

For immediate release

7 April 2011

## THE MERCHANTS TRUST PLC

Final Results for the year ended 31 January 2011

The following comprises extracts from the Company's Annual Financial Report for the year ended 31 January 2011. The full Annual Financial Report is available to be viewed on or downloaded from the company's website at [www.merchantstrust.co.uk](http://www.merchantstrust.co.uk). Copies will be posted to shareholders shortly.

### MANAGEMENT REPORT

#### **Chairman's Statement**

##### **Market Background**

This is my first report to you as Chairman of The Merchants Trust PLC and I am pleased to report that we have performed well, with our total return exceeding 20% and our share price rising more than 23%. Global uncertainties continued to build throughout the year. We first had the crisis in the Euro and in particular in Greece and Ireland requiring massive intervention from the ECB and the IMF. More recently we have had significant uncertainty building in the Middle East leading to Western intervention in Libya. And of course we have had the tragic East Japan earthquake followed by the devastating tsunami and the huge risks of a nuclear meltdown at the Fukushima plant. In the UK we have had a change of Government and the introduction of a significant fiscal austerity programme designed to bring the deficit under control. At the same time we have seen a meaningful pick-up in inflationary pressures on the back of the dramatic rise in oil and other commodity prices. Against this uncertain backdrop, the UK equity market has recovered further ground and made up much of the loss suffered since the start of the financial crisis in 2007. Merchants performed well in both absolute and relative terms as well as compared to most of our peers, helped by strong stock-selection in a number of mid-cap companies.

##### **Results**

The Net Asset Value per share increased by 14.6% to 427.1p and the total return per share, including dividends paid, was 20.7%. This compares with the total returns of 16.8% and 12.2% recorded by the FTSE 100 Index and the FTSE 350 Higher Yield Index, respectively. The full performance breakdown is shown on page 5 of the Annual Report. Over the year, the Trust's share price rose by 23.6% from 329.1p to 406.9p, having reached its highest level in the year of 425.0p on 6 January 2011. At 4 April 2011, the Trust's ordinary shares yielded 5.5% compared with the yield on the FTSE 100 Index of 3.0%. There is more detail on the major contributors to our performance in our Investment Manager's Review starting on page 6 of the Annual Report.

##### **Net Revenue Return per share**

Net Revenue Return per share rose by 12.2% to 21.22p. This year's earnings include a release of a provision of £862,086 against finance costs in First Debenture Finance PLC and there are details of this on page 38 of the Annual Report.

##### **Dividends**

The Board is recommending a final ordinary dividend of 5.7p per share, payable on 13 May 2011 to Shareholders on the register on 15 April 2011. This payment would give a total of 22.8p for the year, an increase of 1.3% over the total for the previous year. In order to meet the payment it has been necessary to transfer £1,632,522 (1.6p per share) from our reserves, compared to a transfer of £3,724,961 (3.6p per share) last year. As at 31 January 2011 and after providing for this transfer, the Trust's reserves amounted to £12,775,572 (12.3p per share). This will be our twenty-ninth year of

rising dividends. The Board and the Manager continue to remain focused on providing long-term steady income growth.

### **Derivatives**

As set out in the previous report, we have continued our policy of selectively writing call options on a limited number of the Trust's holdings. Writing options has provided helpful additional income in a period where revenues have been under pressure following the temporary suspension of BP's dividend. A more detailed explanation is set out in the Investment Manager's Review.

### **Stewardship Code**

During the year the Stewardship Code was signed up to by our Manager, RCM (UK), and we report on this on page 24 of the Annual Report.

### **Gearing**

The Trust continues to have long-term debt amounting to £111 million. This is all deployed in the market for investment purposes. At the end of the year our gearing level was 25.2% compared to 29.5% at the start of the year.

### **The Board**

At last year's AGM Lord Sassoon took on the Chairmanship of the Trust following Sir Hugh Stevenson's retirement. Hugh had been Chairman of the Trust for 10 years. Following the General Election James was asked by the new coalition Government to become Treasury Secretary and a member of the House of Lords. As a result James was obliged to stand-down from all his commercial responsibilities including the Board of Merchants. I would like to thank Hugh and James very much for their significant contribution to Merchants over many years. Dick Barfield has announced his retirement as a Director which will take place at the conclusion of this year's Annual Meeting. We have benefited greatly from his in depth knowledge of the investment industry and good advice over his many years on the Board and he will be greatly missed. We have recently appointed Paul Yates as a Director and I am pleased he has joined the Board. His biography is included with those of the other directors on page 16 and we support his election to the Board.

### **Annual General Meeting**

The Annual General Meeting of the Company will be held on Tuesday 10 May 2011 at 12.00 noon and we look forward to seeing as many shareholders then as are able to attend.

### **Outlook**

The headlines will undoubtedly remain dominated by the huge uncertainties outlined in my introductory remarks. However, underlying economic activity is still robust in much of the world and the corporate sector is financially strong. A carefully selected portfolio of UK companies with globally diversified business models combined with a focus on strong and rising dividend income should continue to weather the storms well. Merchants will remain committed to long-term growth in capital and income.

Simon Fraser  
Chairman  
7 April 2011

### **Principal Risks and Uncertainties**

With the assistance of the Manager the Board has drawn up a risk matrix which identifies the key risks to the Company. These key risks fall broadly under the following categories:

- Investment Activity and Strategy: An inappropriate investment strategy, e.g., asset allocation or the level of gearing, may lead to underperformance against the Company's benchmark index and peer

group companies, and also in the Company's shares trading on a wider discount. The Board manages these risks by diversification of investments through its investment restrictions and guidelines which are monitored and on which the Board receives reports. RCM (UK) Limited ("RCM") provides the Directors with management information including performance data and reports and shareholder analyses. The Board monitors the implementation and results of the investment process with the investment manager, who attends all board meetings, and reviews data which show risk factors and how they affect the portfolio. The Board reviews investment strategy at each board meeting.

- **Accounting, Legal and Regulatory:** In order to qualify as an investment trust the Company must comply with Section 1158 of the Corporation Tax Act 2010 ("Section 1158. A breach of Section 1158 could result in the Company losing investment trust status and, as a consequence, gains in the Company's portfolio would be subject to Corporation Tax. The Section 1158 criteria are monitored by RCM and results are reported to the Board at each Board Meeting. The Company must comply with the provisions of the Companies Act 2006 ("Companies Act"), and, as the Company's shares are listed on the London Stock Exchange, the Company must comply with the UK Listing Authority's Listing Rules and Disclosure and Transparency Rules ("UKLA Rules"). A breach of the Companies Act could result in the Company and/or the Directors being fined or becoming the subject of criminal proceedings. Breach of the UKLA Rules could result in the suspension of the Company's shares which would in turn lead to a breach of Section 1158. The Board relies on its company secretary and seeks advice from professional advisers to ensure compliance with the Companies Act and UKLA Rules.
- **Corporate Governance and Shareholder Relations:** Shareholder discontent could arise if there is weak adherence to best practice in corporate governance and which could result in potential reputational damage to the Company. The Board receives reports on shareholder activity and on shareholder sentiment on a regular basis and contact is maintained with major shareholders. Details of the Company's compliance with Corporate Governance best practice, including information on relations with shareholders, are set out in the Corporate Governance Statement on pages 21 to 25 of the Annual Report.
- **Operational:** Disruption to, or failure of, RCM's accounting, dealing or payment systems or the custodian's records may prevent accurate reporting and monitoring of the Company's financial position. RCM has contracted operational functions, principally relating to trade processing and investment administration, to The Bank of New York Mellon – London Branch. Details of how the Board monitors the services provided by RCM and other suppliers and the key elements designed to provide effective internal control are included within the Internal Control section of the Corporate Governance Statement on pages 23 and 24 of the Annual Report.
- **Financial:** The financial risks associated with the Company include market risk (price and yield), interest rate risk, liquidity risk and credit risk. Further analysis of these risks can be found in Note 17 on pages 44 to 49 of the Annual Report.

### **Statement of Directors' Responsibilities**

The Annual Financial Report contains a responsibility statement in the following form:

The Directors at the date of approval of this Report, each confirm to the best of their knowledge that:

- 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

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- the Annual Financial Report includes a fair review of the development and performance of the Company and the position of the company, together with a description of the principal risks and uncertainties that it faces.

For and on behalf of the Board of Directors

Simon Fraser  
Chairman

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**LISTED HOLDINGS as at 31 January 2011**

**Equities**

<b>Name</b>	<b>Value (£)</b>	<b>Principal Activities</b>
Royal Dutch Shell 'B' Shares	45,531,043	Oil & Gas Producers
HSBC	40,711,219	Banks
GlaxoSmithKline	35,423,615	Pharmaceuticals &
BP	32,469,320	Oil & Gas Producers
Vodafone	29,464,862	Mobile Telecommunications
Unilever	20,146,500	Food Producers
BAE Systems	20,058,088	Aerospace & Defence
Scottish & Southern Energy	19,760,950	Electricity
BHP Billiton	18,254,600	Mining
British American Tobacco	18,077,885	Tobacco
National Grid	16,692,480	Gas, Water & Multiutilities
Aviva	15,051,800	Life Insurance
AstraZeneca	15,047,527	Pharmaceuticals &
Reed Elsevier	13,516,581	Media
Resolution	13,363,197	Life Insurance
BT Group	10,995,826	Fixed Line Telecommunications
Compass Group	10,545,000	Travel & Leisure
Imperial Tobacco	8,558,400	Tobacco
United Business Media	8,441,025	Media
Reckitt Benckiser	8,312,850	Household Goods & Home
Man Group	8,083,927	General Financial
Hammerson	7,918,740	Real Estate Investment Trust
Daily Mail & General Trust	7,777,050	Media
Meggitt	7,409,229	Aerospace & Defence
Balfour Beatty	7,385,984	Construction & Materials
Premier Farnell	6,728,000	Support Services
Hays	6,599,950	Support Services
Barclays	6,521,250	Banks
Bunzl	6,498,000	Support Services
Inmarsat	5,974,429	Mobile Telecommunications
IG Group	5,725,276	General Financial
Cobham	5,670,000	Aerospace & Defence
British Land	5,594,400	Real Estate Investment Trust
Britvic	4,892,432	Beverages
Tesco	4,832,400	Food & Drug Retailers
Catlin Group	4,733,440	Non-life Insurance
WPP	4,669,295	Media
British Insurance	4,572,742	Non-life Insurance
Greene King	4,008,600	Travel & Leisure
Melrose	3,602,406	Industrial Engineering
Interserve	3,512,688	Support Services
Centrica	3,457,681	Gas, Water & Multiutilities
Lloyds Banking Group	3,171,636	Banks
Legal & General	2,985,900	Life Insurance
Home Retail	2,969,931	General Retailers
Hiscox	2,821,500	Non-life Insurance
Ashmore	2,650,164	General Financial
Pendragon	1,022,233	General Retailers
<b>Total</b>	<b>543,212,051</b>	

**Written Call Options\***

<b>Name</b>	<b>Value (£)</b>
GlaxoSmithKline Mar 2011 1350	(800)
British American Tobacco Feb 2011 2500	(1,150)
Compass Group Mar 2011 640	(1,875)
WPP Mar 2011 840	(7,647)
HSBC Apr 2011 760	(16,000)
Scottish & Southern Energy Mar 2011	(25,300)
Vodafone Apr 2011 190	(37,500)
Royal Dutch Shell Mar 2011 2200	(43,875)
Aviva Feb 2011 410	(173,750)
<b>Total</b>	<b>(307,947)</b>

\* Valued in accordance with Note 5 of the Accounting Policies on page 35 of the Annual report.

**INCOME STATEMENT**  
for the year ended 31 January 2011

	Revenue Return £	Capital Return £	Total Return £
			<b>(Note C)</b>
Net gains on investments at fair value	-	63,626,410	63,626,410
Income	25,740,859	-	25,740,859
Investment management fee	(634,796)	(1,178,909)	(1,813,705)
Investment management fee VAT refund	-	-	-
Administration expenses	(714,775)	(3,442)	(718,217)
<b>Net return before finance costs and taxation</b>	<b>24,391,288</b>	<b>62,444,059</b>	<b>86,835,347</b>
Finance costs: interest payable and similar charges	(2,491,142)	(4,815,949)	(7,307,091)
<b>Net return on ordinary activities before taxation</b>	<b>21,900,146</b>	<b>57,628,110</b>	<b>79,528,256</b>
Taxation	-	-	-
<b>Net return on ordinary activities attributable to Ordinary Shareholders</b>	<b>21,900,146</b>	<b>57,628,110</b>	<b>79,528,256</b>
<b>Return per Ordinary Share (basic and diluted) (Note B)</b>	<b>21.22p</b>	<b>55.83p</b>	<b>77.05p</b>

**BALANCE SHEET**  
as at 31 January 2011

	2011 £	2011 £
<b>Fixed Assets</b>		
Investments held at fair value through profit or loss		543,239,476
<b>Current Assets</b>		
Derivative financial instruments	-	
Debtors	2,034,330	
Cash at bank	9,257,041	
	<b>11,291,371</b>	
<b>Creditors – Amounts falling due within one year</b>	<b>(2,191,610)</b>	
Derivative financial instruments	(307,947)	
	<b>(2,499,557)</b>	
<b>Net Current Assets</b>		<b>8,791,814</b>
<b>Total Assets Less Current Liabilities</b>		<b>552,031,290</b>
<b>Creditors – Amounts falling due after more than one year</b>		<b>(111,185,274)</b>
<b>Total Net Assets</b>		<b>440,846,016</b>
<b>Capital and Reserves</b>		
Called up Share Capital		25,803,366
Share Premium Account		8,523,195
Capital Redemption Reserve		292,853
Capital Reserve		381,684,696
Revenue Reserve		24,541,906
<b>Equity Shareholders' Funds</b>		<b>440,846,016</b>
<b>Net Asset Value per Ordinary Share</b>		<b>427.1p</b>

**INCOME STATEMENT**  
for the year ended 31 January 2010

	Revenue Return £	Capital Return £	Total Return £
			<b>(Note C)</b>
Net losses on investments at fair value	-	79,416,688	79,416,688
Income	23,686,655	-	23,686,655
Investment management fee	(560,552)	(1,041,025)	(1,601,577)
Investment management fee VAT refund	416,080	772,720	1,188,800
Administration expenses	(659,180)	(3,915)	(663,095)
<b>Net return before finance costs and taxation</b>	<b>22,883,003</b>	<b>79,144,468</b>	<b>102,027,471</b>
Finance costs: interest payable and similar charges	(3,384,935)	(6,206,422)	(9,591,357)
<b>Net return on ordinary activities before taxation</b>	<b>19,498,068</b>	<b>72,938,046</b>	<b>92,436,114</b>
Taxation	-	-	-
<b>Net return on ordinary activities attributable to Ordinary Shareholders</b>	<b>19,498,068</b>	<b>72,938,046</b>	<b>92,436,114</b>
<b>Return per Ordinary Share (basic and diluted) (Note B)</b>	<b>18.91p</b>	<b>70.73p</b>	<b>89.64p</b>

**BALANCE SHEET**  
as at 31 January 2010

	2010 £	2010 £
<b>Fixed Assets</b>		
Investments held at fair value through profit or loss		488,314,516
<b>Current Assets</b>		
Derivative financial instruments	83,125	
Debtors	3,681,322	
Cash at bank	8,911,182	
	<b>12,675,629</b>	
<b>Creditors – Amounts falling due within one year</b>	<b>(2,682,809)</b>	
Derivative financial instruments	(101,850)	
	<b>(2,784,659)</b>	
<b>Net Current Assets</b>		<b>9,890,970</b>
<b>Total Assets Less Current Liabilities</b>		<b>498,205,486</b>
<b>Creditors – Amounts falling due after more than one year</b>		<b>(113,458,272)</b>
<b>Total Net Assets</b>		<b>384,747,214</b>
<b>Capital and Reserves</b>		
Called up Share Capital		25,803,366
Share Premium Account		8,523,195
Capital Redemption Reserve		292,853
Capital Reserve		324,056,586
Revenue Reserve		26,071,214
<b>Equity Shareholders' Funds</b>		<b>384,747,214</b>
<b>Net Asset Value per Ordinary Share</b>		<b>372.8p</b>

## RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

For the year ended 31 January 2011

	Called up Share Capital £	Share Premium Account £	Capital Redemption Reserve £	Capital Reserve £	Revenue Reserve £	Total £
Net Assets at 31 January 2009	25,703,366	7,527,047	292,853	251,118,540	30,162,230	314,804,036
Revenue Return	-	-	-	-	19,498,068	19,498,068
Dividends on Ordinary Shares	-	-	-	-	(23,589,084)	(23,589,084)
Capital Return	-	-	-	72,938,046	-	72,938,046
Ordinary Shares issued during the year	100,000	1,016,000	-	-	-	1,116,000
Transaction costs on Ordinary Shares issued	-	(19,852)	-	-	-	(19,852)
Net Assets at 31 January 2010	<b>25,803,366</b>	<b>8,523,195</b>	<b>292,853</b>	<b>324,056,586</b>	<b>26,071,214</b>	<b>384,747,214</b>
Net Assets at 31 January 2010	25,803,366	8,523,195	292,853	324,056,586	26,071,214	384,747,214
Revenue Return	-	-	-	-	21,900,146	21,900,146
Dividends on Ordinary Shares	-	-	-	-	(23,429,454)	(23,429,454)
Capital Return	-	-	-	57,628,110	-	57,628,110
Net Assets at 31 January 2011	<b>25,803,366</b>	<b>8,523,195</b>	<b>292,853</b>	<b>381,684,696</b>	<b>24,541,906</b>	<b>440,846,016</b>

**CASH FLOW STATEMENT**

For the year ended 31 January 2011

	2011 £	2011 £	2010 £
<b>Net cash inflow from operating activities</b>		<b>22,695,223</b>	<b>25,230,795</b>
<b>Returns on investment and servicing of finance</b>			
Interest paid	(9,537,094)		(9,563,178)
Dividends on Cumulative Preference Stock	(21,498)		(42,997)
<b>Net cash outflow from servicing of finance</b>		<b>(9,558,592)</b>	<b>(9,606,175)</b>
<b>Capital expenditure and financial investment</b>			
Purchase of investments	(131,542,358)		(112,115,497)
Sale of investments	142,181,040		113,383,975
<b>Net cash inflow from capital expenditure and financial investment</b>		<b>10,638,682</b>	<b>1,268,478</b>
Dividends paid on Ordinary Shares		(23,429,454)	(23,589,084)
<b>Net cash inflow (outflow) before financing</b>		<b>345,859</b>	<b>(6,695,986)</b>
<b>Financing</b>			
Proceeds from issue of Ordinary Shares			1,116,000
Transaction costs on Ordinary Shares issued			(19,852)
<b>Net cash inflow from financing</b>			<b>1,096,148</b>
<b>Increase (decrease) in cash</b>		<b>345,859</b>	<b>(5,599,838)</b>

Notes

Note A

The financial statements have been prepared on the historical cost basis, except for the measurement at fair value of investments and derivative financial instruments, and in accordance with the United Kingdom Law and United Kingdom Generally Accepted Accounting Practice (UK GAAP) and the Statement of Recommended Practice – 'Financial Statements of Investment Trust Companies' and Venture Capital Trusts (SORP) issued in January 2009 by the Association of Investment Companies.

Note B

The Returns per Ordinary Share have been calculated using a weighted average number of shares in issue of 103,213,464 (2010 – 103,213,464 shares).

Note C

The total return column of this statement is the profit and loss account of the Company. The supplementary revenue return and capital return columns are both prepared under the guidance published by the Association of Investment Companies.

All revenue and capital items derive from continuing operations. No operations were acquired or discontinued in 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 Income Statement.

Note D

Valuation – As the Company's business is investing in financial assets with a view to profiting from their total return in the form of increases in fair value, financial assets are designated as held at fair value through profit or loss in accordance with FRS 26 'Financial Instruments: Recognition and Measurement'. The Company manages and evaluates the performance of these investments on a fair value basis in accordance with its investment strategy, and information about the investments is provided on this basis to the Board of Directors.

Investments are initially recognised at fair value. After initial recognition, these continue to be measured at fair value, which for quoted investments is either the bid or last traded price depending on the convention of the exchange on which the investment is listed.

Gains or losses on investments are recognised in the capital column of the Income Statement. Purchases and sales of financial assets are recognised in the trade date, being the date on which the Company commits to purchase or sell the assets.

Included in the cost of investments are transaction costs and stamp duty on purchases which amounted to £773,955 (2010 – £647,513). Transaction costs on sales amounted to £154,872 (2010 – £144,771).

Note E

	2011 £	2010 £
<b>Dividends on Ordinary Shares of 25p:</b>		
Third interim dividend 5.6p paid 19 February 2010 (2009 – 5.6p)	5,779,954	5,757,554
Final dividend 5.7p paid 14 May 2010 (2009 – 5.6p)	5,883,166	5,757,554
Special dividend nil (2009 – 0.5p)	-	514,068
First interim dividend 5.7p paid 20 August 2010 (2009 – 5.6p)	5,883,167	5,779,954
Second interim dividend 5.7p paid 11 November 2010 (2009 – 5.6p)	5,883,167	5,779,954
	<u>23,429,454</u>	<u>23,589,084</u>

Dividends payable at the year end are not recognised as a liability under FRS 21 'Events After Balance Sheet Date' (see Annual Financial Report – Statement of Accounting Policies). Details of these dividends are set out below.

	2011 £	2010 £
Third interim dividend 5.7p paid 18 February 2011 (2010 – 5.6p)	5,883,167	5,779,954
Final proposed dividend 5.7p payable 13 May 2011 (2010 – 5.7p)	5,883,167	5,883,167
	<u>11,766,334</u>	<u>11,663,121</u>

The proposed final dividend is based on the number of shares in issue at the year end. However, the dividend payable will be based on the numbers of shares in issue on the record date and will reflect any purchases and cancellations of shares by the Company settled subsequent to the year end.

Note F

The financial information for the year ended 31 January 2011 has been extracted from the statutory accounts for that year. The auditor's report on these accounts was unqualified and did not contain a statement under either Section 498(2) or (3) of the Companies Act 2006. The Annual Financial Report has not yet been delivered to the Registrar of Companies.

The financial information for the year ended 31 January 2010 has been extracted from the statutory accounts for that year which have been delivered to the Registrar of Companies. The auditor's report on these accounts was unqualified and did not contain a statement under either Section 498(2) or (3) of the Companies Act 2006.