THE INDEPENDENT INVESTMENT TRUST PLC

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the year ended 30 November 2011

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

24 Income Statement

25 Balance Sheet

26 Reconciliation of Movements in Shareholders' Funds

27 Cash Flow Statement

28 Notes to Financial Statements

38 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 risk (comprising currency risk, interest rate risk and other price 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 2011

	2011	**2010**	*% change*
Net asset value per share	226.4p	234.5p	(3.5)
Revenue earnings per share	6.57p	5.72p	14.9
Proposed regular dividend per share (Including interim dividend paid of 2.00p (2010 – 2.00p))	5.00p	5.00p	–
Proposed special dividend per share	0.60p	–	
Share price	186.0p	203.5p	(8.6)
Total expense ratio	0.45%	0.35%	

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 and Herald Investment Trust plc. 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 The Edinburgh 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 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 £150,000 for the year under review.

During the year to 30 November 2011, our company produced an NAV total return of -1.4%. Theoretical investments in the FTSE All Share Index and the FTSE World Index would have produced total returns of 2.6% and -0.1% respectively. A widening of the discount from 13.2% to 17.8% meant that the share price fell by 8.6% over the year. This is clearly a disappointing outcome, but our plea in mitigation is that it comes after a year of very strong performance.

Changes in the real economy, which have tended to be mildly disappointing, have been progressively overshadowed by financial developments. Foremost among these has been the collapse of confidence in the sovereign debt obligations of the peripheral Eurozone countries and the resulting signs of stress throughout the European banking system. The combination of a rapidly developing financial crisis and attempts by politicians and central banks to mitigate its impact has led to market conditions as volatile and difficult as any we have known.

We feel a continuing need to position ourselves for a broad range of possible market outcomes, but it seems to us that the odds on a period of renewed economic weakness have shortened. This, together with the strong performance of many of our defensive holdings, persuaded us to increase our cash balances towards the end of our year: net liquid assets amounted to 19% of our shareholders' funds at 30 November 2011, up from 11% at 30 November 2010. A major part of our liquidity is held in the form of a short gilt. Sustainable finances continue to be a key attribute of our economically sensitive holdings.

The disappointments of 2007 and 2008 remain fresh in our minds, but we continue to draw encouragement from our long term performance. Between 18 October 2000 and 30 November 2011, we produced an NAV total return of 190%, equivalent to a rate of roughly 10.2% per annum, of which 3.0% 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 39%, or roughly 3.1% per annum. The volatility of our returns in recent years has been greater than we had hoped, but we continue to believe that the willingness to accept volatility is an essential prerequisite for achieving good long term results from equity investment.

The main features of our transacting during the year were the additions we have made to our energy and recruitment stakes, and the belated reduction we made in our retail stake. Both energy and recruitment stocks were hit hard during the summer sell-off in stockmarkets and now appear to discount more difficult operating conditions in the year ahead. The progressive deterioration in the outlook for retailers finally convinced us that we had too much money in the sector. Further comments on the portfolio can be found in the managing director's report on page 5.

Earnings per share for the year were 6.57p (5.72p in 2010). Much of this unexpected buoyancy in our revenue account is attributable to one off capital distributions and special dividends declared by our holdings. We are therefore proposing to maintain the final dividend at 3p (making a total regular dividend for the year of 5p) and to declare a special dividend of 0.6p. Both dividends will be payable on 10 April 2012.

The unfortunate coincidence of an increase in directors' fees (our defence is that it was only the second in ten years) and a decline in our net asset value has led to a deterioration in our Total Expense Ratio – from 0.35% of year end shareholders' funds to 0.45%. We believe this to be more an indication of the low level reached in the previous year than of wanton profligacy as even the new level is among the lowest in the industry, remarkably so for a trust of our size.

We have once again been willing to buy back shares in order to improve liquidity in the market for our shares. In the year under review, we bought back 210,000 shares on terms that added approximately 0.12p to our year end net asset value.

There are early warning signs that trading conditions may become more difficult for many of our companies in the months ahead. We have already moved to anticipate this by increasing our cash balances, but we remain vigilant for opportunities to improve the quality of our portfolio.

I should like to thank Baillie Gifford for their continued excellent secretarial service, our office manager, Vivien Judge, for keeping our operations on course, and Max Ward for his energetic persistence in the face of difficult markets.

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 29 March 2012. 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
30 January 2012

Our performance over the year has been covered in the Chairman's Statement.

We commented in our last Interim Report on our move to a more diversified portfolio. There has been one exception to this move: our big energy stake. We have held this for several years, partly as an insurance policy against a shortfall in global oil supplies and partly as a positive commitment to an area with bright long term prospects and attractive valuations. The political upheavals in the Middle East over the last year have come as a powerful reminder of the fragility of much of the world's oil supply, and the resulting rise in the oil price has created unusually attractive operating conditions for many energy companies. The logical reaction to this – a surge in their share prices – duly occurred in the period up until July 2011, but much of this has subsequently been reversed as fears have grown about future prospects in what has always been a cyclical industry. With all the uncertainties about the outlook for the global economy, we recognize the possibility that the industry could experience more difficult operating conditions than we currently expect in the immediate future. We believe, however, that we can be much more confident about its longer term prospects and, in particular, those of the companies that are involved in the exploitation of shale oil and shale gas. Our addition of Halliburton to the energy portfolio in the latter part of the year was a reflection of this and we are looking closely at other opportunities in the area.

Our energy portfolio rose in value from £20.7m at 30 November 2010 to £25.1m at 30 November 2011, with net purchases accounting for £4.0m of the increase.

Over the years, the recruitment industry has made an important positive contribution to our performance, but over the last two years it has been a source of frustration to us. We made a major reduction in our stake in the industry in the summer of 2009, which meant that we did not receive nearly as great a benefit from the sector's strong performance in 2010 as we should have done. Perhaps inevitably in these circumstances, we are guilty of having set out to rebuild our stake prematurely and have suffered a painful experience familiar to many who have tried to catch falling knives. There is no doubt that 2012 will be a difficult year for the industry, but our holdings are financially strong and highly cash generative. We think they represent excellent long term value, but are braced for continued volatility in their share prices as the market continues its attempt to price in a poor immediate outlook. Despite £6.2m of net purchases during the year, our stake had only risen in value from £7.3m at 30 November 2010 to £11.5m by 30 November 2011.

Another recent area of difficulty for us has been retailing, but at least in this case we have been able to mitigate the impact of falling share prices on our performance by reducing the stake: our UK retail stake fell in value from £27.9m at 30 November 2010 to £10.0m at 30 November 2011 with net sales accounting for £8.5m of the reduction. The biggest impact has come from SuperGroup which, having trebled in the first year of our ownership, has returned to roughly our purchase price in the second. The fear in the market is that the brand has had its day, but we are still inclined to accept management's view that disappointing profits have been more a function of operational mishaps than of declining popularity for the brand. With half the original holding having been sold at an average price well over double our entry price, we consider the scale of the residual holding appropriate to the risks and opportunities facing the company. Our other big retailing holding, Dunelm, has also seen a disappointing share price performance, but this has been more a reaction to a strong performance in the previous year than a sign of poor results; indeed, it continues to demonstrate considerable resilience in a difficult trading environment. Our other two UK holdings, Halfords and Topps, have seen their share prices decline as forecasts of future profits have fallen.

During the spring, we bought a holding in Powerland, a Chinese retailer of handbags quoted in Frankfurt. Powerland's results have been comfortably ahead of our expectations, but its share price has performed poorly as investors have shunned Chinese companies listed on overseas markets. The same problem has affected the share price of our new holding in the Chinese fruit grower and processor, Asian Citrus Holdings, which has also produced good results.

One of the more successful areas of our portfolio in the year under review has been the loose grouping of companies we label Industrials. We made big additions to this area in the first half of our year, reflecting a strong trading background and attractive valuations. These additions were more than reversed towards the end of the year in anticipation of more difficult trading conditions. Thus a stake worth £13.6m at 30 November 2010 had fallen in value to £9.8m by 30 November 2011 after net sales amounting to £5.9m.

Many of our more defensive investments performed well over the year, but a strong underlying showing from our non life insurers was marred by a fall in the value of our relatively large Amlin holding. Elsewhere in the portfolio, transport, property and housebuilding all made positive contributions, but our small mining stake fell in value. The financial betting company, IG Group, enjoyed strong trading results but was rewarded with a modest decline in its share price. Domino's Pizza has made a good start to its second stay in the portfolio, but Robert Wiseman suffered from difficult conditions in the dairy industry. Fortunately, however, the emergence of a bid for the company in January has since allowed us to sell our holding for a substantial profit.

Max Ward
30 January 2012

As at 30 November

Sector	Name	2011 Value £'000	2011 %	2010 Value £'000
Housebuilders	Persimmon	2,456	1.8	3,045
Industrials	Aggreko	3,778	2.7	8,790
	Croda International	3,644	2.6	–
	IMI	2,393	1.7	2,566
		9,815	7.0	
Retailing	Dunelm Group	4,541	3.3	12,575
	Halfords Group	2,638	1.9	–
	Powerland – China	1,429	1.0	–
	SuperGroup	2,303	1.7	14,175
	Topps Tiles	475	0.3	1,190
		11,386	8.2	
Recruitment	Hays	3,660	2.6	–
	Michael Page International	2,465	1.8	3,055
	SThree	5,326	3.9	4,292
		11,451	8.3	
Technology and Telecommunications	Herald Investment Trust	9,216	6.7	8,720
	Vodafone Group	1,720	1.2	1,607
		10,936	7.9	
Mining	BHP Billiton	1,461	1.0	1,713
	BlackRock World Mining Trust	3,153	2.3	3,557
		4,614	3.3	
Oil Producers	Bankers Petroleum – Canada	1,266	0.9	–
Offshore Drillers	Diamond Offshore Drilling – USA	1,912	1.4	2,077
	Noble Corporation – USA	10,977	7.9	12,193
		12,889	9.3	
Oilfield Services	Halliburton – USA	4,676	3.4	–
	Schlumberger – USA	6,223	4.5	6,452
		10,899	7.9	
Food Producers	Asian Citrus Holdings – China	1,200	0.9	–
	Robert Wiseman Dairies	1,215	0.9	–
		2,415	1.8	
Tobacco	British American Tobacco	2,943	2.1	5,826
	Imperial Tobacco	3,432	2.5	2,829
		6,375	4.6	
Pharmaceuticals	GlaxoSmithKline	2,105	1.5	1,818
Leisure	Domino's Pizza	2,009	1.5	–
Transport	First Group	2,610	1.9	1,446
	Go-Ahead Group	972	0.7	949
		3,582	2.6	
Utilities	National Grid	3,120	2.3	3,972
	Scottish & Southern Energy	2,622	1.9	2,240
		5,742	4.2	
Insurance	Amlin	3,854	2.8	2,252
	Beazley	2,038	1.5	1,656
	Catlin Group	1,241	0.9	994
	Polar Capital Global Insurance Fund (formerly Hiscox)	1,923	1.4	1,919
		9,056	6.6	
Property	Orchid Developments Group	45	–	405
Miscellaneous Financials	IG Group Holdings	3,360	2.4	3,438
Fixed Interest	UK Treasury 5.25% 07/06/12	21,525	15.6	–
Value of investments sold or matured during the year				11,298
TOTAL INVESTMENTS		131,926	95.4	127,049
Net liquid assets		6,299	4.6	16,598
SHAREHOLDERS' FUNDS		138,225	100.0	143,647

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

Capital

At 30 November	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)
2011	138,225	–	138,225	226.4	186.00	(17.8)

*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

Gearing Ratio

Period to 30 November	Revenue return £'000	Revenue return per ordinary share p	Regular dividends per ordinary share p	Special dividends per ordinary share p	Total expense ratio¶ %	Actual gearing/ (net cash)§ %
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)
2011	4,024	6.57	5.00	0.60	0.45	(19)

¶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)

At 30 November	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	–	100
2001	111	114	85	110	111	88	100	101
2002	114	123	68	116	123	72	125	104
2003	145	151	73	153	155	80	150	106
2004	161	159	80	173	166	90	188	110
2005	214	214	93	233	229	109	213	113
2006	287	292	106	319	319	128	225	117
2007	231	207	111	259	230	139	250	122
2008	147	118	72	168	134	94	250	126
2009	198	168	90	237	200	122	250	126
2010	238	204	97	296	253	136	250	132
2011	230	186	96	290	237	139	250	139
Compound annual returns								
5 year	(4.3%)	(8.6%)	(1.9%)	(1.9%)	(5.8%)	1.7%	2.1%	3.5%
10 year	7.6%	5.1%	1.2%	10.2%	7.9%	4.7%	9.6%	3.2%
Since inception	7.9%	5.8%	(0.3%)	10.2%	8.2%	3.1%	9.6%	3.0%

^Source: Thomson Reuters Datastream. **Launch date of Company. ††Regular dividend taking 2001 as 100. 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 2011.

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 2010, 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.

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 cyclicality, 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 Long Term Record on page 8 provides detailed performance information since inception. The net asset value total return for the year is contained in the Chairman's Statement along with information on the discount and total expense ratio.

Dividends
The board recommends a final dividend of 3.00p plus a special dividend of 0.60p per ordinary share which, together with the interim already paid, makes a total dividend of 5.60p for the year.

The recommended final and special dividends, if approved, will be paid on 10 April 2012 to shareholders on the register at the close of business on 24 February 2012.

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 34 to 37.

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 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. Major regulatory change could impose unnecessary compliance burdens on the Company or threaten the viability of the investment trust structure. In such circumstances representation would be made to defend the special circumstances of investment trusts.

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. Baillie Gifford & Co has a comprehensive business continuity plan which ensures continued operation of the business in the event of a service disruption or major disaster. 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. 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. The Company currently has no loans.

Resource risk – the Company is self-managed and has only two employees. Contingency plans are in place to deal with a loss of key personnel.

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 June 2010 UK Corporate Governance Code (the 'Code') and the AIC Code of Corporate Governance (the 'AIC Code') were applied throughout the financial year. The AIC Code provides a framework of best practice for investment companies.

Compliance

The board confirms that the Company has complied throughout the year under review with the relevant provisions of the Code and with the recommendations of the AIC Code, 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 non-executive 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, all 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)".

Following formal performance evaluation 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 and The Independent Investment Trust PLC does not invest in The Monks Investment Trust PLC.

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, training and development requirements, 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 risk management and internal control systems and for reviewing their effectiveness. The systems are 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 Company's risk management and internal control systems and it has procedures in place to review their 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 has largely been based upon Baillie Gifford & Co's existing risk based system of internal controls. A detailed risk map is prepared which identifies the significant risks facing the Company and the key controls to manage those risks.

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 audit committee. 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.

The custodian prepares a report on its internal controls which is independently reviewed by KPMG Audit Plc.

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 the auditor 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 cash flows and 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 board believes it is appropriate for Mr Ward to be a member of the committee given his understanding of the business and independence of mind.

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 the adequacy and effectiveness of internal control and risk management systems;
- making recommendations to the board in relation to the appointment of the external auditor and approving the remuneration and terms of its engagement;
- developing and implementing policy on the engagement of the external auditor 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 auditor;
- 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 auditor.

Having considered the experience and tenure of the audit partner/director and staff and the nature and level of services provided, the Committee remains satisfied with the auditor's effectiveness. The audit partner or director responsible for the audit is rotated every five years and the current lead director assumed the role at the conclusion of last year's audit. There are no contractual obligations restricting the Company's choice of external auditor. The Committee receives confirmation from the auditor that it has complied with the relevant UK professional and regulatory requirements on independence. The Committee does not believe that there has been any impairment to the auditor's 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.

Bribery Act 2010
The Bribery Act came into force on 1 July 2011. The Company has a zero tolerance policy towards bribery and is committed to carrying out business fairly, honestly and openly. The Company has procedures in place to prevent bribery that are proportionate to the risks faced.

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 2011 Ordinary shares	1 December 2010 Ordinary shares
DCP McDougall (Chairman)	Beneficial	8,526,000	8,513,000
MCB Ward (Managing Director)	Beneficial	5,200,000	5,300,000
JGD Ferguson	Beneficial	1,190,000	1,190,000
The Hon. RJ Laing	Beneficial	860,000	860,000

There have been no changes intimated in the directors' interests up to 27 January 2012.

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

Name	Number of ordinary 25p shares held at 30 November 2011	% of issued capital
A&OT Investments Limited	9,795,000	16.0%
Mr DCP McDougall	8,526,000	14.0%
Mr MCB Ward	5,200,000	8.5%
Sir Angus Grossart	2,080,000	3.4%
Mr AEH Salvesen	2,020,000	3.3%

There have been no changes to the major interests in the Company's shares intimated up to 27 January 2012.

Share Capital

Capital Structure

The Company's capital structure consisted of 61,050,000 ordinary shares of 25p each at 30 November 2011 (2010 – 61,260,000 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 39 and 40.

Repurchase of Shares

During the year to 30 November 2011 the Company bought back 210,000 ordinary shares (nominal value £52,500) on the London Stock Exchange for cancellation. The total consideration for these shares was £400,000. Between 1 December 2011 and 27 January 2012, the latest practicable date prior to publication of this report, the Company bought back a further 450,000 ordinary shares (nominal value £112,500) for total consideration of £855,000.

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 27 January 2012.

The directors are seeking shareholders' approval at the Annual General Meeting to renew the authority to purchase up to 9,083,940 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 2012. 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 33.77% of the shares in issue as at 30 November 2011.

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 15,776,000 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 2011 or 30 November 2010.

Disclosure of Information to Auditor
The directors confirm that so far as each of the directors is aware, there is no relevant audit information of which the Company's auditor is 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 auditor is aware of that information.

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

By order of the board

Douglas McDougall
Chairman
30 January 2012

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 net return 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

Douglas McDougall
Chairman
30 January 2012

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 auditor to audit certain of the disclosures provided. Where disclosures have been audited, they are indicated as such. The auditor's opinion is included in its 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 2012 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.

The salary and fees paid to the directors during the year to 30 November 2011 reflect the increases effective from 1 December 2010. During the year the remuneration committee reviewed Max Ward's salary and concluded that it should remain at £150,000 per annum for the year to 30 November 2012. In addition, the board reviewed the fees of the other directors and concluded that they should remain at £45,000 per annum for the chairman and £18,000 per annum for the other 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.

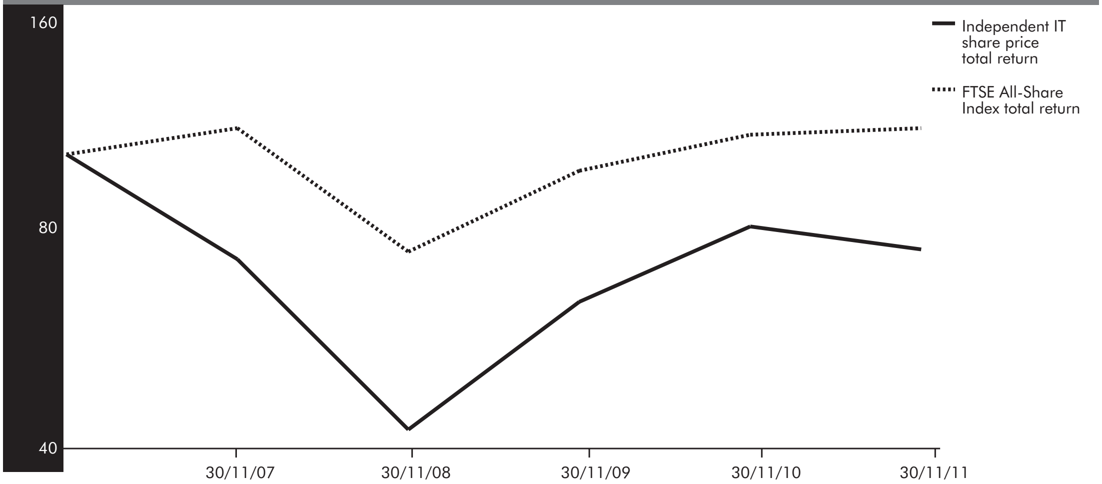
Although it is the board's policy that the chairman and the non-executive directors do not have service contracts they have been provided with appointment letters. All the directors are required to retire and be subject to election at the first Annual General Meeting after their appointment. Thereafter 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.

INDEPENDENT INVESTMENT TRUST'S SHARE PRICE AND FTSE ALL-SHARE INDEX TOTAL RETURNS

(Figures have been rebased to 100 at 30 November 2006)



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:

	2011 £	2010 £
DCP McDougall (Chairman)	45,000	33,500
MCB Ward (Managing Director)	150,000	100,000
JGD Ferguson	18,000	13,500
The Hon. RJ Laing	18,000	13,500
	231,000	160,500

Approval

The Directors' Remuneration Report on pages 20 and 21 was approved by the board of directors and signed on its behalf on 30 January 2012.

Douglas 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 2011 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 auditor's 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 Auditor

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 and express an opinion on 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. In addition, we read all the financial and non-financial information in the annual report and financial statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 2011 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;
- the part of the Corporate Governance Statement on pages 11 to 16 in the Directors' Report relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to the shareholders by the board on directors' remuneration.

Caroline Gulliver (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP
Statutory Auditor
London, 30 January 2012

Notes:

1. The maintenance and integrity of The Independent Investment Trust's web site is the responsibility of the directors; the work carried out by the auditor does not involve consideration of these matters and, accordingly, the auditor accepts no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

For the year ended 30 November

	Notes	2011 Revenue £'000	2011 Capital £'000	2011 Total £'000	2010 Revenue £'000	2010 Capital £'000	2010 Total £'000
(Losses)/gains on investments	9	–	(5,676)	(5,676)	–	24,723	24,723
Currency (losses)/gains	13	–	(307)	(307)	–	741	741
Income	2	4,662	–	4,662	4,105	–	4,105
Administrative expenses	3	(620)	–	(620)	(502)	–	(502)
Net return before finance costs and taxation		4,042	(5,983)	(1,941)	3,603	25,464	29,067
Finance costs of borrowings	5	–	–	–	(17)	–	(17)
Net return on ordinary activities before taxation		4,042	(5,983)	(1,941)	3,586	25,464	29,050
Tax on ordinary activities	6	(18)	–	(18)	(61)	–	(61)
Net return on ordinary activities after taxation		4,024	(5,983)	(1,959)	3,525	25,464	28,989
Net return per ordinary share:							
Basic	7	6.57p	(9.77p)	(3.20p)	5.72p	41.35p	47.07p
Note:							
Dividends paid and payable per ordinary share	8	5.60p			5.00p		

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 28 to 37 are an integral part of the financial statements.

At 30 November

	Notes	2011 £'000	2011 £'000	2010 £'000	2010 £'000
Fixed assets					
Investments held at fair value through profit or loss	9		131,926		127,049
Current assets					
Debtors	10	1,279		3,019	
Cash at bank and in hand	18	5,141		13,603	
		6,420		16,622	
Creditors					
Amounts falling due within one year	11	(121)		(24)	
Net current assets			6,299		16,598
Total net assets			138,225		143,647
Capital and reserves					
Called up share capital	12		15,262		15,315
Share premium			15,242		15,242
Special distributable reserve	13		31,363		31,763
Capital redemption reserve	13		1,270		1,217
Capital reserve	13		71,158		77,141
Revenue reserve	13		3,930		2,969
Shareholders' funds			138,225		143,647
Net asset value per ordinary share	14		226.4p		234.5p

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 30 January 2012.

Douglas McDougall
Chairman

The accompanying notes on pages 28 to 37 are an integral part of the financial statements.

For the year ended 30 November 2011

	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 2010	15,315	15,242	31,763	1,217	77,141	2,969	143,647
Net return on ordinary activities after taxation	–	–	–	–	(5,983)	4,024	(1,959)
Shares bought back for cancellation (note 12)	(53)	–	(400)	53	–	–	(400)
Dividends paid during the year (note 8)	–	–	–	–	–	(3,063)	(3,063)
Shareholders' funds at 30 November 2011	15,262	15,242	31,363	1,270	71,158	3,930	138,225

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	(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

The accompanying notes on pages 28 to 37 are an integral part of the financial statements.

For the year ended 30 November

	Notes	2011 £'000	2011 £'000	2010 £'000	2010 £'000
Net cash inflow from operating activities	15		3,209		3,564
Servicing of finance					
Interest paid		–		(20)	
Net cash outflow from servicing of finance			–		(20)
Capital expenditure and financial investment					
Acquisitions of investments		(59,254)		(20,230)	
Disposals of investments		51,258		23,275	
Realised currency (loss)/gain		(307)		741	
Net cash (outflow)/inflow from capital expenditure and financial investment			(8,303)		3,786
Equity dividends paid			(3,063)		(4,937)
Net cash (outflow)/inflow before financing			(8,157)		2,393
Financing					
Shares bought back for cancellation		(305)		(1,837)	
Net cash outflow from financing			(305)		(1,837)
(Decrease)/increase in cash	16		(8,462)		556
Reconciliation of net cash flow to movement in net funds	16				
(Decrease)/increase in cash in the year			(8,462)		556
Movement in net funds in the year			(8,462)		556
Net funds at 1 December			13,603		13,047
Net funds at 30 November			5,141		13,603

The accompanying notes on pages 28 to 37 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 (United Kingdom Generally Accepted Accounting Practice) 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.

(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.

1 PRINCIPAL ACCOUNTING POLICIES (continued)

(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.

(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.

2 INCOME

	2011 £'000	2010 £'000
Income from investments		
Franked investment income	4,214	3,248
Overseas dividends	389	822
UK interest	10	–
	4,613	4,070
Other income		
Deposit interest	29	18
Other income	20	17
	49	35
Total income	4,662	4,105
Total income comprises:		
Dividends from financial assets designated at fair value through profit or loss	4,603	4,070
Interest from financial assets designated at fair value through profit or loss	10	–
Deposit interest	29	18
Other income	20	17
	4,662	4,105

3 ADMINISTRATIVE EXPENSES

	2011 £'000	2010 £'000
Directors' fees and staff costs – note 4	323	241
Secretarial and administrative services	84	82
Information technology expenses	29	24
Power, telephone, rates and insurance	69	60
Operating lease rentals – office rent	42	41
Auditor's remuneration – statutory audit	21	20
Other administrative expenses	52	34
	620	502

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

	2011 £'000	2010 £'000
Directors' fees and salaries	231	161
Other salaries	60	57
Social security costs	32	23
	323	241

Two persons were employed under a contract during the year (2010 – 2): Max Ward, the managing director, and Vivien Judge, the office manager.

5 FINANCE COSTS OF BORROWINGS

	2011 £'000	2010 £'000
Bank loan non-utilisation fee	–	17

6 TAX ON ORDINARY ACTIVITIES

	2011 £'000	2010 £'000
Analysis of charge in year		
Overseas taxation	18	61
Factors affecting tax charge for year		
The tax assessed for the year is lower than the standard rate of corporation tax in the UK (26.67%)		
The differences are explained below:		
Net return on ordinary activities before taxation	(1,941)	29,050
Net return on ordinary activities multiplied by the standard rate of corporation tax in the UK of 26.67% (2010 – 28%)	(518)	8,134
Capital returns not taxable	1,596	(7,130)
Dividends not subject to UK tax	(1,228)	(1,139)
Overseas withholding tax	18	61
Taxable losses not utilised	150	135
Current tax charge for the year	18	61

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

Factors that may affect future tax charges

At 30 November 2011 the Company had a potential deferred tax asset of £747,000 (2010 – £665,000) on taxable losses of £2.9 million (2010 – £2.4 million) 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 25% (2010 – 27.33%).

7 NET RETURN PER ORDINARY SHARE

	2011 Revenue	2011 Capital	2011 Total	2010 Revenue	2010 Capital	2010 Total
Net return on ordinary activities after taxation (£'000)	4,024	(5,983)	(1,959)	3,525	25,464	28,989
Weighted average number of ordinary shares in issue during the year	61,254,684	61,254,684	61,254,684	61,588,730	61,588,730	61,588,730
Net return per ordinary share:						
Basic	6.57p	(9.77p)	(3.20p)	5.72p	41.35p	47.07p

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 2011 and 30 November 2010 there was no dilution of returns.

8 ORDINARY DIVIDENDS

	2011 Pence	2011 £'000	2010 Pence	2010 £'000
Amounts recognised as distributions in the year				
Previous year's final dividend paid 6 April 2011	3.00	1,838	3.00	1,856
Previous year's special dividend	–	–	3.00	1,856
Interim dividend paid 26 August 2011	2.00	1,225	2.00	1,225
	5.00	3,063	8.00	4,937

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 are considered. The revenue available for distribution by way of dividend for the year is £4,024,000 (2010 – £3,525,000).

	2011 Pence	2011 £'000	2010 Pence	2010 £'000
Amounts paid and payable in respect of the year				
Interim dividend paid 26 August 2011	2.00	1,225	2.00	1,225
Proposed final dividend payable 10 April 2012	3.00	1,832	3.00	1,838
Proposed special dividend payable 10 April 2012	0.60	366	–	–
	5.60	3,423	5.00	3,063

9 INVESTMENTS

	2011 £'000	2010 £'000
Financial assets designated at fair value through profit or loss on initial recognition		
Listed equity instruments	110,401	127,049
Listed debt instruments	21,525	–
	131,926	127,049

	Listed equities £'000	Listed debt £'000	Total £'000
Cost of investments at 1 December 2010	100,868	–	100,868
Investment holding gains at 1 December 2010	26,181	–	26,181
Fair value of investments at 1 December 2010	127,049	–	127,049
Movements in year:			
Purchases at cost	37,655	21,599	59,254
Sales – proceeds	(48,621)	–	(48,621)
– gains on sales	16,932	–	16,932
Amortisation of fixed interest book cost	–	(80)	(80)
Changes in investment holding gains	(22,614)	6	(22,608)
Fair value of investments at 30 November 2011	110,401	21,525	131,926
Cost of investments at 30 November 2011	106,834	21,519	128,353
Investment holding gains at 30 November 2011	3,567	6	3,573
Fair value of investments at 30 November 2011	110,401	21,525	131,926

The purchases and sales proceeds figures above include transaction costs of £211,000 (2010 – £103,000) and £96,000 (2010 – £58,000) respectively.

	2011 £'000	2010 £'000
Net (losses)/gains on investments designated at fair value through profit or loss on initial recognition		
Gains/(losses) on sales	16,932	(2,276)
Changes in investment holding gains	(22,608)	26,999
	(5,676)	24,723

Of the gains on sales during the year of £16,932,000 (2010 – loss of £2,276,000), a net gain of £14,080,000 (2010 – loss of £1,485,000) was included in investment holding gains at the previous year end.

10 DEBTORS

	2011 £'000	2010 £'000
Amounts falling due within one year		
Sales for subsequent settlement	–	2,637
Income accrued	1,238	340
Prepayments	41	42
	1,279	3,019

11 CREDITORS

	2011 £'000	2010 £'000
Amounts falling due within one year		
Purchase of the Company's own shares for subsequent settlement	95	–
Other creditors and accruals	26	24
	121	24

12 CALLED UP SHARE CAPITAL

	2011 Number	2011 £'000	2010 Number	2010 £'000
Allotted, called up and fully paid ordinary shares of 25p each	61,050,000	15,262	61,260,000	15,315

During the year the Company bought back 210,000 (2010 – 1,045,000) ordinary shares of 25p each at a cost of £400,000 (2010 – £1,837,000). At 30 November 2011 the Company had authority remaining to buy back a further 8,972,874 ordinary shares.

Between 1 December 2011 and 27 January 2012 the Company bought back a further 450,000 ordinary shares (nominal value £112,500) for total consideration of £855,000.

13 RESERVES

	Special distributable reserve £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000
At 1 December 2010	31,763	1,217	77,141	2,969
Net gain on sales of investments	–	–	16,932	–
Changes in investment holding gains	–	–	(22,608)	–
Other exchange differences	–	–	(307)	–
Revenue return on ordinary activities in the year	–	–	–	4,024
Shares bought back for cancellation	(400)	53	–	–
Dividends paid in the year	–	–	–	(3,063)
At 30 November 2011	31,363	1,270	71,158	3,930

The capital reserve balance at 30 November 2011 included an investment holding gain of £3,573,000 (2010 – gain of £26,181,000) 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

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:

	2011 Pence	2011 £'000	2010 Pence	2010 £'000
Ordinary shares	226.4	138,225	234.5	143,647

The net asset value per share is based on net assets as shown above and on 61,050,000 shares (2010 – 61,260,000), 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

	2011 £'000	2010 £'000
Net return before finance costs and taxation	(1,941)	29,067
Losses/(gains) on investments	5,676	(24,723)
Amortisation of fixed interest book cost	80	–
Currency losses/(gains)	307	(741)
(Increase)/decrease in accrued income	(898)	22
Decrease in debtors	1	–
Increase in creditors	2	–
Overseas tax	(18)	(61)
Net cash inflow from operating activities	3,209	3,564

16 ANALYSIS OF CHANGE IN NET FUNDS

	At 1 December 2010 £'000	Cash flows £'000	Exchange movement £'000	At 30 November 2011 £'000
Cash at bank and in hand	13,603	(8,462)	–	5,141

17 CONTINGENT LIABILITIES, GUARANTEES AND FINANCIAL COMMITMENTS

At 30 November 2011 the Company had an annual commitment of £35,000 (2010: £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 2011 the Company had no such borrowings or contracts.

18 FINANCIAL INSTRUMENTS (continued)

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 2011	Investments £'000	Cash and deposits £'000	Other debtors and creditors* £'000	Net exposure £'000
US dollar	23,788	66	54	23,908
Canadian dollar	1,266	–	–	1,266
Euro	1,429	–	–	1,429
Total exposure to currency risk	26,483	66	54	26,603
Sterling	105,443	5,075	1,104	111,622
	131,926	5,141	1,158	138,225

*includes net non-monetary assets of £41,000.

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.

Currency Risk Sensitivity

At 30 November 2011, if sterling had strengthened by 5% in relation to all currencies, 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 all currencies, 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 2010.

	2011 £'000	2010 £'000
US dollar	1,196	1,486
Canadian dollar	63	–
Euro	71	–
	1,330	1,486

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 into 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.

18 FINANCIAL INSTRUMENTS (continued)

The interest rate risk profile of the Company's financial assets at 30 November is shown below. The main change to the interest rate risk profile of the Company's financial assets during the year has been the purchase of the UK Gilt.

	2011 Fair value £'000	2011 Weighted average interest rate	2011 Weighted average period until maturity	2010 Fair value £'000	2010 Weighted average interest rate	2010 Weighted average period until maturity
Fixed rate						
UK bonds	21,525	5.25%	0.5 years	–	–	–

Financial Liabilities

The Company had no financial liabilities at 30 November 2011 (2010 – nil).

Interest Rate Risk Sensitivity

The weighted average interest rate on cash balances held at 30 November 2011 was 0.01% (2010 – 0.20%). An increase of 100 basis points in interest rates at 30 November 2011 would, over a full year, have decreased the net return on ordinary activities after taxation by £60,000 (2010 – increased by £136,000) and would have decreased the net asset value per share by 0.10p (2010 – increased by 0.22p). The calculations are based on the fixed interest investments and 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.

80% (2010 – 88%) of the Company's net assets are invested in equities. A 5% increase in quoted equity valuations at 30 November 2011 would have increased total assets and total return on ordinary activities by £5,520,000 (2010 – £6,352,000). 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 exercise of 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:

	2011 £'000	2010 £'000
Fixed interest investments	21,525	–
Cash and short term deposits	5,141	13,603
Debtors	1,238	2,977
	27,904	16,580

The maximum exposure in cash during the year was £19,591,000 (2010 – £24,252,000) and the minimum £2,873,000 (2010 – £6,105,000). 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 2011 (2010 – 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 32 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. All of the Company's investments as at 30 November 2010 were also classified as Level 1.

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 eleventh 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, 29 March 2012 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 2011 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 2011.
3. To declare a final dividend of 3.00p per ordinary share and a special dividend of 0.60p per ordinary share for the year to 30 November 2011.
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 auditor 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 auditor 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 9,083,940 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 2012, 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

17 February 2012

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 auditor) setting out any matter relating to the audit of the Company's accounts, including the auditor's 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 27 January 2012 (being the last practicable day prior to the publication of this notice) the Company's issued share capital consisted of 60,600,000 ordinary shares, carrying one vote each. Therefore, the total voting rights in the Company as at 27 January 2012 were 60,600,000 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
17 Dublin Street
Edinburgh EH1 3PG
Telephone: 0131 558 9434
Fax: 0131 558 8602
website: http://www.independentinvestmenttrust.co.uk

SECRETARIES AND REGISTERED OFFICE
Baillie Gifford & Co
Calton Square
1 Greenside Row
Edinburgh EH1 3AN
Telephone: 0131 275 2000
website: http://www.bailliegifford.com

REGISTRARS
Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol BS99 6ZZ
Telephone: 0870 707 1072

INDEPENDENT AUDITOR
Ernst & Young LLP
1 More London Place
London SE1 2AF

SOLICITORS
Dickson Minto W.S.
16 Charlotte Square
Edinburgh EH2 4DF

Company Registration No. SC210685