of risk than might be considered normal by many investment managers.

The directors believe that the judicious use of gearing represents an attractive means of enhancing long term returns to shareholders. When circumstances are appropriate, the directors will sanction levels of gearing that would be considered unusually high by many investment trust boards. The directors consider that borrowings are most appropriately used to finance less risky equities offering relatively high yields. Whenever the Company has net borrowings, the directors seek to ensure that the value of the subsection of the portfolio comprising such holdings exceeds the value of the net borrowings. The directors will not sanction any increase in borrowings if, at the time of such increase, the level of gearing including effective gearing arising from investment in derivative instruments is greater than 50% of net assets.

A detailed analysis of the Company's investment portfolio is set out on page 7 and in the Managing Director's Report.

Performance

At each board meeting, the directors consider a number of performance measures to assess the Company's success in achieving its objectives.

The key performance indicators (KPIs) used to measure the progress and performance of the Company over time are established industry measures and are as follows:

- the movement in net asset value per ordinary share on a total return basis;
- the discount or premium to net asset value; and
- the total expense ratio.

The net asset value performance since inception is contained in the Chairman's Statement along with information on the discount and total expense ratio. The movement in net asset value per share on a total return basis for the financial year is shown in the Managing Director's Report. The Long Term Record on page 8 provides detailed performance information since inception.

Dividends

The board recommends a final dividend of 3.00p per ordinary share which, together with the interim already paid, makes a total dividend of 5.00p for the year.

The recommended final dividend, if approved, will be paid on 6 April 2011 to shareholders on the register at the close of business on 25 February 2011.

Review of the Year and Future Trends

A review of the year and the investment outlook is contained in the Chairman's Statement and the Managing Director's Report on pages 3 to 6.

Principal Risks and Uncertainties

The Company's assets consist mainly of listed securities and its principal risks are therefore market related and include market risk (comprising currency risk, interest rate risk and other price risk), liquidity risk and credit risk. An explanation of those risks and how they are managed is contained in note 18 to the financial statements on pages 33 to 36.

Other risks faced by the Company include the following:

Regulatory risk – failure to comply with applicable legal and regulatory requirements could lead to suspension of the Company's Stock Exchange Listing, financial penalties or a qualified audit report. Breach of Sections 1158 and 1159 of the Corporation Tax Act 2010 (formerly Section 842 of ICTA 1988) could lead to the Company being subject to tax on capital gains. Baillie Gifford's Heads of Business Risk & Internal Audit and Regulatory Risk provide regular reports to the audit committee on Baillie Gifford's monitoring programmes. The board monitors investment movements and the level of forecast income and expenditure to ensure the provisions of Sections 1158 and 1159 are not breached.

Operational/financial risk – failure of Baillie Gifford's accounting systems or those of other third party service providers could lead to an inability to provide accurate reporting and monitoring or a misappropriation of assets. The board reviews Baillie Gifford's Report on Internal Controls. The reports by other key third party providers are reviewed by Baillie Gifford on behalf of the board.

Discount volatility – the discount at which the Company's shares trade can widen. The board monitors the level of discount and the Company has authority to buy back its own shares.

Gearing risk – The Company may borrow money for investment purposes (sometimes known as 'gearing'). If the investments fall in value, any borrowings will magnify the extent of this loss. If borrowing facilities are not renewed, the Company may have to sell investments to repay borrowings.

All borrowing facilities require the prior approval of the board and gearing levels are discussed by the board at every meeting. Most of the Company's investments comprise quoted securities that are readily realizable.

Social, Community, Employee Responsibilities and Environmental Policy

The Company has only two employees. As an investment trust, the Company has no direct social, community, or environmental responsibilities. Its principal responsibility to shareholders is to ensure that the investment portfolio is properly invested and managed. The Company, however, believes that it is in the shareholders' interests to consider environmental, social and governance factors when selecting and retaining investments. Details of the Company's policy on socially responsible investment can be found under Corporate Governance and Stewardship on page 15.

Corporate Governance

The board is committed to achieving and demonstrating high standards of Corporate Governance. This statement outlines how the principles of the Combined Code on Corporate Governance published in 2008 (the 'Combined Code') and the AIC Code of Corporate Governance were applied throughout the financial year.

Compliance

The board confirms that the Company has complied throughout the year under review with the provisions set out in Section 1 of the Combined Code and the AIC Code of Corporate Governance, except that:

- (i) the chairman of the board, Douglas McDougall, is chairman of the audit committee. As the board considers Mr McDougall to be independent and believes there are no conflicts of interest, the board believes it is appropriate for him to chair the committee;
- (ii) Max Ward, the managing director, is a member of the audit committee. The board believes that it is appropriate for Max Ward to be a member of the audit committee given his understanding of the business, integrity and independence of mind; and
- (iii) the chairman of the board is also chairman of the remuneration committee. The chairman's fees and those of the non-executive directors are determined by the board rather than the remuneration committee.

The Board

The Independent Investment Trust PLC is run by its board, which consists of a chairman, a managing director and two non-executive directors. The board retains overall control over the Company's investment policy and has responsibility for all the Company's activities including strategy, borrowings, gearing, treasury matters, dividend, corporate governance policy and board remuneration. The board also reviews the financial statements, investment transactions, revenue budgets and performance. Full and timely information is provided to the board to enable the board to function effectively and to allow directors to discharge their responsibilities.

The chairman is responsible for organising the business of the board, ensuring its effectiveness and setting its agenda. The board has delegated the day-to-day management of the portfolio to Max Ward, the managing director. The secretarial and administration responsibilities have been delegated to Baillie Gifford & Co. The senior independent director is James Ferguson.

The directors believe that the board has a balance of skills and experience which enable it to provide effective strategic leadership and proper governance of the Company. Information about the directors, including their relevant experience, can be found on page 2.

There is an agreed procedure for directors to seek independent professional advice if necessary and at the Company's expense.

Terms of Appointment

Max Ward has a rolling 12 month contract for services with the Company, details of which are given in the Directors' Remuneration Report on pages 20 and 21.

Letters which specify the terms of appointment are issued to new non-executive directors. The letters of appointment are available for inspection on request.

The Company's articles provide that a director appointed during the year is required to retire and seek election by shareholders at the next Annual General Meeting. The articles also provide for the periodic retirement of the directors and that each director submits himself for re-election at least once every three years. In accordance with Company policy, directors offer themselves for re-election annually.

Independence of Directors

The chairman and non-executive directors are considered to be independent of management and free from any business or other relationship which could interfere with the exercise of their independent judgement. All the directors have served on the board for more than nine years. The directors recognise the importance of succession planning for company boards and review the board composition annually. However, the board is of the view that length of service will not necessarily compromise the independence or contribution of directors of an investment trust company, where continuity and experience can be a benefit to the board. The board concurs with the view expressed in the AIC Code that long serving directors should not be prevented from being considered independent and that "independence stems from the ability to make those objective decisions that may be in conflict with the interests of management. This in turn is a function of confidence (born of courage and experience), integrity (personal character) and judgement (born of knowledge and experience)".

The board believes that each of the directors continues to be independent in character and judgement and their extensive experience is a benefit to the board. Their independence has not been compromised by length of service.

The chairman and James Ferguson are both directors of The Monks Investment Trust PLC but the board does not believe that this common directorship affects their independent judgement.

Meetings

There is an annual cycle of board meetings which is designed to address, in a systematic way, overall strategy, review of investment policy, investment performance, revenue budgets, dividend policy and communication with shareholders. The board considers that it meets sufficiently regularly to discharge its duties effectively. The table below shows the attendance record for the board and committee meetings held during the year. All of the directors attended the Annual General Meeting.

	Board	Audit Committee	Nomination Committee	Remuneration Committee
Number of meetings	4	2	1	1
DCP McDougall	4	2	1	1
MCB Ward	4	2	1	–
JGD Ferguson	4	2	1	1
The Hon RJ Laing	4	2	1	1

Mr MCB Ward is not a member of the remuneration committee.

Nomination Committee

The nomination committee consists of the whole board. Douglas McDougall is chairman of the committee. The committee meets on an annual basis and at such other times as may be required. The committee has written terms of reference which include reviewing the board structure, identifying and nominating candidates for appointment to the board, appraising the board, considering whether directors should be recommended for re-election by shareholders, succession planning and training. The committee is responsible for considering directors' potential conflicts of interest and for making recommendations to the board on whether or not the potential conflicts should be authorised. The terms of reference are available on request and on the website: www.independentinvestmenttrust.co.uk.

Performance Evaluation

The nomination committee met to assess the performance of the chairman, each director, the board as a whole and its committees after inviting each director and the chairman to consider and respond to a questionnaire. The appraisal of the chairman was led by the senior independent director. The appraisals and evaluations considered amongst other criteria the balance of skills of the board, the contribution of individual directors and the overall effectiveness of the board and its committees. Following this process it was concluded that the performance of each director, the chairman, the board and its committees continued to be effective and each director and the chairman remained committed to the Company. A review of the chairman's and other directors' commitments was carried out and the nomination committee is satisfied that they are capable of devoting sufficient time to the Company. There were no significant changes to the chairman's other commitments during the year.

Induction and Training

New directors appointed to the board will have formal induction meetings with the managing director and Baillie Gifford & Co. Regular briefings are provided on changes in regulatory requirements that could affect the Company and the directors. All directors are encouraged to receive training relevant to their roles as directors.

Remuneration Committee

The remuneration committee consists of all the directors other than Max Ward. Douglas McDougall is chairman of the committee. The committee meets on an annual basis and at such other times as may be required. The terms of reference include reviewing the effectiveness and performance of the Company's managing director. The terms of reference are available on request and on the website: www.independentinvestmenttrust.co.uk.

The Company's policy on remuneration is set out in the Directors' Remuneration Report on pages 20 and 21.

Internal Controls and Risk Management

The directors acknowledge their responsibility for the Company's system of internal controls and for reviewing its effectiveness. The system of internal controls is designed to manage rather than eliminate risk and can only provide reasonable but not absolute assurance against material misstatement or loss.

The board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company in accordance with the guidance 'Internal Control: Revised Guidance for Directors on the Combined Code'. The board also confirms that it has reviewed the effectiveness of the system of internal controls and it has procedures in place to review its effectiveness on a regular basis. No significant weaknesses were identified in the year under review.

The board takes responsibility, upon the advice of the secretaries, for the design, implementation and maintenance of control policies and procedures to safeguard the assets of the Company. This responsibility also extends to maintaining effective operational and compliance controls and risk management.

The Company's internal controls strategy, which has largely been based upon Baillie Gifford & Co's existing risk based system of internal controls, has been to identify the significant risks facing the Company and to confirm that the key controls to manage those risks are in place and operating effectively.

The practical measures to ensure compliance with regulations and with Company Law, and to provide effective and efficient operations as they relate to secretarial and administrative matters, have been delegated to Baillie Gifford & Co.

Baillie Gifford & Co conducts an annual review of its system of internal controls, which is documented within an internal controls report which has been designed to comply with Technical Release AAF 01/06 – Assurance reports on internal controls of service organisations made available to third parties. The report is independently reviewed by Baillie Gifford & Co's auditors and a copy is submitted to the board. The Baillie Gifford & Co heads of Regulatory Risk and Business Risk & Internal Audit provide the board with regular reports on Baillie Gifford's monitoring programmes as they relate to its secretarial and administrative functions. The reporting procedures for these departments are defined and formalised within a service level agreement. Custody of investments is contracted to an independent custodian, The Bank of New York Mellon.

These procedures ensure that consideration is given regularly to the nature and extent of risks facing the Company and that they are being actively monitored. Where changes in risk have been identified during the year, they also provide a mechanism to assess whether further action is required to manage the risks identified. The board confirms that these procedures have been in place throughout the Company's financial year and continue to be in place up to the date of approval of this report.

Internal Audit

The audit committee carries out an annual review of the need for an internal audit function. The committee continues to believe that the size of the Company does not justify a separate internal audit function.

Accountability and Audit

The respective responsibilities of the directors and auditors in connection with the Financial Statements are set out on pages 19 and 22.

Going Concern

In accordance with The Financial Reporting Council's guidance on going concern and liquidity risk issued in 2009 the directors have undertaken a rigorous review of the Company's ability to continue as a going concern.

The Company's assets, the majority of which are investments in quoted securities which are readily realizable, exceed its liabilities significantly. The Company has no loans. After making enquiries and considering the future prospects of the Company the financial statements have been prepared on the going concern basis as it is the directors' opinion that the Company will continue in operational existence for the foreseeable future.

Audit Committee

The audit committee comprises the whole board. Its authority and duties are clearly defined within its written terms of reference which are available on request and on the Company's website. The chairman of the board, Douglas McDougall, is chairman of the audit committee. As the board considers Mr McDougall to be independent and believes there are no conflicts of interest, the board believes it is appropriate for him to chair the committee.

The committee's responsibilities which were discharged during the year include:

- monitoring and reviewing the integrity of the half-yearly and annual financial statements and any formal announcements relating to the Company's financial performance;
- reviewing standards of internal control and risk management;

- making recommendations to the board in relation to the appointment of the external auditors and approving the remuneration and terms of their engagement;
- developing and implementing policy on the engagement of the external auditors to supply non-audit services (there were no non-audit services provided in the period);
- reviewing and monitoring the independence, objectivity and effectiveness of the external auditors;
- reviewing the arrangements in place whereby staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters insofar as they may affect the Company; and
- considering annually whether there is a need for the Company to have its own internal audit function.

Ernst & Young LLP are engaged as the Company's auditors.

Having considered the experience and tenure of the audit partner and staff and the nature and level of services provided, the Committee remains satisfied with the auditors' effectiveness. The audit partners responsible for the audit are rotated every five years and the current lead partner has been in place for five years and will be required to rotate following the conclusion of this year's audit. There are no contractual obligations restricting the Company's choice of external auditor. The Committee receives confirmation from the auditors that they have complied with the relevant UK professional and regulatory requirements on independence. The Committee does not believe that there has been any impairment to the auditors' independence.

Relations with Shareholders

The board attaches great importance to communication with shareholders. The directors have frequent discussions with shareholders. The chairman and the other directors are available for discussion with shareholders as appropriate and shareholders wishing to communicate with the chairman or any other director should do so by writing to him at the address on the back cover.

The Company's Annual General Meeting is viewed as an opportunity to communicate with shareholders. The level of proxies lodged for each resolution is announced at the meeting and is published on the Company's website. The notice period for the Annual General Meeting is at least twenty working days.

Corporate Governance and Stewardship

In voting on its shareholdings, the Company will normally support management. The Company votes against resolutions which are considered to damage shareholders' rights or economic interests. The Company believes that it is in the shareholders' interests to consider environmental, social and governance factors when selecting and retaining investments and takes these issues into account as they affect the investment objectives.

Directors

The directors, who served throughout the year under review, and their interests in the Company were as follows:

Name	Nature of interest	30 November 2010		1 December 2009	
		Ordinary shares	Options	Ordinary shares	Options
DCP McDougall (Chairman)	Beneficial	8,513,000	–	8,513,000	2,150,000
MCB Ward (Managing Director)	Beneficial	5,300,000	–	5,300,000	5,000,000
JGD Ferguson	Beneficial	1,190,000	–	1,190,000	1,000,000
The Hon. RJ Laing	Beneficial	860,000	–	860,000	–
	Non-beneficial	–	–	10,000	–

The share options, which were granted by the Company on 11 September 2000 to its four founding shareholders, three of whom are directors, all expired on 31 August 2010. No consideration was paid for the grant of options and no options were exercised during the year (2009 – none).

There have been no changes intimated in the directors' interests up to 28 January 2011.

Each of the directors retires at the Annual General Meeting and offers himself for re-election. Following formal evaluation, the performance of each director is considered to be effective and each remains committed to the Company. The contribution of each director to the board is greatly valued and the board recommends their re-election to shareholders.

Director Indemnification and Insurance

The Company maintains directors' and officers' liability insurance.

The Company has entered into deeds of indemnity in favour of each of the directors. The deeds cover any liabilities that may arise to a third party, other than the Company, for negligence, default or breach of trust or duty. The directors are not indemnified in respect of liabilities to the Company, any regulatory or criminal fines, any costs incurred in connection with criminal proceedings in which the director is convicted or civil proceedings brought by the Company in which judgement is given against him. In addition, the indemnity does not apply to any liability to the extent that it is recovered from another person.

Conflicts of Interest

Each director submits a list of potential conflicts of interest to the nomination committee on an annual basis. These are considered carefully, taking into account the circumstances surrounding them, and a recommendation is made to the board as to whether or not they should be approved. Board approval is for a period of one year. The board considers there were no actual or indirect interests of a director which conflicted with the interests of the Company which arose during the year.

Major Interests in the Company's Shares

The following holdings representing 3 per cent or more of the Company's issued share capital had been intimated to the Company as at 28 January 2011:

Name	Number of ordinary 25p shares held	% of issued capital
A&OT Investments Limited	9,795,000	16.0%
Mr DCP McDougall	8,513,000	13.9%
Mr MCB Ward	5,300,000	8.7%
Sir Angus Grossart	2,080,000	3.4%
Mr AEH Salvesen	2,020,000	3.3%

Share Capital

Capital Structure

The Company's capital structure consisted of 61,260,000 ordinary shares of 25p each at 30 November 2010 (2009 – 62,305,000 ordinary shares). There are no restrictions concerning the holding or transfer of the Company's ordinary shares and there are no special rights attached to any of the shares.

Dividends

The ordinary shares carry a right to receive dividends. Interim dividends are determined by the directors, whereas the proposed final dividend is subject to shareholder approval at the Annual General Meeting.

Capital Entitlement

On a winding up, after meeting the liabilities of the Company, the surplus assets will be paid to ordinary shareholders in proportion to their shareholdings.

Voting

Each ordinary shareholder present in person or by proxy is entitled to one vote on a show of hands and, on a poll, one vote for every share held.

Information on the deadlines for proxy appointments can be found on pages 38 and 39.

Repurchase of Shares

During the year to 30 November 2010 the Company bought back 1,045,000 ordinary shares (nominal value £261,000) on the London Stock Exchange for cancellation. The total consideration for these shares was £1,837,000. The Company transacted no buybacks between 1 December 2010 and 28 January 2011, the latest practicable date prior to publication of this report.

The principal reasons for share buybacks are to address any imbalance between the supply and demand for the Company's shares and to increase the net asset value per remaining share.

The Company may either cancel bought-back shares immediately or hold them 'in treasury' and then:

(i) sell such shares (or any of them) for cash (or its equivalent under the Companies Act 2006);
or

(ii) cancel the shares (or any of them).

Shares will only be resold from treasury at a price at or above net asset value per share. No shares were held in treasury as at 28 January 2011.

The directors are seeking shareholders' approval at the Annual General Meeting to renew the authority to purchase up to 9,182,874 ordinary shares representing approximately 14.99% of the Company's ordinary shares in issue at the date of passing of the resolution, such authority to expire at the conclusion of the Annual General Meeting of the Company to be held in respect of the year ending 30 November 2011. Such purchases will only be made through the market for cash at prices below the most recently calculated net asset value per ordinary share, which will result in an increase in the net asset value of the remaining ordinary shares. In accordance with the Listing Rules of the UK Listing Authority, the maximum price (excluding expenses) that may be paid on the exercise of the authority must not exceed the higher of (i) 5 per cent above the average closing price on the London Stock Exchange of an ordinary share over the five business days immediately preceding the date of purchase and (ii) the higher of the last independent trade and the highest current independent bid on the London Stock Exchange. The minimum price that may be paid will be 25p per share. Purchases of shares will be made within guidelines established, from time to time, by the board.

Authority to Allot Shares and Dis-application of Pre-emption Rights

The Company also has the authority to allot new shares up to an aggregate nominal amount of £5,154,068 representing approximately 33.65% of the shares in issue as at 30 November 2010.

The dis-application of pre-emption rights in respect of the issue of equity securities for cash by the Company authorises the directors to allot new shares up to an aggregate nominal amount of £5,154,068 for cash without first offering such shares to existing shareholders *pro rata* to their existing holdings.

These authorities will continue in effect until 18 March 2015.

The directors do not consider that the Company is a vehicle for institutional investors and will not be bound by the institutional guidelines on pre-emption which limit non-pre-emptive issues for cash in any 12 month and rolling three year period. The directors will not, however, allot ordinary shares for cash at a price below the most recently calculated net asset value per share without offering such shares on a *pro rata* basis to shareholders.

Recommendation

The directors consider each resolution being proposed at the Annual General Meeting to be in the best interests of the Company's shareholders as a whole and they unanimously recommend that all shareholders vote in favour of them, as they intend to do in respect of their own beneficial holdings of shares which amount in aggregate to 15,863,000 shares, representing approximately 26% of the current issued share capital of the Company.

Creditor Payment Policy

It is the Company's payment policy for the forthcoming financial year to get the best terms for all business. In general, the Company agrees with its suppliers the terms on which business will take place and it is its policy to abide by these terms. The Company had no trade creditors at either 30 November 2010 or 30 November 2009.

Disclosure of Information to Auditors

The directors confirm that so far as each of the directors is aware, there is no relevant audit information of which the Company's auditors are unaware and the directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Independent Auditors

The auditors, Ernst & Young LLP, are willing to continue in office and in accordance with sections 489 and 491(1) of the Companies Act 2006 resolutions concerning their re-appointment and remuneration will be put to the Annual General Meeting.

By order of the board

DCP McDougall
Chairman
31 January 2011

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent; and
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable law and regulations the directors are also responsible for preparing a Directors' Report (including a Business Review), Directors' Remuneration Report and Corporate Governance Statement that comply with that law and those regulations.

The directors have delegated responsibility to the Secretaries for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the directors, whose names and functions are listed within the board of directors section confirms that, to the best of their knowledge:

- the financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), give a true and fair view of the assets, liabilities, financial position and profit of the Company; and
- the Directors' Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

By order of the board

DCP McDougall
Chairman
31 January 2011

Notes

The following notes relate to financial statements published on a website and are not included in the printed version of the Annual Report and Accounts:

- The maintenance and integrity of the Independent Investment Trust PLC website is the responsibility of Baillie Gifford & Co; the work carried out by the auditors does not involve consideration of these matters and accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
- Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The board has prepared this report in accordance with the requirements of Section 421 of the Companies Act 2006. An ordinary resolution for the approval of this report will be put to the members at the forthcoming Annual General Meeting.

The law requires the Company's auditors to audit certain of the disclosures provided. Where disclosures have been audited, they are indicated as such. The auditors' opinion is included in their report on page 22.

Remuneration Committee

The board has established a remuneration committee, which consists of all the directors other than Max Ward. Its terms of reference include reviewing the remuneration of Max Ward. The remuneration of the other directors is reviewed by the board as a whole.

Policy on Directors' Remuneration

The policy is that the remuneration of directors should be set at a level sufficient to attract and retain directors of the appropriate quality and experience. It should also be fair and reflect the experience of the board as a whole. It is intended that this policy will continue for the year ending 30 November 2011 and subsequent years.

The directors' fees, including Max Ward's salary, are determined within an aggregate limit set out in the Company's articles of association, which currently stands at one half of one per cent of the Company's total assets. The directors do not receive bonuses, pension benefits, long-term incentive schemes or other benefits. Three of the directors were granted share options at launch in their capacity as founding shareholders. These options were only exercisable at the full net asset value per share at the time of exercise and expired on 31 August 2010. It is not intended that any further share options will be issued.

During the year the remuneration committee reviewed Max Ward's salary and concluded that his salary should increase from £100,000 to £150,000 per annum. In addition, the board reviewed the fees of the other directors and concluded that they should increase from £33,500 to £45,000 per annum for the chairman and from £13,500 to £18,000 per annum for the other directors. These salary and fee increases are effective from 1 December 2010. They were last increased on 1 December 2005.

Directors' and officers' liability insurance cover is held by the Company in respect of the directors.

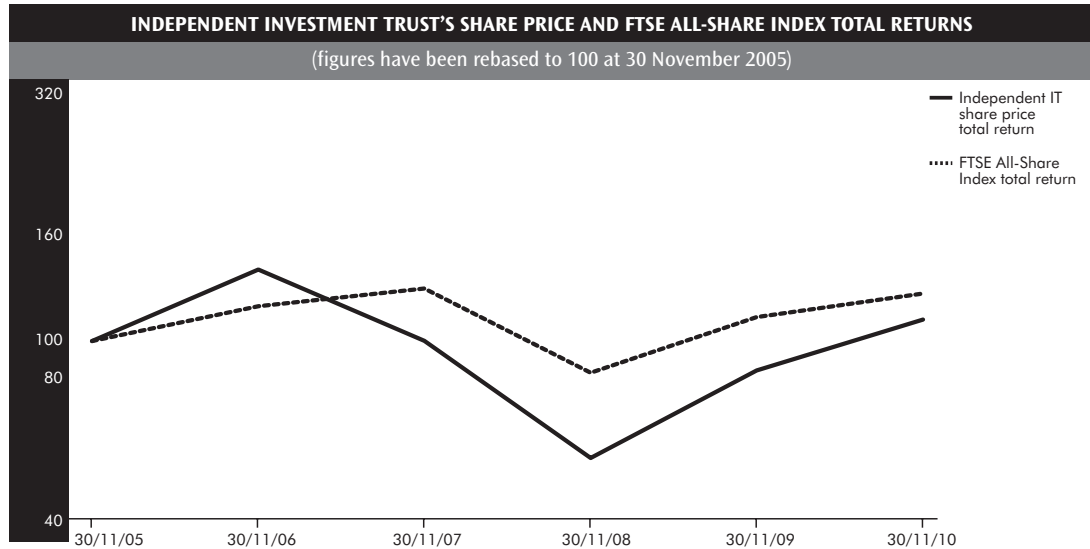
Directors' Service Contracts

Max Ward has a rolling 12 month contract for services with the Company. Under the terms of this contract, which is terminable by either party on 12 months' notice, Mr Ward has been employed as the managing director to manage the investments and assets of the Company in return for an annual salary as detailed above. Mr Ward is also entitled to reimbursement of any travelling and other out-of-pocket expenses incurred by him in the performance of his duties for the Company provided that they have been approved by the board.

Although it is the board's policy that the chairman and the non-executive directors do not have service contracts they have been provided with appointment letters. All the directors are required to retire and be subject to election at the first Annual General Meeting after their appointment. Thereafter directors are required to retire and, if they wish, to offer themselves for re-election on an annual basis. There is no notice period and no provision for compensation upon early termination of appointment.

Company Performance

The graph below compares the total return (assuming all dividends are reinvested) to ordinary shareholders compared to the return on a notional investment made up of shares in the component parts of the FTSE All-Share Index. This index was chosen for comparison purposes both because it is a widely used measure of performance for UK listed companies and because the bulk of the Company's assets are invested in UK equities.



Source: Thomson Reuters Datastream. All figures are total returns (assuming all dividends are re-invested) in sterling terms and have been plotted using a logarithmic scale. Past performance is not a guide to future performance.

Directors' Remuneration for the Year (audited)

The directors who served in the year received the following remuneration in the form of fees and salaries:

	2010 £	2009 £
DCP McDougall (Chairman)	33,500	33,500
MCB Ward (Managing Director)	100,000	100,000
JGD Ferguson	13,500	13,500
The Hon. RJ Laing	13,500	13,500
	<u>160,500</u>	<u>160,500</u>

Directors' Options

Information on directors' share options in the Company is given in the Directors' Report on page 15.

Approval

The Directors' Remuneration Report on pages 20 and 21 was approved by the board of directors and signed on its behalf on 31 January 2011.

DCP McDougall
Chairman

Independent Auditor's Report to the members of The Independent Investment Trust PLC

We have audited the financial statements of The Independent Investment Trust PLC for the year ended 30 November 2010 which comprise the Income Statement, Balance Sheet, Reconciliation of Movements in Shareholders' Funds, Cash Flow Statement and the related notes 1 to 18. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 19, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the Audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on Financial Statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 November 2010 and of its net return for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 14, in relation to going concern; and
- the part of the Corporate Governance Statement on pages 11 to 12 in the Directors' Report relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

Sue Dawe (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP
Statutory Auditor
Edinburgh, 31 January 2011

		For the year ended 30 November 2010			For the year ended 30 November 2009		
	<i>Notes</i>	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gains on investments	9	–	24,723	24,723	–	33,202	33,202
Currency gains/(losses)	13	–	741	741	–	(1,219)	(1,219)
Income	2	4,105	–	4,105	3,265	–	3,265
Administrative expenses	3	(502)	–	(502)	(494)	–	(494)
Net return before finance costs and taxation		3,603	25,464	29,067	2,771	31,983	34,754
Finance costs of borrowings	5	(17)	–	(17)	(40)	–	(40)
Net return on ordinary activities before taxation		3,586	25,464	29,050	2,731	31,983	34,714
Tax on ordinary activities	6	(61)	–	(61)	(92)	–	(92)
Net return on ordinary activities after taxation		3,525	25,464	28,989	2,639	31,983	34,622
Net return per ordinary share:	7						
Basic		5.72p	41.35p	47.07p	4.16p	50.42p	54.58p
Note:							
Dividends paid and payable per ordinary share	8	5.00p			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 accompanying notes on pages 27 to 36 are an integral part of the financial statements.

BALANCE SHEET

	<i>Notes</i>	At 30 November 2010		At 30 November 2009	
		£'000	£'000	£'000	£'000
Fixed assets					
Investments held at fair value through profit or loss	9		127,049		108,008
Current assets					
Debtors	10	3,019		404	
Cash at bank and in hand	18	13,603		13,047	
		<u>16,622</u>		<u>13,451</u>	
Creditors					
Amounts falling due within one year	11	(24)		(27)	
Net current assets			16,598		13,424
Total net assets			<u>143,647</u>		<u>121,432</u>
Capital and reserves					
Called-up share capital	12		15,315		15,576
Share premium			15,242		15,242
Special distributable reserve	13		31,763		33,600
Capital redemption reserve	13		1,217		956
Capital reserve	13		77,141		51,677
Revenue reserve	13		2,969		4,381
Shareholders' funds			<u>143,647</u>		<u>121,432</u>
Net asset value per ordinary share	14		234.5p		194.9p

The financial statements of The Independent Investment Trust PLC (company registration number SC210685) were approved and authorised for issue by the board and were signed on 31 January 2011.

DCP McDougall
Chairman

The accompanying notes on pages 27 to 36 are an integral part of the financial statements.

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

For the year ended 30 November 2010

	Share Capital £'000	Share Premium £'000	Special Distri- butable Reserve £'000	Capital Redemp- tion Reserve £'000	Capital Reserve £'000	Revenue Reserve £'000	Total Share- holders' Funds £'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 (note 12)	(261)	-	(1,837)	261	-	-	(1,837)
Dividends paid during the year (note 8)	-	-	-	-	-	(4,937)	(4,937)
Shareholders' funds at 30 November 2010	15,315	15,242	31,763	1,217	77,141	2,969	143,647

For the year ended 30 November 2009

	Share Capital £'000	Share Premium £'000	Special Distri- butable Reserve £'000	Capital Redemp- tion Reserve £'000	Capital Reserve £'000	Revenue Reserve £'000	Total Share- holders' Funds £'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 (note 8)	-	-	-	-	-	(3,652)	(3,652)
Shareholders' funds at 30 November 2009	15,576	15,242	33,600	956	51,677	4,381	121,432

The accompanying notes on pages 27 to 36 are an integral part of the financial statements.

CASH FLOW STATEMENT

	Notes	For the year ended 30 November 2010		For the year ended 30 November 2009	
		£'000	£'000	£'000	£'000
Net cash inflow from operating activities	15		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)
Increase in cash	16		556		6,747
Reconciliation of net cash flow to movement in net funds	16				
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

The accompanying notes on pages 27 to 36 are an integral part of the financial statements.

1 PRINCIPAL ACCOUNTING POLICIES

A summary of the principal accounting policies, which are unchanged from the prior year and have been applied consistently, is set out below.

(a) Basis of accounting

The financial statements are prepared on the assumption that approval as an investment trust will continue to be granted.

The financial statements have been prepared in accordance with The Companies Act 2006, applicable UK accounting standards and with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' (issued in January 2009).

In order to better reflect the activities of the Company and in accordance with guidance issued by the Association of Investment Companies (AIC), supplementary information which analyses the profit and loss account between items of a revenue and capital nature has been presented in the income statement.

Financial assets and financial liabilities are recognised in the balance sheet of the Company when it becomes a party to the contractual provisions of the instrument.

The directors consider the Company's functional currency to be sterling as the Company's shareholders are predominantly based in the UK and the Company is subject to the UK's regulatory environment.

(b) Investments

Investment purchases and sales are recognised on a trade date basis.

Investments are designated as held at fair value through profit or loss on initial recognition and are measured at subsequent reporting dates at fair value.

The fair value of listed security investments is bid value or, in the case of FTSE 100 constituents, at last traded prices issued by the London Stock Exchange.

Listed investments include Open Ended Investment Companies ('OEICs') authorised in the UK; these are valued at closing prices and are classified for valuation purposes according to the principal geographical area of the underlying holdings.

(c) Derivatives

The Company may use derivatives to protect shareholders' funds, to hedge currency exposure, as a cost effective alternative to conventional gearing or in order to obtain or adjust its exposure to individual markets.

Such instruments are recognised on the date of the contract that creates the Company's obligation to pay or receive cash flows and are measured as financial assets or liabilities at fair value at subsequent reporting dates, while the relevant contracts remain open. The fair value is determined by reference to the open market value of the contract.

Where the investment rationale for the use of derivatives is to hedge specific risks pertaining to the Company's portfolio composition, hedge accounting will only be adopted where the derivative instrument relates specifically to a single item, or group of items, of equal and opposite financial exposure, and where the derivative instrument has been explicitly designated as a hedge of such item(s) at the date of initial recognition. In all other circumstances changes in the fair value of derivative instruments are recognised immediately in the income statement as capital or revenue as appropriate.

(d) Income

(i) Income from equity investments is brought into account on the date on which the investments are quoted ex-dividend or, where no ex-dividend date is quoted, when the Company's right to receive payment is established.

(ii) Interest from fixed interest securities is recognised on an effective yield basis.

(iii) Unfranked investment income includes the taxes deducted at source.

(iv) Franked investment income is stated net of tax credits.

(v) Interest receivable on deposits is recognised on an accruals basis.

(vi) If scrip is taken in lieu of cash dividends the net amount of the cash dividend foregone is credited to the revenue column of the income statement with the excess taken to capital.

(e) Expenses

All expenses are accounted for on an accruals basis and are charged through the revenue column of the income statement except where they relate directly to the acquisition or disposal of an investment (transaction costs), in which case they are taken to the income statement as a capital item.

(f) Operating lease rentals

Total operating lease rentals in respect of premises occupied by the Company are spread evenly over the term of the lease.

(g) Finance costs

Finance costs are accounted for on an accruals basis and are charged through the revenue column of the income statement.

(h) Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more, or right to pay less, tax in future have occurred at the balance sheet date. This is subject to deferred tax assets only being recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of the underlying timing differences can be deducted. Timing differences are differences arising between the Company's taxable profits and its results as stated in the financial statements which are capable of reversal in one or more subsequent periods. Deferred tax is measured without discounting and based on enacted tax rates.

(i) Foreign currencies

Transactions involving foreign currencies are converted at the rate ruling at the time of the transaction. Assets and liabilities in foreign currencies are translated at the closing rates of exchange at the balance sheet date. Any gain or loss arising from a change in exchange rate subsequent to the date of the transaction is included as an exchange gain or loss in capital reserve or revenue reserve as appropriate.

1 PRINCIPAL ACCOUNTING POLICIES (continued)

(j) Share repurchases

Purchases of the Company's own shares are funded from the special distributable reserve.

(k) Capital reserve

Gains and losses on disposal of investments, changes in investment holding gains/(losses) and exchange differences of a capital nature are dealt with in this reserve.

(l) Single segment reporting

The Company is engaged in a single segment of business, being investment business, consequently no business segmental analysis is provided.

	Year to 30 November	Year to 30 November
	2010 £'000	2009 £'000
2 INCOME		
Income from investments		
Franked investment income	3,248	2,278
Overseas dividends	822	842
Overseas interest	–	82
	<u>4,070</u>	<u>3,202</u>
Other income		
Deposit interest	18	45
Other income	17	18
	<u>35</u>	<u>63</u>
Total income	<u>4,105</u>	<u>3,265</u>
Total income comprises:		
Dividends from financial assets designated at fair value through profit or loss	4,070	3,120
Interest from financial assets designated at fair value through profit or loss	–	82
Deposit interest	18	45
Other income	17	18
	<u>4,105</u>	<u>3,265</u>
3 ADMINISTRATIVE EXPENSES		
Administrative expenses include the following:		
Directors' fees and staff costs – note 4	241	237
Secretarial and administrative services	82	80
Information technology expenses	24	24
Power, telephone, rates and insurance	60	60
Operating lease rentals – office rent	41	41
Auditors' remuneration – statutory audit	20	18
The Company is self-managed and therefore does not pay an investment management fee to external fund managers. Secretarial and administrative services are provided by Baillie Gifford & Co.		
4 DIRECTORS' FEES AND STAFF COSTS		
Directors' fees and salaries	161	161
Other salaries	57	53
Social security costs	23	23
	<u>241</u>	<u>237</u>
Two persons were employed under a contract during the year (2009 – 2): Max Ward, the managing director, and Vivien Judge, the office manager.		

	Year to 30 November 2010 £'000	Year to 30 November 2009 £'000
5 FINANCE COSTS OF BORROWING		
Bank loan non-utilisation fee	17	40

6 TAX ON ORDINARY ACTIVITIES

Analysis of charge in year

Overseas taxation	61	92
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Factors affecting tax charge for year

The tax assessed for the year is lower than the standard rate of corporation tax in the UK (28%)

The differences are explained below:

Net return on ordinary activities before taxation	29,050	34,714
Net return on ordinary activities multiplied by the standard rate of corporation tax in the UK of 28% (2009 – 28%)	8,134	9,720
Capital returns not taxable	(7,130)	(8,955)
Dividends not subject to UK tax	(1,139)	(699)
Income taxable in different periods	–	1
Overseas withholding tax	61	92
Taxable losses not utilised/(utilised)	135	(24)
Double tax relief	–	(43)
Current tax charge for the year	61	92

As an investment trust, the Company's capital gains are not taxable.

Factors that may affect future tax charges

At 30 November 2010 the Company had a potential deferred tax asset of £665,000 (2009 – £543,000) on taxable losses which are available to be carried forward and offset against future taxable profits. A deferred tax asset has not been provided on these losses as it is considered unlikely that the Company will make taxable revenue profits in the future and it is not liable to tax on its capital gains. The potential deferred tax asset has been calculated using a corporation tax rate of 27.33% (2009 – 28%).

7 NET RETURN PER ORDINARY SHARE

	Year to 30 November 2010			Year to 30 November 2009		
	Revenue	Capital	Total	Revenue	Capital	Total
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	61,588,730	61,588,730	63,428,586	63,428,586	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.

	Year to 30 November 2010		Year to 30 November 2009	
	Pence	£'000	Pence	£'000
8 ORDINARY DIVIDENDS				
Amounts recognised as distributions in the year				
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 Tax Act 2010 (formerly Section 842 of ICTA 1988) are considered. The revenue available for distribution by way of dividend for the year is £3,525,000 (2009 – £2,639,000).

Amounts paid and payable in respect of the year

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
	<u>5.00</u>	<u>3,063</u>	<u>5.00</u>	<u>3,114</u>
Special dividend	–	–	3.00	1,856
	<u>5.00</u>	<u>3,063</u>	<u>8.00</u>	<u>4,970</u>

9 INVESTMENTS

	At 30 November		At 30 November	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Financial assets designated at fair value through profit or loss on initial recognition				
UK – equity instruments	106,327	80,861		
Overseas – equity instruments	20,722	27,147		
	<u>127,049</u>	<u>108,008</u>		
			UK equities £'000	Overseas equities £'000
Cost of investments at 1 December 2009	89,036	19,790		108,826
Investment holding (losses)/gains at 1 December 2009	(8,175)	7,357		(818)
Fair value of investments at 1 December 2009	80,861	27,147		108,008
Movements in year:				
Purchases at cost	17,083	3,147		20,230
Sales – proceeds	(19,166)	(6,746)		(25,912)
– (losses)/gains on sales	(4,284)	2,008		(2,276)
Changes in investment holding gains and losses	31,833	(4,834)		26,999
Fair value of investments at 30 November 2010	<u>106,327</u>	<u>20,722</u>		<u>127,049</u>
Cost of investments at 30 November 2010	82,669	18,199		100,868
Investment holding gains at 30 November 2010	23,658	2,523		26,181
Fair value of investments at 30 November 2010	<u>106,327</u>	<u>20,722</u>		<u>127,049</u>

The purchases and sales proceeds figures above include transaction costs of £103,000 (2009 – £193,000) and £58,000 (2009 – £70,000) respectively.

	At 30 November 2010 £'000	At 30 November 2009 £'000
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9 INVESTMENTS (continued)

Net gains/(losses) on investments designated at fair value through profit or loss on initial recognition

Losses on sales	(2,276)	(10,713)
Changes in investment holding gains	26,999	43,915
	<u>24,723</u>	<u>33,202</u>

Of the losses on sales during the year of £2,276,000 (2009 – loss of £10,713,000), a net loss of £1,485,000 (2009 – loss of £14,536,000) was included in investment holding gains/(losses) at the previous year end.

10 DEBTORS

Amounts falling due within one year

Sales for subsequent settlement	2,637	–
Income accrued	340	362
Other debtors and prepayments	42	42
	<u>3,019</u>	<u>404</u>

11 CREDITORS

Amounts falling due within one year

Other creditors and accruals	24	27
	<u>24</u>	<u>27</u>

12 CALLED-UP SHARE CAPITAL

	At 30 November 2010		At 30 November 2009	
	Number	£'000	Number	£'000
Allotted, called-up and fully paid ordinary shares of 25p each	61,260,000	15,315	62,305,000	15,576

At 30 November 2010 there were no outstanding options (2009 – 8,900,000) to acquire ordinary shares in the Company. The options, which expired on 31 August 2010, were granted to the founding shareholders on 11 September 2000 and were exercisable at a price per share equivalent to the net asset value at the time of exercise. No options were exercised during the year.

During the year the Company bought back 1,045,000 ordinary shares of 25p each at a cost of £1,837,000. At 30 November 2010 the Company had authority remaining to buy back a further 8,677,065 ordinary shares.

The Company transacted no buybacks between 1 December 2010 and 28 January 2011.

	Special distributable reserve £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000
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13 RESERVES

At 1 December 2009	33,600	956	51,677	4,381
Net loss on sales of investments	-	-	(2,276)	-
Changes in investment holding gains	-	-	26,999	-
Other exchange differences	-	-	741	-
Revenue return on ordinary activities in the year	-	-	-	3,525
Shares bought back for cancellation	(1,837)	261	-	-
Dividends paid in the year	-	-	-	(4,937)
At 30 November 2010	31,763	1,217	77,141	2,969

The capital reserve balance at 30 November 2010 included an investment holding gain of £26,181,000 (2009 – loss of £818,000) as disclosed in note 9.

The special distributable reserve, which arose from the reduction of the share premium account in 2000 may be used to fund share buybacks.

The revenue reserve may be distributed by way of dividend.

14 NET ASSET VALUE PER ORDINARY SHARE

	At 30 November 2010		At 30 November 2009	
	Pence	£'000	Pence	£'000
The net asset value per ordinary share and the net asset value attributable to the ordinary shareholders at the year end calculated in accordance with the articles of association were as follows:				
Ordinary shares	234.5	143,647	194.9	121,432

The 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.

15 RECONCILIATION OF NET RETURN BEFORE FINANCE COSTS AND TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	Year to 30 November 2010 £'000	Year to 30 November 2009 £'000
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)
Net cash inflow from operating activities	3,564	2,888

16 ANALYSIS OF CHANGE IN NET FUNDS

	At 1 December 2009 £'000	Cash flows £'000	Exchange movement £'000	At 30 November 2010 £'000
Cash at bank and in hand	13,047	556	-	13,603

17 CONTINGENT LIABILITIES, GUARANTEES AND FINANCIAL COMMITMENTS

At 30 November 2010 the Company had an annual commitment of £35,000 (2009: £35,000) under an operating lease in respect of premises. The current operating lease commitment will expire on 28 November 2012.

18 FINANCIAL INSTRUMENTS

As an Investment Trust, the Company invests in equities and makes other investments so as to achieve its investment objective of providing good absolute returns over long periods by investing the great majority of its assets in quoted securities and index futures. In pursuing its investment objective, the Company is exposed to various types of risk that are associated with the financial instruments and markets in which it invests.

These risks are categorised here as market risk (comprising currency risk, interest rate risk and other price risk), liquidity risk and credit risk. The board monitors closely the Company's exposures to these risks but does so in order to reduce the likelihood of a permanent loss of capital rather than to minimise short term volatility. Risk provides the potential for both losses and gains. In assessing risk, the board encourages the managing director to exploit the opportunities that risk affords.

The risk management policies and procedures outlined in this note have not changed substantially from the previous accounting period.

Market Risk

The fair value or future cash flows of a financial instrument or other investment held by the Company may fluctuate because of changes in market prices. This market risk comprises three elements – currency risk, interest rate risk and other price risk. The board of directors reviews and agrees policies for managing these risks and the Company's managing director both assesses the exposure to market risk when making individual investment decisions and monitors the overall level of market risk across the investment portfolio.

Details of the Company's investment portfolio are shown in note 9. There were no derivative financial instruments outstanding at the balance sheet date.

The Company's managing director may not enter into derivative transactions without the prior approval of the board.

Currency Risk

Some of the Company's assets, liabilities and income are denominated in currencies other than sterling (the Company's functional currency and that in which it reports its results). Consequently, movements in exchange rates may affect the sterling value of those items.

The managing director monitors the Company's exposure to foreign currencies and reports to the board on a regular basis. He assesses the risk to the Company of the foreign currency exposure by considering the effect on the Company's net asset value and income of a movement in the rates of exchange to which the Company's assets, liabilities, income and expenses are exposed. However, the country in which a company is listed is not necessarily where it earns its profits. The movement in exchange rates on overseas earnings may have a more significant impact upon a company's valuation than that arising from a simple translation of the currency in which the company is quoted.

Foreign currency borrowings and forward currency contracts may be used to limit the Company's exposure to anticipated future changes in exchange rates which might otherwise adversely affect the value of the portfolio of investments. At 30 November 2010 the Company had no such borrowings or contracts.

Exposure to currency risk through asset allocation, which is calculated by reference to the currency in which the asset or liability is quoted, is shown below.

At 30 November 2010	Investments £'000	Cash and deposits £'000	Other debtors and creditors* £'000	Net exposure £'000
US dollar	20,722	6,858	2,146	29,726
Total exposure to currency risk	20,722	6,858	2,146	29,726
Sterling	106,327	6,745	849	113,921
	127,049	13,603	2,995	143,647

*includes net non-monetary assets of £42,000.

18 FINANCIAL INSTRUMENTS (continued)

Currency Risk (continued)

At 30 November 2009	Investments £'000	Cash and deposits £'000	Other debtors and creditors* £'000	Net exposure £'000
US dollar	27,147	9,240	140	36,527
Total exposure to currency risk	27,147	9,240	140	36,527
Sterling	80,861	3,807	237	84,905
	108,008	13,047	377	121,432

*Includes net non-monetary assets of £40,000.

Currency Risk Sensitivity

At 30 November 2010, if sterling had strengthened by 5% in relation to the US dollar, with all other variables held constant, total net assets and total return on ordinary activities would have decreased by the amounts shown below. A 5% weakening of sterling against the US dollar, with all other variables held constant, would have had an equal but opposite effect on the financial statement amounts. The analysis is performed on the same basis for 2009.

	2010 £'000	2009 £'000
US dollar	1,486	1,826
	1,486	1,826

Interest Rate Risk

Interest rate movements may affect directly:

- the fair value of any investments in fixed interest rate securities;
- the level of income receivable on cash deposits;
- the fair value of any fixed-rate borrowings; and
- the interest payable on any variable rate borrowings.

Interest rate movements may also impact upon the market value of investments outwith fixed income securities. The effect of interest rate movements upon the earnings of a company may have a significant impact upon the valuation of that company's equity.

The possible effects on fair value and cashflows that could arise as a result of changes in interest rates are taken into account when making investment decisions and when entering borrowing agreements.

The board reviews on a regular basis the amount of investments in cash and fixed income securities and the income receivable on cash deposits, floating rate notes and other similar investments.

The Company may finance part of its activities through borrowings at approved levels. The amount of any such borrowings and the approved levels are monitored and reviewed regularly by the board. Movements in interest rates, to the extent that they affect the market value of the Company's fixed rate borrowings, if any, may also affect the amount by which the Company's share price is at a discount or a premium to the net asset value, on the assumption that the share price is unaffected by movements in interest rates.

The cash deposits generally comprise call or short term money market deposits of less than one month which are repayable on demand. The benchmark rate which determines the interest payments received on cash balances is the bank base rate.

There have been no significant changes to the interest rate risk profile of the Company's financial assets during the year. There were no financial assets subject to interest rate risk at 30 November 2010 and 30 November 2009, other than the cash deposits shown in the credit risk exposure table on page 36.

Financial Liabilities

The Company had no financial liabilities at 30 November 2010 (2009 – nil).

18 FINANCIAL INSTRUMENTS (continued)**Interest Rate Risk Sensitivity**

The Company had no financial assets subject to interest rate risk, other than cash deposits, at 30 November 2010 and 30 November 2009. The weighted average interest rate on cash balances held at 30 November 2010 was 0.20% (2009 – 0.12%). An increase of 100 basis points in interest rates at 30 November 2010 would, over a full year, have increased the net return on ordinary activities after taxation by £136,000 (2009 – £130,000) and would have increased the net asset value per share by 0.22p (2009 – 0.21p). The calculations are based on the cash balances as at the respective balance sheet dates and are not representative of the year as a whole.

Other Price Risk

Changes in market prices other than those arising from interest rate risk or currency risk may also affect the value of the Company's net assets.

The board manages the market price risks inherent in the investment portfolio by ensuring full and timely access to relevant information from the managing director. The board meets regularly and at each meeting reviews investment performance, the investment portfolio and the rationale for the current investment positioning to ensure consistency with the Company's objectives and investment policies. The portfolio does not seek to reproduce any index. Investments are selected based upon the merit of individual companies and therefore performance may well diverge from comparative indices.

Other Price Risk Sensitivity

A full list of the Company's investments by broad industrial or commercial sector is given on page 7. In addition, an analysis of the investment portfolio is contained in the Managing Director's Report.

88% (2009 – 89%) of the Company's net assets are invested in equities. A 5% increase in quoted equity valuations at 30 November 2010 would have increased total assets and total return on ordinary activities by £6,352,000 (2009 – £5,400,000). A decrease of 5% would have had an equal but opposite effect.

Liquidity Risk

This is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities.

Liquidity risk is not significant as the majority of the Company's investment assets are in quoted securities that are readily realizable. The board provides guidance to the managing director as to the maximum exposure to any one holding and to the maximum aggregate exposure to substantial holdings.

The Company has the power to take out borrowings, which give it access to additional funding when required.

Credit Risk

This is the risk that a failure of a counterparty to a transaction to discharge its obligations under that transaction could result in the Company suffering a loss.

This risk is managed as follows:

- where the managing director makes an investment in a bond or other security with credit risk, that credit risk is assessed and then compared to the prospective investment return of the security in question;
- the Company's listed investments are held on its behalf by The Bank of New York Mellon, the Company's custodian. Bankruptcy or insolvency of the custodian may cause the Company's rights with respect to securities held by the custodian to be delayed. The company secretaries monitor the Company's risk by reviewing the custodian's internal control reports and reporting their findings to the board;
- investment transactions are carried out with a large number of brokers whose creditworthiness is reviewed by the managing director. Transactions are ordinarily undertaken on a delivery versus payment basis whereby the Company's custodian bank ensures that the counterparty to any transaction entered into by the Company has delivered on its obligations before any transfer of cash or securities away from the Company is completed;
- the creditworthiness of the counterparty to transactions involving derivatives, structured notes and other arrangements, wherein the creditworthiness of the entity acting as broker or counterparty to the transaction is likely to be of sustained interest, are subject to rigorous assessment by the managing director; and
- cash is only held at banks that have been approved by the board as creditworthy.

18 FINANCIAL INSTRUMENTS (continued)

Credit Risk Exposure

The exposure to credit risk at 30 November was:

	2010 £'000	2009 £'000
Cash and short term deposits	13,603	13,047
Debtors	2,977	364
	<u>16,580</u>	<u>13,411</u>

The maximum exposure in cash during the year was £24,252,000 (2009 – £23,763,000) and the minimum £6,105,000 (2009 – £5,913,000). None of the Company's financial assets are past due or impaired.

Gains and Losses on Hedges

There were no open forward currency contracts at 30 November 2010 (2009 – nil).

Capital Management

The Company does not have any externally imposed capital requirements. The capital of the Company is the ordinary share capital as detailed in note 12. It is managed in accordance with its investment policy in pursuit of its investment objective, both of which are detailed on pages 9 and 10. Shares may be issued and/or repurchased as explained on page 17.

Fair Value of Financial Assets and Financial Liabilities

The directors are of the opinion that the financial assets and liabilities of the Company are stated at fair value in the balance sheet.

None of the financial liabilities are designated at fair value through profit or loss in the financial statements.

Fair Value of Financial Instruments

Investments in securities as disclosed in note 9 on page 30 are financial assets designated at fair value through profit or loss on initial recognition. In accordance with Financial Reporting Standard 29 'Financial Instruments: Disclosures', all of the Company's investments are classified as Level 1 within the fair value hierarchy described below, which reflects the reliability and significance of the information used to measure their fair value.

Fair Value Hierarchy

The fair value hierarchy used to analyse the fair values of financial assets is described below. The levels are determined by the lowest (that is the least reliable or least independently observable) level of input that is significant to the fair value measurement for the individual investment in its entirety as follows:

Level 1 – investments with quoted prices in an active market;

Level 2 – investments whose fair value is based directly on observable current market prices or is indirectly being derived from market prices; and

Level 3 – investments whose fair value is determined using a valuation technique based on assumptions that are not supported by observable current market prices or are not based on observable market data.

NOTICE IS HEREBY GIVEN that the tenth Annual General Meeting of The Independent Investment Trust PLC will be held within the offices of Baillie Gifford & Co, Calton Square, 1 Greenside Row, Edinburgh EH1 3AN, on Thursday, 24 March 2011 at 4.30pm for the following purposes:

Ordinary Business

To consider and, if thought fit, pass the following resolutions as ordinary resolutions:

1. To receive and adopt the financial statements of the Company for the year to 30 November 2010 with the reports of the directors and of the independent auditor thereon.
2. To approve the Directors' Remuneration Report for the year to 30 November 2010.
3. To declare a final dividend of 3.00p per ordinary share for the year to 30 November 2010.
4. To re-elect Mr DCP McDougall as a director.
5. To re-elect Mr MCB Ward as a director.
6. To re-elect Mr JGD Ferguson as a director.
7. To re-elect The Hon. RJ Laing as a director.
8. To reappoint Ernst & Young LLP as Independent Auditors of the Company to hold office until the conclusion of the next Annual General Meeting at which accounts are laid before the Company.
9. To authorise the directors to determine the remuneration of the Independent Auditors of the Company.

To consider and, if thought fit, pass the following resolution as a special resolution:

10. That, in substitution for any existing authority, but without prejudice to the exercise of any such authority prior to the date hereof, the Company be and is hereby generally and unconditionally authorised, pursuant to and in accordance with section 701 of the Companies Act 2006 (the 'Act'), to make market purchases (within the meaning of section 693(4) of the Act) of fully paid ordinary shares of 25p each in the capital of the Company ('Shares'), provided that:
 - (a) the maximum aggregate number of Shares hereby authorised to be purchased shall be 9,182,874 ordinary shares, representing approximately 14.99% of the issued share capital on the date on which this resolution is passed;
 - (b) the minimum price (exclusive of expenses) which may be paid for a Share shall be 25p;
 - (c) the maximum price (exclusive of expenses) which may be paid for a Share shall be not more than the higher of: (i) 5 per cent above the average closing price on the London Stock Exchange of an ordinary share over the five business days immediately preceding the date of purchase; and (ii) the higher of the last independent trade and the highest current independent bid on the London Stock Exchange; and
 - (d) unless previously varied, revoked or renewed, the authority hereby conferred shall expire at the conclusion of the Annual General Meeting of the Company to be held in respect of the year ending 30 November 2011, save that the Company may, prior to such expiry, enter into a contract to purchase Shares under such authority which will or might be executed wholly or partly after the expiration of such authority and may make a purchase of Shares pursuant to any such contract.

By order of the board
BAILLIE GIFFORD & CO
Secretaries
16 February 2011

NOTICE OF ANNUAL GENERAL MEETING

Notes

1. As a member you are entitled to appoint a proxy or proxies to exercise all or any of your rights to attend, speak and vote at the AGM. A proxy need not be a member of the Company but must attend the AGM to represent you. You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You can only appoint a proxy using the procedure set out in these notes and the notes to the proxy form. You may not use any electronic address provided either in this notice or any related documents (including the financial statements and proxy form) to communicate with the Company for any purpose other than those expressly stated.
2. To be valid any proxy form or other instrument appointing a proxy, together with any power of attorney or other authority under which it is signed or a certified copy thereof, must be received by post or (during normal business hours only) by hand at the Registrars of the Company at Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol, BS99 6ZY or www.eproxyappointment.com no later than two days (excluding non-working days) before the time of the meeting or any adjourned meeting.
3. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual and/or by logging on to the website www.euroclear.com/CREST. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
4. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications, and must contain the information required for such instruction, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the Company's registrar (ID 3RA50) no later than two days (excluding non-working days) before the time of the meeting or any adjournment. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Application Host) from which the Company's registrar is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.
5. CREST members and, where applicable, their CREST sponsors, or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.
6. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.
7. The return of a completed proxy form or other instrument of proxy will not prevent you attending the AGM and voting in person if you wish.
8. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001 and Section 311 of the Companies Act 2006 the Company specifies that to be entitled to attend and vote at the Annual General Meeting (and for the purpose of the determination by the Company of the votes they may cast), shareholders must be registered in the Register of Members of the Company no later than two days (excluding non-working days) prior to the commencement of the AGM or any adjourned meeting. Changes to the Register of Members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting.
9. Any person to whom this notice is sent who is a person nominated under Section 146 of the Companies Act 2006 to enjoy information rights (a 'Nominated Person') may, under an agreement between him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the Annual General Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.
10. The statement of the rights of shareholders in relation to the appointment of proxies in Notes 1 and 2 above does not apply to Nominated Persons. The rights described in those Notes can only be exercised by shareholders of the Company.

11. The members of the Company may require the Company to publish, on its website, (without payment) a statement (which is also passed to the auditors) setting out any matter relating to the audit of the Company's accounts, including the auditors' report and the conduct of the audit. The Company will be required to do so once it has received such requests from either members representing at least 5% of the total voting rights of the Company or at least 100 members who have a relevant right to vote and hold shares in the Company on which there has been paid up an average sum per member of at least £100. Such requests must be made in writing and must state your full name and address and be sent to the Company at Calton Square, 1 Greenside Row, Edinburgh, EH1 3AN.
12. Information regarding the Annual General Meeting, including information required by Section 311A of the Companies Act 2006, is available from the Company's website at www.independentinvestmenttrust.co.uk.
13. Members have the right to ask questions at the meeting in accordance with Section 319A of the Companies Act 2006.
14. As at 28 January 2011 (being the last practicable day prior to the publication of this notice) the Company's issued share capital consisted of 61,260,000 ordinary shares, carrying one vote each. Therefore, the total voting rights in the Company as at 28 January 2011 were 61,260,000 votes.
15. Any person holding 3% or more of the total voting rights of the Company who appoints a person other than the chairman of the meeting as his proxy will need to ensure that both he and his proxy complies with their respective disclosure obligations under the UK Disclosure and Transparency Rules.
16. A copy of Max Ward's service contract with the Company will be available for inspection at the Annual General Meeting for at least 15 minutes prior to and during the Annual General Meeting. The other directors do not have service contracts with the Company.

DIRECTORS

DCP McDougall OBE (Chairman)
MCB Ward (Managing Director)
JGD Ferguson (Non-executive)
The Hon. RJ Laing (Non-executive)

All of

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SECRETARIES AND REGISTERED OFFICE

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Ten George Street
Edinburgh EH2 2DZ

SOLICITORS

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16 Charlotte Square
Edinburgh EH2 4DF

Company Registration No. SC210685