SC7058

Scottish Mortgage Investment Trust PLC

Your low cost choice for global investment

Annual Report and Accounts
31 March 2007

Contents

Scottish Mortgage Investment Trust PLC is a low cost investment trust that aims to maximise total returns from a focused and actively managed portfolio. It invests globally, looking for strong businesses with above-average returns.

Benchmark

The portfolio benchmark against which performance is measured is 50% FTSE All Share Index and 50% FTSE World Ex UK Index (in sterling terms)

From 1 April 2007 the benchmark will be changed to 100% FTSE All World Index (in sterling terms)

Notes

None of the views expressed in this document should be construed as advice to buy or sell a particular investment

Investment trusts are UK public listed companies and as such comply with requirements of the UK Listing Authority They are not authorised or regulated by the Financial Services Authority

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION If you are in any doubt as to the action you should take you should consult your stockbroker, bank manager, solicitor, accountant or other independent financial advisor authorised under the Financial Services and Markets Act 2000 immediately

If you have sold or otherwise transferred all of your ordinary shares in Scottish Mortgage Investment Trust PLC, please forward this document and the accompanying form of proxy as soon as possible to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was or is being effected for delivery to the purchaser or transferee

Message from the Chairman

During a year when the share price reached an all time high, exposure to UK listed companies was reduced from 33 to 18 as part of the move to a truly global approach This approach, adopted over the past four years, has been embraced enthusiastically by the Board and the Managers The Benchmark now changes to a more global one The total number of holdings is now likely to stay at around 75 and the Managers will continue to focus on individual companies rather than allocating funds regionally They will also continue to take a long term view with an intended average holding period for individual investments of 5 years or more Performance over the four years has been good in both absolute and relative terms the share price is up 131% while the benchmark rose by 78% The longer term performance is illustrated by the graphs overleaf

Financial Highlights – Year to 31 March 2007

Share Price +3 9%

NAV +3 9%

Benchmark* +3 9%

Share Price (pence)

NAV and Benchmark
(rebased to 100 at 31 March 2006)

Discount

* Benchmark 50% FTSE All Share Index and 50% FTSE World Ex UK Index (in sterling terms)
Source Thomson Financial Datastream/Baillie Gifford & Co
Past performance is no guarantee of future performance

One Year Summary

	31 March 2007	31 March 2006	% change
Total assets (before deduction of debentures, long and short term borrowings)	£2,045 5m	£1,985 2m	
Loans and debentures	£275 6m	£231 8m	
Equity shareholders' funds	£1,769 9m	£1,753 4m	
Net asset value per ordinary share (after deducting borrowings at fair value)*	607 1p	584 1p	3 9
Net asset value per ordinary share (after deducting borrowings at par)*	631 0p	610 9p	3 3
Share price†	542 0p	521 5p	3 9
Benchmark			3 9
FTSE All Share Index	3,283 2	3,048 0	7 7
FTSE World Ex UK Index (in sterling terms)	319 7	319 3	0 1
FTSE All World Index (in sterling terms)	184 3	182 5	1 0
Dividends paid and proposed per ordinary share	9 50p	8 50p	11 8
Earnings per ordinary share	9 80p	8 82p	11 1
Total expense ratio	0 49%	0 52%	
Discount (after deducting borrowings at fair value)	10 7%	10 7%	

	Year to 31 March 2007		Year to 31 March 2006	
Year's high and low	High	Low	High	Low
Share price	551 0p	432 0p	521 5p	321 3p
Net asset value per share (after deducting borrowings at fair value)	614 3p	489 9p	584 1p	376 2p
Net asset value per share (after deducting borrowings at par)	638 7p	515 4p	610 9p	401 0p
Discount (after deducting borrowings at fair value)	7 9%	13 2%	8 6%	16 5%
Average sector discount (AIC Global Growth Sector)	7 1%	8 9%	7 4%	11 7%

	31 March 2007	31 March 2006
Total return per ordinary share		
Revenue	9 80p	8 82p
Capital	17 19p	185 58p
Total	**26 99p**	**194 40p**

* Borrowings are either deducted at fair value (the estimate of market worth) or at par (redemption value)
As total borrowings have a current fair value above par the effect of valuing the borrowings at fair value reduces both the NAV and resultant discount
† At mid market price

Past performance is no guarantee of future performance

Five Year Summary

The following charts indicate how Scottish Mortgage has performed relative to its benchmark, its underlying net asset value and the retail price index over the five year period to 31 March 2007

5 Year Total Return Performance
(figures rebased to 100 at 31 March 2002)

Dividend and RPI Growth
(cumulative from 31 March 2002)
(figures rebased to 100 at 31 March 2002)

Annual Net Asset Value and Share Price Total Returns
(compared to benchmark total return)

Discount to Net Asset Value
(plotted on a monthly basis)

Past performance is no guarantee of future performance

Chairman's Statement

The share price, net asset value per share and the benchmark (50% FTSE All Share and 50% FTSE World Ex UK in sterling terms) all rose by 3 9% this year Four years ago we initiated an integrated global approach and chose to ignore the make up of the index when selecting investments Over this period the share price has risen by 131 1% and net asset value per share by 126.5%, both outstripping a 77 9% increase in the benchmark

The Portfolio

As well as taking a global not a regional view, over the past four years the Managers, encouraged by the Board, have invested with the courage of their long term convictions and the number of equity holdings has fallen from 129 to 75 As demonstrated by the four year figures, this approach has paid off handsomely and it will be continued into the future

There has been an emphasis on companies with the most convincing long term investment case with, notably, the number of UK listed investments falling from 33 to 18 This process of concentration is largely complete and the total number of equity holdings is likely to settle at the current level of around 75 Scottish Mortgage is now truly global in its span Exposure to a diverse range of businesses and geographies is achieved though both international and domestic investments

As announced at the interim stage, the composite UK/World benchmark will be replaced, as of 1 April 2007, by the more broadly based FTSE All World Index in sterling terms This reflects both the global nature of the portfolio and the fact that the place where a company is listed is not necessarily where it actually earns its profits The benchmark is a reference point for judging performance and emphatically is not a portfolio construction tool The portfolio does not set out to reproduce the index, there will be periods when performance is below as well as above the benchmark That said, I am very conscious that over long periods of time shareholders require returns that surpass the benchmark index

While markets rose overall there were sharp falls, fuelled by concerns about the future rate of global economic growth, in May and June 2006 and also in February 2007 These represented corrections to a broadly rising trend and were recouped I was impressed that the Managers maintained their positive stance towards equities during these bouts of nervousness, taking the opportunity to increase some holdings and introduce others while share prices were weak

I urge you to read the Managers' very interesting and thought provoking commentary on the investments which is on pages 8 to 10 of this report It includes comment on some of the new holdings as well as those which have served us well over the year As always, there were investments which did not work and were sold An interview with the Manager can be found on Baillie Gifford's website at **www bailliegifford com** under the Scottish Mortgage section (Details of how to receive this report electronically are shown on page 45)

The rate at which holdings were bought and sold (the portfolio turnover rate) has been low, at 34%, despite the sales of the UK listed shares referred to earlier We expect the turnover to stabilise at around 20%, or lower, which represents an average holding period for investments of five years or more Patient investment is something which I applaud The trap of making too many market timing calls is alluring but very dangerous

Dividend and Earnings

Earnings per share were 9 8p compared to 8 8p last year, an increase of 11 1% A final dividend of 5 0p is recommended If approved, this will bring the total to 9 5p, an 11 8% increase on last year and higher than the inflation rate of 4 8% as measured by the Retail Price Index Traditionally the UK market has had a higher yield than most overseas markets but we do now expect good levels of dividend growth from our overseas holdings We have a healthy level of revenue reserves which are available to underpin our intention that dividends will increase above the rate of inflation I believe that a steadily growing dividend stream which exceeds inflation is something that shareholders expect

Discount, Marketing and Buybacks

The Board also views clear and effective communication with shareholders as extremely important The Managers are making considerable efforts to attract new shareholders During the year a range of new Scottish Mortgage materials were introduced for the Company's various savings plans Other marketing and communications initiatives were also carried out with intermediary and institutional shareholders I was pleased when Baillie Gifford and Co was awarded the coveted Investment Week award in 2006 for the fourth time in five years, a considerable achievement

Nevertheless, it still remains a source of great frustration to the Board that the discount has not narrowed over the period and strenuous efforts to stimulate long term demand will continue Investment trusts such as Scottish Mortgage, with their low cost base, global reach and first rate long term track record, are, in your Board's view, ideal vehicles for long term investors whether they be individuals, advisers or institutions I see the premise as simple over times of overall global economic growth equity investment is likely to prove more rewarding than lending money to banks, companies or governments Funds managed by experienced global players, such as Baillie Gifford, are likely to perform better than stockmarket indices

Word of mouth is often the best recommendation and details of the Managers' various marketing initiatives and savings plans are given on the inside back cover I must emphasise that this does not constitute advice or a recommendation as each investor has to have regard for his/her particular circumstances Shares and markets rise and fall If you need advice you should contact an experienced and reputable stockbroker or adviser

During the year a total of around 6 6m shares were bought back at a cost of about £34m enhancing net asset value per share by 0 3% The Board is again seeking powers at the AGM to hold any shares which are bought back in treasury Subsequent re-issue will only be made at a premium, ensuring that the interests of shareholders will not be diluted

Balance Sheet

The level of borrowings was increased during the year by a further £50 million As well as the outstanding debenture stocks (valued at market at £213 0m at the year end) there are also 3 fixed term bank loans which run to various dates up to 2009 totalling £123 7m These are denominated in Yen (£ equivalent 59 3m), Euros (£ equivalent 49 6m) and Swiss Francs (£ equivalent 14 8m) Full details of all borrowings are given on pages 39 and 44

Borrowing to invest in stockmarkets, while not without risk, is a very useful way of boosting returns During the year advantage was taken of weak equity markets to deploy additional gearing Equity gearing at the year end stood at a relatively modest 10% of shareholders' funds while the potential gearing position was 16% This level of gearing is indicative of the Manager's view that long term investment opportunities can be found under current market conditions

Scottish Mortgage has an Aaa Issuer Rating from Moody's, the highest possible rating

AGM

The AGM will be held on Wednesday 27 June in Edinburgh Details are given on pages 47 and 48 I hope you will come, meet the Board and listen to a presentation from the Manager

Outlook

Inflation appears to be rising in some economies and rates of growth and levels of profitability overall are, generally, historically high There is uncertainty about the direction of US interest rates and many expect to see growth rates slow this year However, the strong growth trends being experienced in China, India, Russia and many other developing countries are likely to be at an early stage As these countries move towards having market based economies, where the deployment of personal and corporate capital are the primary drivers, they will have even more influence in political as well as economic terms As ever, there will be unexpected squalls and storms on the way but the Managers continue to identify promising long term opportunities at company level

Donald MacKay

Sir Donald MacKay
15 May 2007

Directors and Managers

Members of the Board come from a broad variety of backgrounds. The Board can draw on a very extensive pool of knowledge and experience. Baillie Gifford & Co, a leading UK investment management firm, who act as Managers and Secretaries to the Company have done so since its formation in 1909.

Directors

1 Sir Donald MacKay

Sir Donald MacKay, the Chairman, is an economist with an extensive record in advising governments, organisations and companies Sir Donald is 70 and was appointed a Director in 1999 and became Chairman in 2003 He is also Chairman of the Nomination Committee He was Professor of Political Economy at Aberdeen University and Professor of Economics at Heriot Watt University He is a former chairman of The Malcolm Group PLC and Scottish Enterprise and is currently a director of Edinburgh New Income Trust plc

2 GA Ball

Geoffrey Ball, the senior independent director, is a long standing director who also has considerable industrial experience in the house building sector Geoffrey is 63 and was appointed a Director in 1983 He is executive chairman of Cala Group Ltd, having led the management buy out in 1999 He was appointed Chairman of McCarthey and Stone on 2 February 2007 He was president of the House Builders Federation of England and Wales from 2001 to 2003 and he was a director of The Standard Life Assurance Company for 13 years until 2001

3 MM Gray

Michael Gray is 59 and joined the Board in 2004 after a successful career in printing and technology industries where he gained valuable global business experience As chairman and chief executive he led the growth of McQueen International over a 17 year period as it evolved from being a printing company into a global enterprise providing a range of support services to technology companies On McQueen's acquisition, he became senior vice president of Sykes Enterprises Inc , a global NASDAQ quoted outsourcing services company He retired from Sykes in 1999 and currently has many business, community, charity and sporting interests and responsibilities including being a member of the Advisory Board of the Scottish Institute of Sport Foundation He is a former director of Scottish Enterprise and the Scottish Community Foundation

4 WG McQueen

Gordon McQueen, the Chairman of the Audit Committee, brings to the Board first class financial and banking expertise Gordon is 60 and was appointed a Director in 2001 He was an executive director of HBOS plc, Bank of Scotland and Halifax plc, where his main role was chief executive, Treasury He is a director of Alliance Trust PLC, JP Morgan Mid Cap Investment Trust plc and Shaftesbury PLC

5 JPHS Scott

John Scott is a former international investment banker who maintains a number of interests in the investment trust sector John is 54 and was appointed a Director in 2001 He is a former executive director of Lazard Brothers & Co , Limited During his twenty years with Lazard, he was involved with the merchant bank's corporate advisory activities and its Asian businesses He is currently a director of various companies, including Martin Currie Pacific Trust plc, JP Morgan Claverhouse Investment Trust plc, Xaar plc, Miller Insurance Services and Schroder Japan Growth Fund plc In addition, he is chairman of Dunedin Income Growth Investment Trust PLC and Endace Limited

6 Lord Strathclyde

Thomas Strathclyde, currently Leader of the Opposition in the House of Lords, has considerable political experience Tom is 47 and was appointed a Director in 2004 His parliamentary career to date includes extensive ministerial experience at the Departments of Employment, the Environment, Trade and Industry and the Scottish Office Prior to entering politics in 1988 as a Government Whip, Lord Strathclyde worked in the City for the insurance brokers, Bain Dawes Lord Strathclyde is also chairman of London based hedge fund manager Trafalgar Capital Management and a director of Galena Capital Management Limited and Marketform Limited He is also the president of the Quoted Companies Alliance

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4 5 6

Managers and Secretaries

Scottish Mortgage is managed by Baillie Gifford & Co, an investment management firm formed in 1927 out of the legal firm Baillie & Gifford, WS, which had been Managers and Secretaries to the Company since its formation in 1909

Baillie Gifford & Co are one of the largest investment trust managers in the UK and currently manage eight investment trusts Baillie Gifford also manage unit trusts and open ended investment companies, together with investment portfolios on behalf of pension funds, charities and other institutional clients, both in the UK and overseas Funds under the management or advice of Baillie Gifford total over £50 billion Based in Edinburgh, it is one of the leading privately owned investment management firms in the UK, with 30 partners and a staff of around 500

The manager of Scottish Mortgage's portfolio is James Anderson, a partner of Baillie Gifford where he is Chief Investment Officer and Head of the Global Team He is ultimately responsible for stock selection and works closely with the other Heads of the Investment Departments

The firm of Baillie Gifford & Co are authorised and regulated by the Financial Services Authority

Management Details

Baillie Gifford & Co are appointed as investment managers and secretaries to the Company The management contract can be terminated at 12 months' notice

Management Fee

Baillie Gifford & Co's annual remuneration is 0 32% of total assets less current liabilities (excluding short term borrowings for investment purposes), calculated and payable on a quarterly basis

Managers' Review

The outcome for the year was positive with the NAV, share price and benchmark all rising 3 9% However, it has been a year during which months of steady equity market progress have twice been interrupted by short but violent outbreaks of turbulence In May and June of 2006 the damage took several months to repair but thus far the falls of late February and early March have proved easier to overcome Indeed, from our own point of view, this most recent outbreak of volatility has been fortuitous as it enabled us to press on with the next stage of our evolution towards a truly global and index insensitive portfolio

The chance to do this was accentuated by the strange way in which stock markets operate today In outbursts of turbulence the common practice amongst investment banks, hedge funds and the bulk of the investment management industry is to consult their risk models in rather the same way as many newspaper readers consult their horoscopes – and with similar levels of success What you should sell is determined by what has been volatile in the past even if the conditions that led to this past volatility are no longer present and despite the inevitable herding and cascading of actions that this provokes What this has tended to mean in recent years is that in periods of volatility emerging market stocks and industrial cyclicals are sold indiscriminately We think this presents opportunities if we are able to be both patient and moderately courageous We stress that we do not think that this makes our portfolio more risky, indeed we think it is less vulnerable to permanent loss of capital than those managed with avoidance of volatility in mind We have considerably more confidence in the economic development of our preferred Emerging markets and stocks over the next decade or two than we have in traditionally more secure sectors and stocks that cannot escape from the heavily indebted Anglo American consumer and the perhaps exaggerated profitability of the financial systems of much of the developed world

The changing nature of Emerging market investment

Over the last five years we have talked in generic terms about 'Emerging' markets This shrewd marketing phrase has become a useful shorthand for what may be the most important development in the world economy in the last two hundred years The increasing importance of China to global manufacturing and commodity demand, the challenge of Indian technology and service sector skills and the resource bases of Russia and Brazil are transforming the patterns of global growth From an investment point of view their importance may be even greater as they are disruptive factors that upset the fixed mind sets of many investors and the extrapolations of so many inflexible risk models This is an opportunity the like of which seldom occurs We feel that we have a great chance to exploit these radical changes as our Emerging market colleagues have great talent and experience and such splendidly forthright views that dangerous preconceptions are regularly challenged

What is becoming clear is that the value of the Emerging markets label is fast diminishing The specific attributes, roles and limitations of the individual countries, stock markets and corporate characteristics that make up this huge field are becoming increasingly critical as their power and influence spreads Ironically the more globalisation occurs, the greater the need to differentiate between Emerging markets Even the four giant empires of China, India, Russia and Brazil that are so frequently linked by investors have profoundly different virtues and drawbacks Still more critically they will have very divergent impacts on the development of the global economy To take a comparatively simple example the fate of many industries and of inflationary pressures throughout the world will be dominated by the race between Chinese domestic demand and Russian resource supply in the decades to come American (and British) policy makers will be virtually powerless to influence this balance

The imperative to think more specifically about the major developing economies is redoubled by the shift in growth prospects away from export and commodity strength towards the domestic consumer and the financial sector in so many emerging economies This requires more analysis of domestic economic management and prospects than has been the case in our prior investments It also demands more detailed investigations of the competitive advantages that are both more nebulous and more vital than in commodity companies driven by the comparative

1 Tesco
The dominant food retailer in the UK, with growing positions in non food and overseas

1

2 Wolseley
Ferguson is the largest subsidiary of Wolseley, the worlds leading distributor of heating and plumbing products

2

simplicity of resource bases and low cost production On balance this is pushing us towards a slightly broader selection of stocks and markets in the emerging economies than has been the case This is a pragmatic approach that we feel should over ride excessive dogmatism about the level of concentration of the portfolio or the ratings for which we are willing to pay

We have, for instance, purchased individual stocks such as Walmex in Mexico or Infosys in India where we feel that the long run competitive advantages are such that we should not become too preoccupied by the comparatively high ratings of current earnings on which they trade We are also prepared to venture into countries where volatility is likely to be a constant companion We think that Garanti (Turkey) and Standard Bank (South Africa) are well run parts of improving financial systems We will endeavour to view the inevitable oscillations of political and economic sentiment in such countries as at least as likely to present opportunities rather than evidence of a permanent deterioration in prospects Such ought to be the advantages of long term and genuinely global investment portfolios

Amongst the major developing economies we currently have the most exposure to Brazil This is partly in tribute to the excellent positioning and returns being generated by its dominant companies and partly an acknowledgement that steady and responsible economic management is allowing the extraordinarily high risk premium on Brazilian assets to decline The most impressive achievement of last year came from CVRD which has deployed its huge cash flows both in reinvestment in high grade, low cost iron ore but has also succeeded in building a new oligopoly in the nickel market through its well executed takeover of Inco of Canada We continue to feel this is a much superior business model to the over-diversified approach favoured by the other major mining groups

UK reductions

The second major feature of the year under review has been our vigorous pruning of UK equity holdings As we hope shareholders have become fully aware, the Board and the Managers have worried that there was still a lingering temptation to view the UK stocks as a separate portfolio and an index influenced one at that We have therefore taken the opportunity provided by a year of general out-performance by British equities and of remarkable sterling strength to cut back our exposure We have made net sales of £238m over the course of the year We consider the bulk of our change to have been accomplished although we would also suspect that there will be further sales in the year ahead This will largely be dependant on the actions and attitudes of the corporate sector We have already reduced our once large holding in Royal Bank of Scotland as regretfully we fear that the current proposals to take-over ABN Amro offer a great deal more to shareholders of the Dutch bank than to long standing supporters of RBS itself

Our attentions are becoming concentrated on stocks where international aspirations are high but where it is clearer to us that there is an ability to build market positions either organically or via takeovers in which scale is a more palpable benefit in driving returns Where these conditions seem to be in place we are prepared to be patient The attraction of Tesco for us lies in the gradual building of value in overseas markets and the apparent acuteness of the planned American venture in identifying an uncovered niche than in its now traditional UK dominance We have also added to our holding in Wolseley as the problems in the US housing market ought to offer more opportunities for attractive acquisitions at low prices Once again short term anxieties should be able to be turned to our advantage in an impatient world

Our technology stocks

Last year we were hopeful that our mixed fortunes in technology investing were set to improve We find ourselves in much the same position this year Several of our holdings have had a difficult year in stock price terms but in the majority of cases we are still minded to view this market disfavour as an opportunity to make additions rather than a prompt for sales This policy has had some benefits already as we have managed to add to holdings at prices that now appear to have been advantageous Amazon would be a good example of this policy We have also continued to add to our stake in eBay where we feel temporary execution issues have unduly bothered the

1 Sandvik
Indian operations of Global Engineering success story Sandvik

2 John Deere
John Deere large frame tractors, bringing increased productivity to farmers throughout the world

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market whilst the power of not just the eBay brand itself but also of PayPal and Skype continue to develop pleasingly To us these seem to be terrific and sustainable franchises that are considerably underestimated at present

Elsewhere we have been genuinely disappointed that SAP's revenue growth has faltered despite the buoyant global environment We have been pleased by the continued progress of Canon – albeit aided by the substantial fall in the yen We are puzzled that we are struggling so much to find other Japanese stocks that appear its equal in either business attraction or valuation despite the overall Tokyo market weakness

Alternative energy

After prolonged (arguably too prolonged) thought we have bought three stocks that are directly or indirectly dominated by prospects for the alternative energy sector The appeal of this area no longer rests on the one variable of oil and gas pricing but on demands for energy security and concerns over climate change too This makes their continued development more predictable and less erratic Backing is now from across the political spectrum and from a wide geographical spread in a manner that was hitherto unlikely encompassing as it does George Bush and Australia Major utilities rather than esoteric communities are now the dominant customer base

The most challenging part of this topic is assessing the competitive position of individual companies and technologies Given the difficulties involved we think this is an area where it is more sensible to have a broader spread of investments than we would normally propound This is particularly true of solar energy which has a still less developed technological road map and industry structure than other segments Here we have bought Q-Cells which is one of many strong German enterprises in the field and which particularly appeals to us because it is both relatively technology agnostic and boasts a secure source of silicon supply In wind power there is already one dominant supplier, Vestas of Denmark, and we see little reason to be sceptical of its continued health The third stock is a less direct beneficiary, John Deere, which appears to us to be recovering from half a century of difficulties as bio-fuel requirements (and agricultural inflation) resuscitates long moribund farming demand

Over the course of time we would like to see our investment in this area at least increase In the next 12 months we would like to double the £50m we had invested at the year end Recent share price action has been too buoyant for us to want to achieve this immediately

Fixed interest

We have tried to apply the same principles to fixed interest as we use in equities We view our holdings as an integral part of the overall portfolio not as a portfolio to exist in its own right or to be measured on its own We are looking for major mis valuations to benefit our shareholders in the long term One opportunity has stood out for us over the last year We started buying Brazil local currency index linked bonds on a 9 0% real yield Given the Brazilian macroeconomic improvements that we have already discussed above we felt this to be extremely attractive Yields have now fallen to 6 5% which we consider to be still too high if less extraordinary Sadly the general compression of yields is making such opportunities increasingly scarce

Overall reflections and future prospects

The last twelve months has seen far more activity in the portfolio than we would normally welcome (although turnover at 34% remains low by industry standards) On this occasion we feel that the changes ought to be greatly beneficial for the years ahead We believe that we have increased the overall calibre of companies in which we invest and that we are obtaining better value whilst being more directly exposed to the deeply exciting growth dynamics of the world economy After a prolonged period of stock market gains we are aware that complacency can set in amongst investors and that volatility can ensue If we have concerns they are more focussed on the extended levels of profitability in the American and British financials sectors than on the fine fundamental health of the international economy Whatever the precise nature of challenges to be faced over the year ahead we remain confident in our investment methodology and optimistic about the prospects for the next five years

Name	Business	Fair value 31 March 2007 £'000	% of total assets	Performance† Absolute %	Performance† Relative %	Fair value 31 March 2006 £'000
Petrobras	Oil producer	72,913	3 6	3 2	(3 2)	69,950
eBay	Internet trading company	68,697	3 4	(25 0)	(29 7)	41,058
Royal Bank of Scotland	Banking	68 193	3 3	10 8	4 0	52 444
Gazprom	Gas producer	62,715	3 1	2 0	(4 3)	65,338
CVRD	Iron ore and nickel mining	58,188	2 8	32 2	24 0	32,085
Atlas Copco	Engineering	55,919	2 7	6 0	(0 5)	44,919
Sandvik	Engineering	55 596	2 7	35 0	26 7	30 268
British American Tobacco	Tobacco	50,419	2 5	18 2	11 0	44,259
Wolseley	Builders' merchant	44,305	2 2	(13 6)	(18 9)	34,619
Canon	Printers, copiers and cameras	44,206	2 1	9 3	2 6	33,876
Samsung Electronics	Electronics manufacturer	42,572	2 1	(17 8)	(22 8)	52,063
Omnicom	Advertising agency	41,721	2 0	9 7	3 0	38,395
Tesco	Food retailer	40,911	2 0	38 8*	22 6*	–
Man Group	Hedge fund manager	39,960	2 0	37 9	29 4	36,975
SAP	Business software	39,512	1 9	(27 0)	(31 5)	48,269
GlaxoSmithKline	Pharmaceuticals	37,692	1 8	(4 1)	(10 0)	40,635
Standard Chartered	Banking	37,610	1 8	4 8	(1 7)	26,506
Teva Pharmaceuticals	Generic drugs manufacturer	36,073	1 8	(19 1)	(24 0)	28,301
Porsche	Automobiles	35,543	1 7	41 9	33 2	25,139
Schlumberger	Oil services	35,189	1 7	17 7*	6 4*	–
Reed Elsevier	Publisher	34,145	1 7	11 9	5 0	25,975
EOG Resources	Oil and gas producer	32,094	1 6	(12 1)	(17 5)	36,693
Norilsk Nickel	Diversified mining	28,179	1 4	78 4	67 4	14,943
Amazon com	Online retailer	26,466	1 3	(3 8)	(9 7)	23,971
The Hershey Company	Confectionery	26,335	1 3	(5 9)	(11 7)	28,427
Berkshire Hathaway	Insurance	25,839	1 3	(3 8)*	(7 4)*	–
Carnival	Cruise ship operator	25,164	1 2	(11 0)	(16 5)	28,945
Australia and New Zealand Banking	Banking	24,977	1 2	17 3	10 1	22,243
Wellpoint	Managed care	24,794	1 2	(7 2)	(12 9)	18,743
UBS	Banking	24,767	1 2	(1 1)*	(6 5)*	–
		1,240,694	60 6			945,039

† Absolute and relative performance has been calculated on a total return basis over the period 1 April 2006 to 31 March 2007 Absolute performance is in sterling terms, relative performance is against the benchmark 50% FTSE All-Share Index and 50% FTSE World Ex UK Index (in sterling terms)

* Figures relate to part period returns

Source Baillie Gifford & Co/StatPro

Past performance is no guarantee of future performance

Investment Changes (£'000)

	Valuation at 31 March 2006	Net acquisitions (disposals)	Realised and unrealised appreciation (depreciation)	Valuation at 31 March 2007
Equities*				
United Kingdom	695,422	(237,850)	49,840	507,412
Continental Europe	205,797	101,791	19,927	327,515
North America	486,050	49,694	(47,006)	488,738
Japan	77,958	(8,078)	(3,643)	66,237
Asia Pacific	173,842	69,715	(2,526)	241,031
Emerging Markets	251,498	42,765	29 533	323,796
Total equities	1 890,567	18,037	46,125	1,954,729
Bonds				
Sterling bonds	34,343	(25,237)	(602)	8,504
Euro bonds	20,501	(4,397)	(326)	15,778
US dollar bonds	11,169	(5,558)	(1,020)	4,591
Brazilian real bonds	–	39,455	8,850	48,305
Total bonds	66,013	4,263	6,902	77,178
Total investments	1,956,580	22,300	53,027	2,031,907
Net liquid assets	28,582	(12,681)	(2,293)	13,608
Total assets	**1,985,162**	**9,619**	**50,734**	**2,045,515**

The figures above for total assets are made up of total net assets before deduction of debentures, long and short term borrowings

* Equities include OEICs and unit trusts

Distribution of Portfolio

Geographical 2007 (2006)

Sectoral 2007 (2006)

Classification of Investments

Classification Equities*	UK %	Continental Europe %	North America %	Japan %	Asia Pacific %	Emerging Markets %	2007 Total %	2006 Total %
Oil and Gas	–	–	3 3	–	0 5	7 4	11 2	11 5
Oil and gas producers	–	–	1 6	–	0 5	7 4	9 5	11 5
Oil equipment, services and distribution	–	–	1 7	–	–	–	1 7	–
Basic Materials	1 1	–	1 0	–	–	4 2	6 3	6 9
Chemicals	–	–	1 0	–	–	–	1 0	0 9
Industrial metals	–		–	–	–	1 4	1 4	0 8
Mining	1 1	–	–	–	–	2 8	3 9	5 2
Industrials	3 4	6 9	2 0	–	1 3	–	13 6	11 7
General industrials	–	–	1 0	–	–	–	1 0	0 9
Electronic and electrical equipment		0 6	–	–	–	–	0 6	2 6
Industrial engineering	–	6 3	1 0	–	0 6	–	7 9	3 8
Industrial transportation		–	–	–	0 7	–	0 7	1 1
Support services	3 4	–	–	–		–	3 4	3 3
Consumer Goods	3 6	3 1	2 3	0 5	0 8	–	10 3	14 4
Automobiles and parts	–	2 5		0 5	0 8	–	3 8	3 7
Beverages	–	–	1 0	–	–	–	1 0	2 1
Food producers	–	–	1 3	–	–	–	1 3	1 9
Household goods	1 1	–	–	–	–	–	1 1	2 6
Personal goods	–	0 6	–		–	–	0 6	0 5
Tobacco	2 5	–	–		–	–	2 5	3 6
Health Care	1 8	–	1 2	–	–	1 8	4 8	4 7
Health care equipment and services	–	–	1 2	–	–	–	1 2	1 0
Pharmaceuticals and biotechnology	1 8	–	–	–	–	1 8	3 6	3 7
Consumer Services	6 0	–	9 8	–	–	0 8	16 6	14 4
Food and drug retailers	2 0	–	3 1	–	–	–	5 1	2 8
General retailers	1 1	–	4 7	–	–	0 8	6 6	4 2
Media	1 7	–	2 0	–	–	–	3 7	4 6
Travel and leisure	1 2	–	–		–	–	1 2	2 8
Telecommunications	–	–	–	–	1 0	–	1 0	1 3
Mobile telecommunications	–	–	–	–	1 0	–	1 0	1 3
Financials	8 4	3 2	3 6	0 6	4 7	1 6	22 1	23 4
Banks	5 8	2 3	–	–	2 2	1 5	11 8	8 9
Non life insurance	–	–	2 1	0 6	–	–	2 7	1 3
Real estate	–	–	–	–	0 5	0 1	0 6	2 6
General financial	2 6	–	1 5	–	2 0	–	6 1	9 0
Non equity investment instruments	–	0 9	–	–	–	–	0 9	1 6
Technology	0 5	2 8	0 7	2 1	3 5	–	9 6	7 0
Software and computer services	0 5	1 9	–	–	1 4	–	3 8	4 2
Technology hardware and equipment	–	0 9	0 7	2 1	2 1		5 8	2 8
Total Equities*	**24 8**	**16 0**	**23 9**	**3.2**	**11 8**	**15 8**	**95 5**	
Total Equities* – 2006	35 0	10 5	24 5	3 9	8 8	12 6		**95 3**
Bonds	0 4	0 8	0 2	–	–	2 4	3 8	3 3
Net Liquid Assets	0 5	–	0 2	–	(0 1)	0 1	0 7	1 4
Total Assets	**25 7**	**16 8**	**24 3**	**3 2**	**11 7**	**18.3**	**100 0**	
(before deduction of debentures long and short term borrowings)								
Total Assets – 2006	37 6	11 5	25 5	3 9	8 8	12 7		**100 0**
Debentures, Long and Short Term Borrowings	(7 4)	(3 2)	–	(2 9)	–	–	(13 5)	(11 7)
Equity Shareholders' Funds	**18 3**	**13 6**	**24 3**	**0 3**	**11.7**	**18 3**	**86 5**	
Equity Shareholders' Funds – 2006	29 9	9 0	25 5	3 9	7 4	12 6		**88 3**
Number of equity investments*	**18**	**13**	**19**	**3**	**13**	**9**	**75**	**86**

* Including OEICs and unit trusts

Classification	Name	Business	Fair value £'000	% of total assets
United Kingdom				
Mining	Rio Tinto	Diversified mining	21,952	1 1
Support services	Hays	Personnel and recruitment services	15,303	
	Intertek Group	Business support providers	11,043	
	Wolseley	Builders' merchant	44,305	
			70,651	3 4
Household goods	Wimpey	House builder	22,190	1 1
Tobacco	British American Tobacco	Tobacco	50,419	2 5
Pharmaceuticals and biotechnology	GlaxoSmithKline	Pharmaceuticals	37,692	1 8
Food and drug retailers	Tesco	Food retailer	40,911	2 0
General retailers	Inchcape	Motor distributor	11 125	
	Kingfisher	DIY retailer	11,965	
			23,090	1 1
Media	Reed Elsevier	Publisher	34,145	1 7
Travel and leisure	Carnival	Cruise ship operator	25,164	1 2
Banks	Barclays	Banking	13,688	
	Royal Bank of Scotland	Banking	68,193	
	Standard Chartered	Banking	37,610	
			119,491	5 8
General financial	Intermediate Capital Group	Mezzanine finance provider	12,400	
	Man Group	Hedge fund manager	39,960	
			52,360	2 6
Software and computer services	Sage	Small business software	9,347	0 5
Total United Kingdom Equities			**507,412**	**24 8**
Continental Europe				
Electronic and electrical equipment	Q-cells	Solar energy production – Germany	12,599	0 6
Industrial engineering	Atlas Copco	Engineering – Sweden	55,919	
	Sandvik	Engineering – Sweden	55,596	
	Vestas Windsystems	Wind power systems – Denmark	17 440	
			128,955	6 3
Automobiles and parts	BMW	Automobiles – Germany	15,993	
	Porsche	Automobiles Germany	35,543	
			51,536	2 5
Personal goods	Hermes	Luxury goods – France	11,566	0 6
Banks	Banco Santander	Banking – Spain	22,849	
	UBS	Banking – Switzerland	24,767	
			47,616	2 3
Non equity investment instruments	Baillie Gifford European Smaller Companies Fund	Small company fund	18,328	0 9
Software and computer services	SAP	Business software – Germany	39,512	1 9
Technology hardware and equipment	Ericsson	Telecommunications equipment – Sweden	17,403	0 9
Total Continental European Equities			**327,515**	**16 0**

Classification	Name	Business	Fair value £'000	% of total assets
North America				
Oil and gas producers	EOG Resources	Oil and gas producer	32,094	1 6
Oil equipment, services and distribution	Schlumberger	Oil services	35,189	1 7
Chemicals	Monsanto	Seed and agricultural chemicals	20,724	1 0
General industrials	Rockwell Automation	Industrial automation providers	20,732	1 0
Industrial engineering	Deere	Farm machinery	19,590	1 0
Beverages	Brown Forman	Wine and spirits producer	20,037	1 0
Food producers	The Hershey Company	Confectionery	26,335	1 3
Healthcare equipment and services	Wellpoint	Managed care	24,794	1 2
Food and drug retailers	Shoppers Drug Mart	Drug store – Canada	22,597	
	Walgreen	Pharmacy chain	21,043	
	Whole Foods Market	General retailer	20,906	
			64,546	3 1
General retailers	Amazon com	Online retailer	26,466	
	eBay	Internet trading company	68,697	
			95,163	4 7
Media	Omnicom	Advertising agency	41,721	2 0
Non life insurance	Berkshire Hathaway	Insurance	25,839	
	Progressive Ohio	Property and casualty insurance	17,243	
			43,082	2 1
General financial	Moody's	Bond rating agency	14,235	
	T Rowe Price	Fund management	16,010	
			30,245	1 5
Technology hardware and equipment	Linear Tech	Linear integrated circuits	14,486	0 7
Total North American Equities			**488,738**	**23 9**
Japan				
Automobiles and parts	Nissan Motor	Car manufacturer	9,571	0 5
Non life insurance	Mitsui Sumitomo Insurance	Non life insurer	12,460	0 6
Technology hardware and equipment	Canon	Printers, copiers and cameras	44,206	2 1
Total Japanese Equities			**66,237**	**3 2**
Asia Pacific				
Oil and gas producers	CNOOC	Oil and gas production – China	10,829	0 5
Industrial engineering	Samsung Heavy Industries	Construction and holding company Korea	12,422	0 6
Industrial transportation	Zhejiang Expressway	Transport – China	14,624	0 7
Automobiles and parts	Hero Honda Motors	Motorcycle and scooter manufacturer – India	15,719	0 8
Mobile telecommunications	China Mobile	Mobile telecommunications – Hong Kong	21,536	1 0
Banks	Australia and New Zealand Banking	Banking – Australia	24,977	
	Kookmin Bank	Banking – Korea	20,188	
			45,165	2 2
Real estate	Shanghai Forte Land	Residential property China	10,465	0 5
General financial	Housing Development Finance Corporation	Mortgage bank – India	15,926	
	Singapore Exchange	Securities exchange owner/ operator – Singapore	24,239	
			40,165	2 0
Software and computer services	Infosys Technologies	Computer services India	11,764	
	Taiwan Semiconductor Manufacturing	Semiconductor manufacturer Taiwan	15,770	
			27,534	1 4

Classification	Name	Business	Fair value £'000	% of total assets
Asia Pacific continued				
Technology hardware and equipment	Samsung Electronics	Electronics manufacturer – Korea	42,572	2 1
Total Asia Pacific Equities			**241,031**	**11 8**
Emerging Markets				
Oil and gas producers	Gazprom	Gas producer Russia	62,715	
	Lukoil	Oil company – Russia	16,754	
	Petrobras	Oil producer – Brazil	72,913	
			152,382	7 4
Industrial metals	Norilsk Nickel	Diversified mining – Russia	28,179	1 4
Mining	CVRD	Iron ore and nickel mining Brazil	58,188	2 8
Pharmaceuticals and biotechnology	Teva Pharmaceuticals	Generic drugs manufacturer – Israel	36,073	1 8
General retailers	Walmex V	General retailer – Mexico	15,804	0 8
Banks	Garanti Bankasi	Banking – Turkey	14,444	
	Standard Bank Group	Banking – South Africa	16,826	
			31,270	1 5
Real estate	Black Sea Property Fund	Bulgarian property trust	1,900	0 1
Total Emerging Markets Equities			**323,796**	**15 8**
Total Equity Investments			**1,954,729**	**95.5**
Fixed Interest				
Sterling denominated	Business Mortgage Finance FRN 2037		1,670	
	Business Mortgage Finance FRN 2045		1,000	
	Cairngorm Limited Class E FRN 2016		2,700	
	Eurotunnel 8 15% 2026		1 500	
	Linde 8 125% 2066		1,634	
			8,504	0 4
Euro denominated	Chesapeake Energy 6 25% 2017		2 796	
	Duchess II D2 FRN 2015		1,366	
	Duchess II E2 FRN 2015		1,381	
	Euro Max IV Income Notes		2,715	
	Nymphenburg FRN 2025		1,050	
	Semper Finance FRN 2006 1		2,307	
	Skye CLO Income Notes 2019		2,147	
	Wood Street CLO Income Notes 2021		2,016	
			15,778	0 8
US$ denominated	Old Mutual 8% 2008 Perpetual		2,118	
	TCW Gem VII Income Notes 2016		2,473	
			4,591	0 2
Brazilian real denominated	Brazil CPI Linked 2045		48,305	2 4
Total Fixed Interest			**77,178**	**3 8**
Total Investments			**2,031,907**	**99 3**
Net Liquid Assets			**13,608**	**0.7**
Total Assets at Fair Value			**2,045,515**	**100 0**
(before deduction of debentures, long and short term borrowings)				

Capital

At 31 March	Total assets £'000	Debenture stocks, long and short term borrowings £'000	Equity shareholders' funds £'000	Equity shareholders' funds per share p	Net asset value per share* (market) p	Net asset value per share* (book) p	Share price p	Discount† (market) %	Discount† (book) %
1997	1,472 300	256,229	1,216 071	337 1		338 4	290 5		14 2
1998	1,877,159	303,063	1,574,096	436 4		437 4	384 0		12 2
1999	1,868,328	222,427	1,645,901	456 3	434 9	457 3	375 5	13 7	17 9
2000	2,206,594	279,010	1,927,584	569 1	549 2	570 2	493 5	10 1	13 5
2001	1,660,182	195 893	1,464,289	445 4	430 9	447 5	377 0	12 5	15 8
2002	1,509,887	206,899	1 302,988	421 4	409 4	423 6	369 0	9 9	12 9
2003	1,051,545	207,225	844,320	283 3	268 0	285 5	234 5	12 5	17 9
2004	1,355,341	227,560	1,127,781	379 3	362 8	381 5	305 0	15 9	20 1
2005§	1,455,704	213 083	1,242,621	420 4	398 8	422 6	333 0	16 5	21 2
2006	1,985,162	231,809	1,753,353	608 6	584 1	610 9	521 5	10 7	14 6
2007	**2,045,515**	**275,650**	**1,769,865**	**628.8**	**607 1**	**631.0**	**542 0**	**10 7**	**14.1**

* Net asset value per ordinary share has been calculated after deducting long term borrowings at either book value or fair value (see note 22, page 44)
† Discount is the difference between Scottish Mortgage's quoted share price and its underlying net asset value at either book value or fair value
§ Restated, investments valued at fair value (bid) and dividends declared after the year end no longer treated as a liability at the year end Figures prior to 2005 have not been restated for these changes

Revenue

Gearing Ratios

Year to 31 March	Gross revenue £'000	Available for ordinary shareholders £'000	Revenue earnings per ordinary share ‡ p	Dividend paid and proposed per ordinary share net p	Total expense ratio §§ %	Actual gearing ¶	Potential gearing ‖
1997	50,571	24,604	6 82	5 15	0 27	104	121
1998	52,184	21,685	6 01	5 35	0 37	107	119
1999	44,894	20,263	5 62	5 50	0 38	107	114
2000	44,100	27 807**	7 82**	5 65	0 50	105	114
2001	44,075	25,212	7 57	6 00	0 51	104	113
2002	36,377	24 213	7 56	6 25	0 47	109	116
2003	33,909	22,597	7 43	6 60	0 49	113	125
2004	35 829	23,931	8 05	7 00	0 60	111	120
2005	35,456	21 809	7 37	7 35	0 52	110	117
2006	41,456	25 738	8 82	8 50	0 52	108	113
2007	**45,522**	**27,817**	**9 80**	**9 50**	**0 49**	**110**	**116**

‡ The calculation of earnings per ordinary share is based on the revenue from ordinary activities after taxation and the weighted average number of ordinary shares in issue (see note 8, page 37)
§§ Ratio of total operating costs to average shareholders funds
¶ Total assets (including all debt used for investment purposes) less all cash and fixed interest securities (ex convertibles) divided by shareholders' funds
‖ Total assets (including all debt used for investment purposes) divided by shareholders' funds
** Restated for change in accounting policy to charge expenses 50 50 between revenue and capital

Cumulative Performance (taking 1997 as 100)

At 31 March	Net asset value per share (book)	Net asset value total return (book) ‡‡	Benchmark	Benchmark total return ‡‡	Share price	Share price total return ‡‡	Revenue earnings per ordinary share	Dividend paid and proposed per ordinary share net	Retail price index
1997	100	100	100	100	100	100	100	100	100
1998	129	132	129	132	132	135	88	104	103
1999	135	140	141	148	129	135	82	107	106
2000	168	176	164	175	170	179	115	110	108
2001	132	140	141	152	130	139	111	117	111
2002	125	135	133	147	127	139	111	121	112
2003	84	93	90	102	81	90	109	128	116
2004	113	128	112	131	105	122	118	136	119
2005	125	141	122	145	115	135	108	143	123
2006	181	208	154	189	180	216	129	165	125
2007	**186**	**219**	**159**	**201**	**187**	**228**	**144**	**184**	**132**
Compound annual returns									
5 year	8 3%	10 2%	3 6%	6 5%	8 0%	10 5%	5 3%	8 7%	3 2%
10 year	6 4%	8 2%	4 7%	7 2%	6 4%	8 6%	3 7%	6 3%	2 8%

‡‡ Source Thomson Financial Datastream

Past performance is no guarantee of future performance

Directors' Report

The Directors have pleasure in submitting their Annual Report together with the results of the Company for the year to 31 March 2007

Business Review

Objective

Scottish Mortgage carries on business as an Investment Trust The investment objective is to maximise total return, whilst also generating real dividend growth, from a focused and actively managed global portfolio The equity portfolio is relatively concentrated and investments are chosen on their long term merits rather than with reference to geographical asset allocation or the composition of an index

Investment Strategy

Scottish Mortgage is positioned as a truly active fund and does not attempt to track its benchmark index Investments are chosen for inclusion within the equity portfolio by looking closely at the merits of individual companies The investment approach focuses on three points

- Taking a global perspective,
- Maintaining a relatively concentrated equity portfolio, and
- Having a long term investment horizon Further details of investment strategy can be found in the Chairman's Statement on page 4 and the Managers' Review on pages 8 to 10

Gearing

Borrowings are invested in equity markets when it is considered that investment grounds merit the Company taking a geared position to equities Gearing levels, and the extent of equity gearing, both in absolute terms and relative to the peer group, are discussed by the Board and Managers at every Board meeting The portion of borrowings which is not invested in equities may be invested in fixed interest securities

Discount

The Board recognises that it is in the long term interests of shareholders to reduce discount volatility and believes that the prime driver of discounts over the longer term is performance The Board does not have a precise discount target at which shares will be bought back as it believes that the announcement of specific targets is likely to hinder rather than help the successful execution of a buyback policy Future buybacks will be considered primarily by reference to the Company's discount relative to its peers

During the year the Company bought back a total of 6,613,939 shares, 2,885,000 of which are held in treasury, the remainder cancelled, increasing net asset value per share by 0 3%

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 (after deducting borrowings at fair value),
- The movement in the share price,
- The movement of net asset value and share price performance compared to the Benchmark,
- The discount (after deducting borrowings at fair value),
- The total expense ratio,
- Earnings per share, and
- Dividend per share

The one and five year records of the KPIs are shown on pages 2, 3 and 17

In addition to the above, the Board considers peer group comparative performance A range of comparator groups are used including a selected grouping of five 'best of breed' trusts, a group of the five large AIC Global Growth investment trusts (Large Trust Peer Group), a universe of global growth trusts as defined by Winterflood Securities, the AIC Global Growth Sector and the larger Standard and Poor's universe of Global Growth Trusts The Board also reviews the absolute and relative discount At 31 March 2007 the discount was 10 7% compared to 8 8% for the weighted average of the AIC Global Growth Sector

Review

A review of the main features of the year and outlook is contained in the Chairman's Statement and the Manager's Review on pages 4, 5 and 8 to 10 respectively The Board's main focus is on the investment return and approach Attention is paid to the integrity and success of the investment approach and on factors which may have an impact on this approach Due regard is paid to the marketing and promotion of the Company, including effective communication with shareholders and other external parties The Board is updated regularly on wider investment trust sector issues Detailed papers are presented to the Board at the Annual Strategy Meeting where a wide discussion takes place on development and strategic direction The Company's brokers, UBS, present to the Board on a regular basis and cover the topics of sector developments, perception of the Company and relevant strategic issues

Principal Risks and Uncertainties

The principal risks facing the Company relate to the Company's investment activities and include market risk, interest rate risk, credit risk, liquidity risk, foreign currency risk and loss of investment trust status An explanation of these risks and how they are managed are contained in note 22 to the accounts on page 42

Financials

There are four debentures in issue, all are listed and quoted on the London Stock Exchange and details are given on pages 39 and 44 In addition, term bank borrowings and loan facilities are in place which are also shown on pages 39 and 44 The financial highlights for the year under review are as follows the net asset value per share increased by 3 9% during the year, compared to an increase in the benchmark of 3 9%, dividends increased by 11 8% to 9 50p per share and the discount is unchanged at 10 7%

Dividends

The Board recommends a final dividend of 5 00p per ordinary share which, together with the interim of 4 50p already paid, makes a total of 9 50p for the year compared with 8 50p for the previous year

If approved, the recommended final dividend on the ordinary shares will be paid on 4 July 2007 to shareholders on the register at the close of business on 8 June 2007 The ex-dividend date is 6 June 2007

Status

The Company is an investment company within the meaning of section 266 of the Companies Act 1985

The Company carries on business as an investment trust In the opinion of the Directors, the Company conducts its affairs so as to enable it to obtain approval by HM Revenue and Customs as an investment trust under section 842 of the Income and Corporation Taxes Act 1988 The Company was approved as an investment trust for the year ended 31 March 2006, subject to matters that may arise from any subsequent enquiry by HM Revenue and Customs into the Company's tax return The Company will continue to seek approval under section 842 of the Income and Corporation Taxes Act 1988 each year

Corporate Governance

The Board is committed to achieving and demonstrating high standards of Corporate Governance This statement outlines how the principles of the Combined Code on Corporate Governance published in 2003, (the 'Combined Code') were applied throughout the financial year

Compliance

The Company has complied throughout the year under review with the provisions of the Combined Code except that no limit has been imposed on the overall length of service of Directors

The Directors recognise the value of progressive refreshing of, and succession planning for, company Boards and the Board composition is reviewed 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 Consequently, no limit has been imposed on the overall length of service All Directors are, however, required to retire and, if appropriate seek re-election, at least every three years Directors who have more than nine years' service submit themselves for re-election annually

The Board is also adhering to the principles of the AIC Code in all material respects

The Board

The Board has overall responsibility for the Company's affairs It has a number of matters reserved for its approval including strategy, investment policy, currency hedging, gearing, treasury matters, dividend and corporate governance policy
A separate meeting devoted to strategy is held each year 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 Board currently comprises six Directors, all of whom are non-executive The executive responsibility for investment management has been delegated to the Company's Managers and Secretaries, Baillie Gifford & Co, and, in the context of a Board comprised entirely of non-executive Directors, there is no chief executive officer The Senior Independent Director is Mr GA Ball

The Directors believe that the Board has a balance of skills and experience that enable it to provide effective strategic leadership

Directors' Attendance at Meetings

	Board	Audit Committee	Nomination Committee
Number of meetings	**7**	**2**	**2**
Sir Donald MacKay	7	2	2
GA Ball	7	2	2
MM Gray	7	2	2
WG McQueen	7	2	2
JPHS Scott	6	2	2
Lord Strathclyde	7	2	2

and proper governance of the Company Information about the Directors, including their relevant experience, can be found on page 6

There is an agreed procedure for Directors to seek independent professional advice, if necessary, at the Company's expense

The Company also maintains Directors' and Officers' Liability insurance

Independence of Directors

All the Directors are considered by the Board to be independent of the Managers and free of any business or other relationship that could interfere with the exercise of their independent judgement

Mr GA Ball, who has served on the Board for more than nine years, offers himself for re-election annually The Board subscribes to the view expressed in the AIC Code that long serving Directors should not be prevented from being considered as independent Following a formal performance evaluation, the Board has concluded that, notwithstanding his length of service, Mr Ball retains independence of character and judgement and his skills and experience add to the strength of the Board

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, marketing, revenue budgets, dividend policy and communication with shareholders The Board considers that it meets sufficiently regularly to discharge its duties effectively The table above shows the attendance record for the Board and Committee Meetings held during the year All of the Directors attended the Annual General Meeting

Nomination Committee

The Nomination Committee consists of the independent non-executive Directors and the Chairman of the Board 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, identifying and nominating new candidates for appointment to the Board, Board appraisal, succession planning and training The Committee also considers whether Directors should be recommended for re-election by shareholders Appointment of new Directors are considered by the Nomination Committee taking into account the need to maintain a balanced Board The terms of reference are available on request from the Company and on the Managers' website **www bailliegifford com**

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 set of questions The appraisal of the Chairman was led by Mr GA Ball

The appraisals considered amongst other criteria, the balance of skills of the Board, the contribution of individual Directors and the overall effectiveness of the Board and its Committees Following this process it was concluded that the performance of each Director, the Chairman, the Board and its committees continues to be effective and each Director and the Chairman remain 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

Terms of Appointment and Re-elections

Letters which specify the terms of appointment, are issued to new Directors The letters of appointment are available for inspection on request

Under the provisions of the Company's Articles of Association, a Director appointed during the year is required to retire and seek election by shareholders at the next Annual General Meeting Directors are required to submit themselves for re-election at least once every three years and Directors who have served for more than nine years offer themselves for re-election annually

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 add significantly to the strength of the Board

The names of Directors retiring and offering themselves for re-election together with the reasons why the Board supports the re-elections are set out on page 23

Induction and Training

New Directors are provided with an induction programme which is tailored to the particular circumstances of the appointee Regular briefings are provided on changes in regulatory requirements that could affect the Company and Directors The Directors receive other training as necessary

Remuneration

Since all the Directors are non-executive, the provisions of the Combined Code in respect

Directors' Interests

Name	Nature of interest	Ordinary 25p shares held at 31 March 2007	Ordinary 25p shares held at 31 March 2006
Sir Donald MacKay	Beneficial	2,469	2,469
GA Ball	Beneficial	10,000	10,000
MM Gray	Beneficial	272,900	272,900
	Non beneficial	12,500	12,500
WG McQueen	Beneficial	1,500	1,500
	Non beneficial	3,000	3,000
JPHS Scott	Beneficial	30,566	30,566
Lord Strathclyde	Beneficial	3,142	3,142

The Directors at the year end, and their interests in the Company, were as shown above On 3 May 2007 Mr WG McQueen sold 3,000 shares in which he had a non beneficial interest There have been no other changes intimated in the Directors' interests up to 14 May 2007

of Directors' remuneration are not relevant to the Company except to the extent that they relate specifically to non-executive directors Consequently there is no requirement for a separate remuneration committee Directors' fees are considered by the Board as a whole within the limits approved by shareholders The Company's policy on remuneration is set out in the Directors' Remuneration Report on pages 25 and 26

Internal Controls and Risk Management

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

The Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company in accordance with the guidance 'Internal Control Revised Guidance for Directors on the Combined Code'

The Directors confirm that they have reviewed the effectiveness of the system and they have procedures in place to review its effectiveness on a regular basis

The practical measures to ensure compliance with regulation and company law, and to provide effective and efficient operations and investment management, have been delegated to the Managers and Secretaries, Baillie Gifford & Co, under the terms of the Management Agreement The Board acknowledges its responsibilities to supervise and control the discharge by the Managers and Secretaries of their obligations

Baillie Gifford & Co has been delegated responsibility for the design, implementation and maintenance of control policies and procedures to safeguard the assets of the Company and to manage its affairs properly This responsibility also extends to maintaining effective operational and compliance controls and risk management

The Baillie Gifford & Co heads of Business Risk & Internal Audit and Regulatory Risk provide the Board with regular reports on Baillie Gifford & Co's monitoring programmes The reporting procedures for these departments are defined and formalised within a service level agreement Baillie Gifford & Co conducts an annual review of their system of internal controls which is documented within an internal controls report (FRAG21) This report is independently reviewed by Baillie Gifford & Co's auditors and a copy is submitted to the Board

The Company's investments are segregated from those of Baillie Gifford & Co and their other clients through the appointment of The Bank of New York as independent custodian of the Company's investments

A detailed risk map is prepared which identifies the significant risks faced by the Company and the key controls employed to minimise these risks

These procedures ensure that consideration is given regularly to the nature and extent of the 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 compliance and internal control systems in place within the Investment Managers provide sufficient assurance that a sound system of internal control, which safeguards shareholders' investment and the Company's assets, is maintained An internal audit function, specific to the trust, is therefore considered unnecessary

Accountability and Audit

The respective responsibilities of the Directors and the Auditors in connection with the Financial Statements are set out on pages 27 to 29

The accounts 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

An Audit Committee has been established in compliance with the Combined Code consisting of all directors Its authority and duties are clearly defined within its written terms of reference which are available on request from the Company and the Managers' website Mr WG McQueen is Chairman of the Audit Committee The Committee's responsibilities which were discharged during the year include

- monitoring and reviewing the integrity of the interim and annual financial statements and the internal financial controls,

Major Interests in Shares

Name	No of ordinary 25p shares held	% of issue
D C Thomson & Company Limited	14,300,000	5 1
Prudential plc group of companies	10,477,844	3 7
Legal & General Group Plc	9,858,900	3 5

The above information has been intimated to the Company as at 14 May 2007

- making recommendations to the Board in relation to the appointment of the external auditors and approving the remuneration and terms of their engagement,
- developing and implementing policy on the engagement of the external auditors to supply non-audit services,
- reviewing and monitoring the *independence, objectivity and* effectiveness of the external auditors,
- reviewing the arrangements in place within Baillie Gifford & Co whereby its staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters insofar as they may affect the Company,
- reviewing the terms of the Investment Management Agreement, and
- considering annually whether there is a need for the Company to have its own internal audit function

The Audit Committee considers the experience and tenure of the audit director and staff and the nature of services provided The Committee receives confirmation from the auditors that they have complied with the relevant UK professional and regulatory requirements on independence Non audit fees for the year to 31 March 2007 were £520 and related to the certification of results for the debenture trustees The Committee does not believe that this has impaired the auditors' independence

Relations with Shareholders

The Board places great importance on communication with shareholders The Company's Managers meet regularly with institutional shareholders and report shareholders' views to the Board The Chairman is available to meet with shareholders as appropriate Shareholders wishing to communicate with any members of the Board may do so by writing to them at the address on the back cover

The Company's Annual General Meeting provides a forum for communication with all shareholders The level of proxies lodged for each resolution is announced at the Meeting and is published on the Managers' website The notice period for the Annual General Meeting is at least twenty working days

Shareholders and potential investors may obtain up-to-date information on the Company from the Managers' website

Voting Policy and Socially Responsible Investment

The Company has given discretionary voting powers to the investment managers, Baillie Gifford & Co The Managers vote against resolutions they consider may 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 have asked the Managers to take these issues into account as long as the investment objectives are not compromised The Managers do not exclude companies from their investment universe purely on the grounds of environmental, social and governance issues but adopt a positive engagement approach whereby matters are discussed with management with the aim of improving the relevant policies and management systems The Managers' policy has been reviewed and endorsed by the Board

As signatories of the Carbon Disclosure Project, the Managers consider the business implications of carbon emissions when making investment decisions and routinely engage with companies on their management of climate change risks and opportunities

Investment Managers

An Investment Management Agreement between the Company and Baillie Gifford & Co set out the matters over which the Managers have authority in accordance with the policies and directions of, and subject to restrictions imposed by, the Board The Management Agreement is terminable on not less than 12 months' notice Details of the fee arrangements with Baillie Gifford & Co are shown on page 35

The Board considers the Company's investment management and secretarial arrangements for the Company on an ongoing basis and a formal review is conducted annually The Board considers, amongst others, the following topics in its review the quality of the personnel assigned to handle the Company's affairs, the investment process and the results achieved to date, the administrative services provided by the Secretaries and the marketing efforts undertaken by the Managers Following the most recent review it is the opinion of the Directors that the continuing appointment of Baillie Gifford & Co as Managers, on the terms agreed, is in the interests of shareholders as a whole Investment performance over the period under review has been excellent and the Managers and Secretaries also continue to maintain high standards in the provision of ancillary services

Directors

Lord Strathclyde and Mr JPHS Scott retire by rotation at the Annual General Meeting and will offer themselves for re election

Mr GA Ball, having served for more than nine years, offers himself for re-election

Following formal performance evaluation, their performance continues to be effective and each remains committed to the Company Their contribution to the Board is greatly valued and the Board recommends their re-election to shareholders

Sir Donald MacKay retires having reached the age of 70 He is recommended by the board for reappointment

Disclosure of Information to Auditors

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company auditors are aware of that information

Authority to Allot Shares and Disapply Pre emption Rights

Resolution 11, which is being proposed as a special resolution and will therefore not be passed unless 75% of those voting are in favour, seeks to give the Directors power to sell ordinary shares held in treasury (see below) for cash up to a maximum of £7,036,529 in aggregate (representing 10% of the issued ordinary share capital of the Company as at 14 May 2007) without first being required to offer such shares to existing shareholders in accordance with the statutory pre emption procedure

This power will last until the Annual General Meeting of the Company to be held in 2008 or on 26 December 2008, whichever is earlier

The Companies (Acquisition of Own Shares) (Treasury Shares) Regulations 2003 (as amended) ('Treasury Shares Regulations') came into force on 1 December 2003 The Treasury Shares Regulations give flexibility concerning what the Company can do with any of its ordinary shares which it may buy back The Company may now hold such shares 'in treasury' and then sell them at a later date for cash rather than simply cancelling them The Treasury Shares Regulations require such sale to be on a pre-emptive, pro rata, basis to existing shareholders unless shareholders agree by special resolution to disapply their pre-emption rights Accordingly, special resolution 11 will give the Directors power to sell ordinary shares held in treasury on a non pre-emptive basis, subject always to the limitations noted above (Treasury shares are explained in more detail under the heading 'Purchase of Shares' below) The Directors consider that the power proposed to be granted by Resolution 11 is advantageous should the shares trade at a premium to net asset value and natural liquidity is unable to meet demand The Directors do not intend to use this power to sell shares on a non pre-emptive basis at a discount to net asset value

The Directors believe that granting the power to sell treasury shares in the above circumstances is in the best interests of shareholders as a whole and recommend that shareholders vote in favour of the resolution

Purchase of Shares

At the Annual General Meeting held on 28 June 2006 the Company renewed its authority to purchase shares in the market, in respect of up to 42,623,491 ordinary shares (equivalent to 14 99% of its then issued share capital), such authority to expire at the conclusion of the Annual General Meeting of the Company to be held in respect of the year ending 2007 or 27 December 2007, whichever is earlier, unless previously varied, revoked or renewed

During the year to 31 March 2007 the Company bought back 6,613,939 ordinary shares (nominal value £1,654,000), on the London Stock Exchange, 2,885,000 are held in treasury with the remainder cancelled The total consideration for these shares was £34,131,000 Between 1 April 2007 and the date of this report no further shares have been bought back

The principal reasons for such share buy backs are

(i) to enhance net asset value for continuing shareholders by purchasing shares at a discount to the prevailing net asset value,

(ii) to manage imbalances between the supply of and the demand for the Company's shares which exacerbates any discount of the quoted market price to the published net asset value per share

The shares in question were purchased at a price (after allowing for costs) below the net asset value either held in treasury or subsequently cancelled, thereby reducing the issued share capital (see note 13 on page 40) As a result of such purchases the net asset value of the Company has increased by approximately 0 3%

Resolution 10, which is being proposed as a special resolution, will authorise the Company to make market purchases of its own ordinary shares for cancellation or to be held in treasury The Company may hold bought back shares 'in treasury' and then

(a) sell such shares (or any of them) for cash (or its equivalent under the Treasury Shares Regulations), or

(b) cancel such shares (or any of them)

All buy backs up to the 10% issued share capital limit imposed by the Treasury Share Regulations will initially be held in treasury (while shares bought back in excess of that limit will be cancelled as before) Shares will only be re-sold from treasury at (or at a premium to) the net asset value per ordinary share

Treasury shares do not receive distributions and the Company will not be entitled to exercise the voting rights attaching to them

The Directors are seeking shareholders' approval at the Annual General Meeting to renew the authority to purchase up to 14 99% of the Company's ordinary shares in issue at the date of the passing of the resolution, such authority to expire at the Annual General Meeting of the Company to be held in respect of the year ending 2008 or 26 December 2008, whichever is earlier Any such shares purchased shall either be cancelled or held in treasury Under the Listing Rules of the UK Listing Authority of the Financial Services Authority, the maximum price (exclusive of expenses) that may be paid on the exercise of the authority shall be an amount equal to the higher of (a) 105% of the average of the middle market quotations (as derived from the Daily Official List of the London Stock Exchange) for the shares over the 5 business days immediately preceding the date of purchase and (b) the higher of the price of the last independent trade and the highest current independent bid as stipulated by Article 5(1) of Commission Regulation (EC) 22 December 2003 implementing the Market Abuse Directive as regards exemptions for buy back programmes and stabilisation of financial instruments (No 2273/2003) The minimum price (again exclusive of expenses) 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 The Company does not have any warrants or options in issue Your attention is drawn to Special Resolution No 10, in the Notice of Annual General Meeting

This authority, if conferred, will be exercised only if to do so would result in an increase in net asset value per ordinary share for the remaining shareholders and if it is in the best interests of shareholders generally

Recommendation

The Board unanimously recommends you to vote in favour of the resolutions to be proposed at the Annual General Meeting

Creditor Payment Policy

It is the Company's payment policy for the forthcoming financial year to obtain 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 31 March 2007 or 31 March 2006

Auditors

The auditors, KPMG Audit Plc, are willing to continue in office and in accordance with section 385 and section 390A of the Companies Act 1985 resolutions concerning their reappointment and remuneration will be submitted to the Annual General Meeting

By order of the Board
BAILLIE GIFFORD & Co
Managers and Secretaries
15 May 2007

Baillie Gifford & Co.

Directors' Remuneration Report

The Board has prepared this report, in accordance with the requirements of Schedule 7A to the Companies Act 1985 An ordinary resolution for the approval of this report will be put to the members at the forthcoming Annual General Meeting The law requires the Company's auditors to audit certain of the disclosures provided Where disclosures have been audited, they are indicated as such The auditors' opinion is included in their report on pages 28 and 29

Remuneration Committee

The Company has six Directors, all of whom are non-executive There is no separate Remuneration Committee and the Board as a whole considers changes to Directors' fees from time to time Baillie Gifford & Co, who have been appointed by the Board as Managers and Secretaries, provide advice and comparative information when the Board considers the level of Directors' fees

Policy on Directors' fees

The Board's policy is that the remuneration of Directors should be set at a reasonable level that is commensurate with the duties and responsibilities of the role and consistent with the requirement to attract and retain Directors of the appropriate quality and experience It should also reflect the experience of the Board as a whole, be fair and should take account of the level of fees paid by comparable investment trusts This policy will continue for the year ended 31 March 2008 and subsequent years

Directors' Emoluments for the Year (audited)

	2007 £	2006 £
Directors who served during the year		
Sir Donald MacKay (Chairman)	32,000	27,000
GA Ball	21,000	18,000
MM Gray	21,000	18,000
WG McQueen (Audit Committee Chairman)	23,000	18,000
JPHS Scott	21,000	18,000
Lord Strathclyde	21,000	18 000
	139,000	**117,000**

The Directors who served in the year received the above emoluments in the form of fees

The fees for the non-executive Directors are determined within the limits set out in the Company's Articles of Association Shareholders approved an increase of the aggregate limits (pursuant to Article 90 of the Articles of Association) at the Annual General Meeting held on 30 June 2005 Article 90 of the Articles of Association now states that the fees paid to, and benefits in kind received by, the Chairman shall not exceed in aggregate £45,000 per annum and those paid to, or received by, a Director shall not exceed in aggregate £30,000 per annum or such higher amounts as the Company may from time to time by ordinary resolution determine Non-executive Directors are not eligible for any other remuneration apart from the reimbursement of allowable expenses

The Board carried out a review of the level of Directors' fees during the year, and concluded that the fees should be increased from £27,000 to £32,000 for the Chairman and from £18,000 to £21,000 for each Director with an additional fee of £2,000 for the Chairman of the Audit Committee The increase was effective from 1 April 2006

Directors' Service Details

	Date of appointment	Due date for re-election
Sir Donald MacKay	1 July 1999	AGM June 2007
GA Ball	17 February 1983	AGM June 2007
MM Gray	26 February 2004	AGM 2008
WG McQueen	15 February 2001	AGM 2008
JPHS Scott	31 October 2001	AGM June 2007
Lord Strathclyde	26 February 2004	AGM June 2007

Directors' service contracts

It is the Board's policy that none of the Directors has a service contract All of the Directors have been provided with revised appointment letters dated 22 April 2004 and the terms of their appointment provide that a Director shall retire and be subject to re-election at the first Annual General Meeting after their appointment Thereafter, Directors are obliged to retire by rotation and, if they wish, to offer themselves for re-election, no longer than every three years after that Any Director who has served on the Board for more than nine years will submit himself for re-election annually There is no notice period and no provision for compensation upon early termination of appointment

Performance Graph

Scottish Mortgage's Share Price, FTSE All-Share Index and Benchmark*

(figures have been rebased to 100 at 31 March 2002)

* All figures are total return (assuming all dividends are reinvested)

† Benchmark 50% FTSE All Share Index and 50% FTSE World Ex UK Index (in sterling terms)

Past performance is no guarantee of future performance

Company performance

The graph opposite compares the total return (assuming all dividends are reinvested) to ordinary shareholders compared to the total shareholder 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, as it is a widely used measure of performance for UK listed companies (Benchmark provided for information purposes only)

Approval

The Directors' Remuneration Report on pages 25 and 26 was approved by the Board of Directors and signed on its behalf on 15 May 2007

SIR DONALD MACKAY
Chairman

Statement of Directors' Responsibilities in Respect of the Annual Report and the Financial Statements

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

Company law requires the Directors to prepare financial statements for each financial year Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards

The financial statements are required by law to 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 those financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

The Directors are responsible for keeping proper accounting records that 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 1985 They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities

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

Independent Auditors' Report

to the members of Scottish Mortgage Investment Trust PLC ('the Company')

We have audited the financial statements of Scottish Mortgage Investment Trust PLC for the year ended 31 March 2007 which comprise the Income Statement, Balance Sheet, Reconciliation of Movements in Shareholders' Funds, the Cash Flow Statement and the related notes These financial statements have been prepared under the accounting policies set out therein We have also audited the information in the Directors' Remuneration Report that is described as having been audited

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985 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 Auditors

The Directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 27

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements The information given in the Directors' Report includes the specific information presented in the Chairman's Statement, the Managers' Review, the One Year Summary, the Five Year Summary and the Ten Year Record that is cross referenced from the Business Review section of the Directors' Report We also report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements Our responsibilities do not extend to any other information

Basis of Audit Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 March 2007 and of its return for the year then ended,
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

KPMG Audit Plc
Chartered Accountants
Registered Auditor
Edinburgh
15 May 2007

	Notes	For the year ended 31 March 2007 Revenue £'000	Capital £'000	**Total £'000**	For the year ended 31 March 2006 Revenue £'000	Capital £'000	**Total £'000**
Gains on investments	9	–	53,001	**53,001**	–	554,074	**554,074**
Currency gains/(losses)	14	–	5,083	**5,083**	–	(4,098)	**(4,098)**
Income	2	45,522	–	**45,522**	41,456	–	**41,456**
Investment management fee	3	(3,462)	(3,462)	**(6,924)**	(3,062)	(3,062)	**(6,124)**
Other administrative expenses	4	(1,731)	–	**(1,731)**	(1,714)		**(1,714)**
Net return before finance costs and taxation		40,329	54,622	**94,951**	36,680	546,914	**583,594**
Finance costs of borrowings	5	(8,452)	(8,452)	**(16,904)**	(7,722)	(7,722)	**(15,444)**
Return on ordinary activities before taxation		31,877	46,170	**78,047**	28,958	539,192	**568,150**
Tax on ordinary activities	6	(4,060)	2,650	**(1,410)**	(3,220)	2,057	**(1,163)**
Return on ordinary activities after taxation		27,817	48,820	**76,637**	25,738	541,249	**566,987**
Return per ordinary share	8	**9 80p**	**17 19p**	**26 99p**	**8 82p**	**185.58p**	**194 40p**

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

The accompanying notes on pages 34 to 44 are an integral part of this statement

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

	Notes	At 31 March 2007 £'000	At 31 March 2007 £'000	At 31 March 2006 £'000	At 31 March 2006 £'000
Fixed assets					
Investments held at fair value	9		2,031,907		1,956,580
Current assets					
Debtors	10	25,037		9,922	
Cash and short term deposits	22	19,165		22,650	
		44 202		32,572	
Creditors					
Amounts falling due within one year	11	(104,749)		(54,918)	
Net current liabilities			(60,547)		(22,346)
Total assets less current liabilities			1,971,360		1,934,234
Creditors					
Amounts falling due after more than one year	12		(201,495)		(180,881)
			1,769,865		**1,753,353**
Capital and reserves					
Called up share capital	13		70,365		72,019
Capital redemption reserve	14		19,815		18,161
Capital reserve – realised	14		1,067,888		892,063
Capital reserve – unrealised	14		541,179		702,315
Revenue reserve	14		70,618		68 795
Equity shareholders' funds	15		**1,769,865**		**1,753,353**
Net asset value per ordinary share (after deducting borrowings at fair value)	22		**607 1p**		**584 1p**
Net asset value per ordinary share (after deducting borrowings at par)	16		**631.0p**		**610 9p**

The Financial Statements were approved by the Board and authorised for issue on 15 May 2007

SIR DONALD MACKAY
Chairman
Donald Mackay

The accompanying notes on pages 34 to 44 are an integral part of this statement

For the year ended 31 March 2007

	Notes	Share capital £'000	Capital redemption reserve £'000	Capital reserve – realised £'000	Capital reserve – unrealised £'000	Revenue reserve £'000	**Total shareholders' funds £'000**
Shareholders' funds at 1 April 2006		72,019	18,161	892,063	702,315	68,795	**1,753,353**
Return on ordinary activities after taxation	14	–	–	209,956	(161,136)	27,817	**76,637**
Shares bought back	13	(1,654)	1,654	(34,131)	–	–	**(34,131)**
Dividends paid during the year	7	–	–	–	–	(25,994)	**(25,994)**
Shareholders' funds at 31 March 2007		**70,365**	**19,815**	**1,067,888**	**541,179**	**70,618**	**1,769,865**

For the year ended 31 March 2006

	Notes	Share capital £'000	Capital redemption reserve £'000	Capital reserve – realised £'000	Capital reserve – unrealised £'000	Revenue reserve £'000	**Total shareholders' funds £'000**
Shareholders' funds at 1 April 2005		73,901	16,279	773,424	309,966	69,051	**1,242,621**
Return on ordinary activities after taxation		–	–	148,900	392,349	25,738	**566,987**
Shares bought back	13	(1,882)	1 882	(30,261)	–	–	**(30,261)**
Dividends paid during the year	7	–	–	–	–	(25,994)	**(25,994)**
Shareholders' funds at 31 March 2006		**72,019**	**18,161**	**892,063**	**702,315**	**68,795**	**1,753,353**

The accompanying notes on pages 34 to 44 are an integral part of this statement

	Notes	For the year ended 31 March 2007 £'000	For the year ended 31 March 2007 £'000	For the year ended 31 March 2006 £'000	For the year ended 31 March 2006 £'000
Net cash inflow from operating activities	17		40,741		32,386
Servicing of finance					
Interest paid		(16,570)		(15,654)	
Net cash outflow from servicing of finance			(16,570)		(15,654)
Taxation					
Income tax paid		(15)		(1)	
Overseas tax incurred		(1,407)		(1,149)	
Total tax paid			(1,422)		(1,150)
Financial investment					
Acquisitions of investments		(688,970)		(465,922)	
Disposals of investments		673,837		503,640	
Realised currency loss		(2 293)		(393)	
Net cash (outflow)/inflow from financial investment			(17,426)		37,325
Equity dividends paid	7		(25,994)		(25,994)
Net cash (outflow)/inflow before use of liquid resources and financing			(20,671)		26,913
Liquid resources					
Acquisition of term deposits				(258,518)	
Disposal of term deposits		–		258,877	
Net cash inflow from use of liquid resources			–		359
Financing					
Shares bought back		(34,131)		(30 261)	
Bank loans repaid		(99 145)		(34,674)	
Bank loans drawn down		150,462		49,421	
Net cash inflow/(outflow) from financing			17,186		(15,514)
(Decrease)/increase in cash	18		**(3,485)**		**11,758**

	Notes	2007 £'000	2006 £'000
Reconciliation of net cash flow to movement in net debt	18		
(Decrease)/increase in cash in the period		(3,485)	11,758
Increase in bank loans		(51,317)	(14 747)
Exchange movement on bank loans		7,376	(4,064)
Increase in short term deposits		–	(359)
Exchange movement on short term deposits		–	359
Other non-cash changes		100	85
Movement in net debt in the year		(47,326)	(6,968)
Net debt at 1 April		(209,159)	(202,191)
Net debt at 31 March		**(256,485)**	**(209,159)**

The accompanying notes on pages 34 to 44 are an integral part of this statement

1 Principal Accounting Policies

The financial statements for the year to 31 March 2007 have been prepared on the basis of the accounting policies set out in the Company's Annual Financial Statements at 31 March 2006

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

(a) Basis of Accounting

The accounts are prepared under the historical cost convention, modified to include the revaluation of fixed asset investments, and on the assumption that approval as an investment trust will continue to be granted

The accounts have been prepared in accordance with applicable UK accounting standards and with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies' issued in 2003, revised 2005

In order to reflect better the activities of the trust and in accordance with guidance issued by the 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 Company's balance sheet when it becomes a party to the contractual provisions of the instrument

(b) Investments

Purchases and sales of investments are accounted for on a trade date basis All investments are designated as fair value through profit or loss The fair value of listed 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 price and are classified for valuation purposes according to the principal geographical area of the underlying holdings

The fair value of unlisted investments uses valuation techniques, determined by the Directors, based upon latest dealing prices, stockbroker valuations, net asset values and other information, as appropriate

(c) 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 interest rate basis

(iii) Franked income is stated net of tax credits

(iv) Unfranked investment income includes the taxes deducted at source

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

(vi) If scrip is taken in lieu of dividends in cash, the net amount of the cash dividend declared is credited to the revenue account Any excess in the value of the shares received over the amount of the cash dividend foregone is recognised as capital

(d) Expenses

All expenses are accounted for on an accruals basis Expenses are charged through the revenue account except as follows where they relate directly to the acquisition or disposal of an investment, in which case they are added to the cost of the investment or deducted from the sale proceeds and where they are connected with the maintenance or enhancement of the value of investments, in which case they are charged 50 50 to the revenue account and realised capital reserve

(e) Long Term Borrowings and Finance Costs

Long term borrowings are carried in the balance sheet at the cumulative amount of net proceeds after issue, plus accrued finance costs attributable to the stepped interest debentures The finance costs of such borrowings are allocated 50 50 to the revenue account and realised capital reserve at a constant rate on the carrying amount Issue costs are written off at a constant rate over the life of the borrowings Gains and losses on the repurchase or early settlement of debt is wholly charged to capital

(f) Taxation

The tax effect of different items of income and expenditure is allocated between revenue and capital on the same basis as the particular item to which it relates, under the marginal method, using the Company's effective tax rate for the accounting period

Deferred taxation is provided on all timing differences, calculated at the current tax rate relevant to the benefit or liability Deferred tax assets are recognised only to the extent that it will be more likely than not that there will be taxable profits from which underlying timing differences can be deducted

(g) 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

(h) Capital Reserves

(i) Capital Reserves Realised
Gains and losses on realisation of investments and realised exchange differences of a capital nature are dealt with in this reserve Purchases of the Company's own shares for cancellation are also funded from this reserve 50% of management fees, including related VAT, and finance costs are allocated to the realised capital reserve in accordance with the Company's objective of combining capital and income growth

(ii) Capital Reserves Unrealised
Unrealised appreciation represents the amount by which assets and liabilities valued at fair value differs from their book value and is dealt with in this reserve

2 Income

	2007 £'000	2006 £'000
Income from investments		
Franked investment income	18,344	18,225
UK unfranked investment income†	3,203	3,862
Overseas dividends	18,243	16,651
Overseas interest	5,059	2,003
	44,849	**40,741**
Other income		
Deposit interest	623	650
Underwriting commission and commitment fees	50	65
	673	**715**
Total income	**45,522**	**41,456**
Total income comprises		
Dividends	37,138	35,701
Interest from investments	7,711	5,040
Other	673	715
	45,522	**41,456**
Income from investments		
Listed UK	18,954	19,362
Listed overseas	25,895	21,379
	44,849	**40,741**

† Includes OEIC income

3 Investment Management Fee

	2007 Revenue £'000	2007 Capital £'000	2007 **Total £'000**	2006 Revenue £'000	2006 Capital £'000	2006 **Total £'000**
Investment management fee	3,129	3,129	**6,258**	2,829	2,829	**5,658**
Irrecoverable VAT thereon	333	333	**666**	233	233	**466**
	3,462	**3,462**	**6,924**	**3,062**	**3,062**	**6,124**

Baillie Gifford & Co are employed by the Company as Managers and Secretaries under a management agreement which is terminable on not less than 12 months' notice, or on shorter notice in certain circumstances The fee in respect of each quarter is 0 08% of total assets less current liabilities (excluding short term borrowings for investment purposes) and is subject to VAT at the appropriate rate The management fee is levied on all assets, including holdings in collective investment schemes (OEICs) managed by Baillie Gifford & Co, however the OEIC's share class held by the Company does not itself attract a management fee

4 Other Administrative Expenses all charged to the revenue column of the income statement

	2007 £'000	2006 £'000
General administrative expenses	1 573	1,574
Directors' fees (see Directors' Remuneration Report page 25)	139	117
Auditors' remuneration for audit services	18	18
Auditors' remuneration for other services – certification of results for the debenture trustees	1	5
	1,731	**1,714**

5 Finance Costs of Borrowings

	2007 Revenue £'000	2007 Capital £'000	2007 **Total £'000**	2006 Revenue £'000	2006 Capital £'000	2006 **Total £'000**
Bank loans and overdrafts repayable within five years	1,508	1,508	**3,016**	772	772	**1,544**
Debentures repayable wholly or partly in more than five years	6,944	6,944	**13,888**	6,950	6,950	**13,900**
	8,452	**8,452**	**16,904**	**7,722**	**7,722**	**15,444**

6 Tax on Ordinary Activities

	2007 Revenue £'000	2007 Capital £'000	2007 **Total £'000**	2006 Revenue £'000	2006 Capital £'000	2006 **Total £'000**
UK corporation tax	4,060	(2,650)	**1,410**	3,220	(2 057)	**1,163**
Overseas taxation	1,410	–	**1,410**	1,163	–	**1,163**
Double taxation relief	(1 410)		**(1,410)**	(1,163)	–	**(1,163)**
	4,060	**(2,650)**	**1,410**	**3,220**	**(2,057)**	**1,163**

	2007 £'000	2006 £'000
The tax charge for the year is lower than the standard rate of corporation tax in the UK (30%) The differences are explained below		
Revenue return on ordinary activities before taxation	31,877	28,958
Revenue return on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2006 – 30%)	9,563	8,687
Income not taxable (franked investment income)	(5,503)	(5,467)
Overseas tax	(1,410)	(1,163)
Double taxation relief	1,410	1,163
Current tax charge for the year	**4,060**	**3,220**

Capital returns are not included in the above analysis since, as an Investment Trust, the Company's capital gains are not taxable

At 31 March 2007 the Company had surplus management expenses of £54 million (2006 – £51 million) which have not been recognised as a deferred tax asset This is because the Company is not expected to generate taxable income in a future period in excess of the deductible expenses of that future period and, accordingly, it is unlikely that the Company will be able to reduce future tax liabilities through the use of existing surplus expenses

7 Ordinary Dividends

	2007	2006	2007 £'000	2006 £'000
Amounts recognised as distributions in the period				
Previous year's final (paid 5 July 2006)	4 65p	5 05p	13,222	14,876
Interim (paid 24 November 2006)	4 50p	3 85p	12,772	11,118
	9 15p	**8 90p**	**25,994**	**25,994**

We also set out below the total dividends paid and proposed in respect of the financial year, which is the basis on which the requirements of section 842 of the Income and Corporation Taxes Act 1988 are considered The revenue available for distribution by way of dividend for the year is £27,817,000 (2006 – £25,738,000)

	2007	2006	2007 £'000	2006 £'000
Dividends paid and proposed in the period				
Interim dividend per ordinary share (paid 24 November 2006)	4 50p	3 85p	12,772	11,118
Proposed final dividend per ordinary share (payable 4 July 2007)	5 00p	4 65p	14,073	13,395
Adjustment to provision for 2006 final dividend re shares bought back			(173)	(52)
	9 50p	**8 50p**	**26,672**	**24,461**

8 Return per Ordinary Share

	2007 Revenue	2007 Capital	2007 Total	2006 Revenue	2006 Capital	2006 Total
	9 80p	**17 19p**	**26 99p**	**8.82p**	**185 58p**	**194 40p**

Revenue return per ordinary share is based on the net revenue on ordinary activities after taxation of £27,817,000 (2006 – £25,738,000), and on 283,953,088 (2006 – 291,656,348) ordinary shares, being the weighted average number of ordinary shares in issue during the year

Capital return per ordinary share is based on the net capital gain for the financial year of £48,820,000 (2006 – net capital gain of £541,249,000), and on 283,953,088 (2006 – 291,656,348) ordinary shares, being the weighted average number of ordinary shares in issue during the year

There are no dilutive or potentially dilutive shares in issue

9 Fixed Assets – Investments

	2007 £'000	2006 £'000
Listed at fair value – UK	509,312	707,675
– Overseas	1,522,595	1,232,357
Unlisted	–	16,548
	2,031,907	**1,956,580**

	Listed in UK £'000	Listed overseas £'000	Unlisted £'000	**Total £'000**
Cost of investments held at 1 April 2006	478,207	763 292	11,700	**1,253,199**
Unrealised appreciation at 1 April 2006	229,468	469,065	4,848	**703,381**
Value of investments held at 1 April 2006	707,675	1,232,357	16,548	**1,956,580**
Movements in year				
Purchases at cost	134,747	566 107	–	**700,854**
Sales – proceeds	(382,239)	(281,282)	(15,033)	**(678,554)**
– realised profits on sales	113,366	104,446	3,333	**221,145**
Amortisation of fixed interest book cost	(32)	58	–	**26**
Decrease in unrealised appreciation	(64,205)	(99,091)	(4,848)	**(168,144)**
Value of investments held at 31 March 2007	**509,312**	**1,522,595**	**–**	**2,031,907**
Cost of investments held at 31 March 2007	344,049	1,152,621		**1,496,670**
Unrealised appreciation at 31 March 2007	165,263	369,974		**535,237**
Value of investments held at 31 March 2007	**509,312**	**1,522,595**	**–**	**2,031,907**

The purchases and sales proceeds figures above include transaction costs of £1,549,000 (2006 – £911,000) and £653,000 (2006 – £522,000) respectively

	2007 £'000	2006 £'000
Gains on investments		
Realised gains on sales	221,145	161,363
(Decrease)/increase in unrealised appreciation	(168 144)	392,711
	53,001	**554,074**

Of the realised gains on sales during the year a net gain of £49,181,000 (2006 – gain of £37,556,000) was included in unrealised appreciation at the previous year end

During the year the Company had a holding in an Open Ended Investment Company ('OEIC') managed by Baillie Gifford & Co, the Company's investment manager The share class held in the OEIC does not attract a management fee At 31 March the Company held

	2007		2006	
	C income shares held	% of fund held	C income shares held	% of fund held
Baillie Gifford European Smaller Companies Fund	5,767,177	18 9	5,767 177	16 9

10 Debtors

	2007 £'000	2006 £'000
Due within one year		
Income accrued	9,993	9,698
Sales for subsequent settlement	4,717	–
FX sales for subsequent settlement	10,073	–
UK taxation recoverable	37	22
Other debtors and prepayments	217	202
	25,037	**9,922**

11 Creditors – Amounts falling due within one year

	2007 £'000	2006 £'000
National Australia Bank Limited multi-currency loan	25,476	–
BNP Paribas multi-currency loan	48,679	50,928
Purchases for subsequent settlement	11,884	–
FX purchases for subsequent settlement	10,103	–
Other creditors and accruals	8,607	3,990
	104,749	**54,918**

Included in other creditors is £886,000 (2006 – £838,000) in respect of the investment management fee

Borrowing facilities

A 364 day £50 million multi-currency loan facility has been arranged with BNP Paribas
A 3 year £35 million multi-currency loan facility has been arranged with National Australia Bank Limited
A 3 year £50 million multi-currency loan facility has been arranged with Lloyds TSB Scotland plc
A £100 million short term multi-currency loan facility has been arranged with The Royal Bank of Scotland plc

At 31 March 2007 drawings were as follows

National Australia Bank Limited	¥5,900 million at an interest rate of 0 74% per annum
BNP Paribas	¥7,840 million at an interest rate of 0 82% per annum
	CHF 35 5 million at an interest rate of 2 29% per annum
Lloyds TSB Scotland plc	Euro 73 million at an interest rate of 4 265% per annum (see note 12)

The main covenants relating to the above loans are
(i) Total borrowings shall not exceed 35% of the Company's net asset value
(ii) The Company's minimum net asset value shall be £700 million

12 Creditors – Amounts falling due after more than one year

	Nominal rate	Effective rate	2007 £'000	2006 £'000
Debenture stocks				
£20 million 8–14% stepped interest debenture stock 2020	14 0%	12 3%	22,203	22,267
£75 million 6 875% debenture stock 2023	6 875%	6 9%	74,414	74,377
£50 million 6–12% stepped interest debenture stock 2026	12 0%	10 8%	54,661	54,734
4½% irredeemable debenture stock			675	675
Bank loans				
National Australia Bank Limited multi-currency loan			–	28,828
Lloyds TSB Scotland plc multi-currency loan			49,542	–
			201,495	**180,881**

Debenture stocks

The debenture stocks are stated as the cumulative amount of net proceeds after issue, plus accrued finance costs attributable to the stepped interest debentures The cumulative effect is to increase the carrying amount of borrowings by £6,278,000 (2006 – £6,378,000) over nominal value The debenture stocks are secured by a floating charge over the assets of the Company

13 Called up Share Capital

	2007 Number	2007 £'000	2006 Number	2006 £'000
Authorised ordinary shares of 25p each	**360,720,000**	**90,180**	**360,720,000**	**90,180**
Allotted, called up and fully paid ordinary shares of 25p each	**281,461,176**	**70,365**	**288,075,115**	**72,019**

At the Annual General Meeting on 28 June 2006 the Company renewed its authority to purchase shares in the market, in respect of 42,623,491 ordinary shares (equivalent to 14 99% of its issued share capital at that date) The Company's authority now permits it to hold shares bought back 'in treasury' Such treasury shares may be subsequently either sold for cash (at, or at a premium to, net asset value for ordinary shares) or cancelled At 31 March 2007 the Company held 2,885,000 ordinary shares in treasury In the year to 31 March 2007, a total of 6,613,939 (2006 – 7,530,000) ordinary shares with a nominal value of £1,654,000 (2006 – £1,882,000) were bought back at a total cost of £34,131,000 (2006 – £30,261,000) At 31 March 2007 the Company had authority to buy back a further 39,738,491 ordinary shares

Under the provisions of the Company's Articles the share buy-backs were funded from the realised capital reserve

14 Capital and Reserves

	Share capital £'000	Capital redemption reserve £'000	Capital reserve – realised £'000	Capital reserve – unrealised £'000	Revenue reserve £'000	**Total shareholders' funds £'000**
At 1 April 2006	72,019	18,161	892,063	702,315	68,795	**1,753,353**
Net gain on realisation of investments		–	221,145	–		**221,145**
Decrease in unrealised appreciation	–	–	–	(168,144)		**(168,144)**
Exchange differences	–	–	(2,293)	–	–	**(2,293)**
Exchange differences on multi-currency loans	–		368	7,008	–	**7,376**
Shares bought back	(1,654)	1,654	(34 131)	–	–	**(34,131)**
Investment management fee		–	(3,462)	–	–	**(3,462)**
Finance costs of borrowings	–	–	(8,452)	–	–	**(8,452)**
Tax relief on management fee and finance costs	–	–	2,650	–		**2,650**
Dividends paid in year	–	–	–	–	(25,994)	**(25,994)**
Revenue return on ordinary activities after taxation	–		–	–	27,817	**27,817**
At 31 March 2007	**70,365**	**19,815**	**1,067,888**	**541,179**	**70,618**	**1,769,865**

15 Total Shareholders' Funds

	2007 £'000	2006 £'000
Total shareholders' funds are attributable as follows		
Equity shares	**1,769,865**	**1,753,353**

Total shareholders' funds have been calculated in accordance with the provisions of FRS26 However, the net asset value per share figures in note 16 have been calculated on the basis of shareholders' rights to reserves as specified in the Articles of Association of the Company A reconciliation of the two figures is as follows

Shareholders' funds attributable to ordinary shares (as above)	£1,769,865,000	£1,753,353 000
Number of ordinary shares in issue at the year end	281,461 176	288 075,115
Shareholders' funds per ordinary share	628 8p	608 6p
Additions/(deductions)		
– expenses of debenture issue	(0 7p)	(0 7p)
– allocation of interest on borrowings	2 9p	3 0p
Net asset value per ordinary share	**631 0p**	**610 9p**

16 Net Asset Value per Ordinary Share

The net asset value per ordinary share and the net assets attributable to the ordinary shareholders at the year end calculated in accordance with the Articles of Association were as follows

	2007	2006	2007 £'000	2006 £'000
Ordinary shares	**631 0p**	**610 9p**	**1,776,143**	**1,759,731**

	2007 £'000	2006 £'000
The movements during the year of the assets attributable to the ordinary shares were as follows		
Total net assets at 1 April	1,759,731	1,249,084
Total recognised gains and losses for the year	76,637	566 987
Dividends appropriated in the year	(25,994)	(25,994)
Adjustment to debentures	(100)	(85)
Shares bought back	(34,131)	(30,261)
Total net assets at 31 March	**1,776,143**	**1,759,731**

Net asset value per ordinary share is based on net assets (adjusted to reflect the deduction of the debentures at par) and on 281,461,176 (2006 – 288,075,115) ordinary shares, being the number of ordinary shares in issue at the year end Shareholders' funds as reported on the face of the balance sheet have been computed in accordance with the provisions of FRS26 A reconciliation of the two sets of figures under these two conventions is given in note 15

17 Reconciliation of Net Return before Finance Costs and Taxation to Net Cash Inflow from Operating Activities

	2007 £'000	2006 £'000
Net return on ordinary activities before finance costs and taxation	94,951	583,594
Gains on investments – securities	(53,001)	(554,074)
Currency (gains)/losses	(5,083)	4,098
Amortisation of fixed income book cost	(26)	48
(Increase) in accrued income	(298)	(1,882)
(Increase) in debtors	(15)	(69)
Increase in creditors	4,213	671
	40,741	**32,386**

18 Analysis of Change in Net Debt

	At 1 April 2006 £'000	Cash flows £'000	Other non-cash changes £'000	Exchange movement £'000	At 31 March 2007 £'000
Cash at bank and in hand	22,650	(3,485)	–	–	19,165
Loans due within one year	(50,928)	(969)	(28,828)	6,570	(74 155)
Loans due in two to five years	(28,828)	(50,348)	28 828	806	(49 542)
Debenture stocks	(152,053)	–	100		(151,953)
	(209,159)	**(54,802)**	**100**	**7,376**	**(256,485)**

19 Directors' Interest in Contracts

No Director has a contract of service with the Company

During the year no Director was interested in any contract or other matter requiring disclosure under section 232 of the Companies Act 1985

20 Contingencies, Guarantees and Financial Commitments

At the year end the Company had a contingent liability amounting to £10 million (2006 – £10 million) under a subscription agreement relating to participating loan notes The obligation will expire on 31 December 2010

21 Summary of Main Investment Restrictions

(as incorporated within the Investment Management Agreement between the Company and Baillie Gifford & Co)

Holding size

At the time of investment, a maximum of 8% of total assets may be invested in any one holding This restriction does not apply to investment in collective investment schemes, issues by way of rights or certain government bonds

A maximum of 40% of total assets may be invested in holdings exceeding 3% of the value of the Company's total assets Again, this restriction does not apply to collective investment schemes, issues by way of rights or certain government bonds

Categories of investment

No investment shall be made on which there is unlimited liability

The Managers must seek permission of the Board to invest in collective investment schemes managed by Baillie Gifford & Co

Transactions in futures and options must be consistent with Inland Revenue guidelines so as to ensure maintenance of the Company's Investment Trust status

22 Derivatives, Other Financial Instruments and Risk Exposure

The Company operates as an investment trust company in accordance with section 842 of the Income and Corporation Taxes Act 1988 As such, the Company is exempt from capital gains tax on the sale of its investments The Managers monitor investment movements, the level of forecast income and expenditure and the amount of proposed dividends to ensure that the provisions of section 842 are not breached The international nature of the Company's investment activities provides opportunities for both market appreciation and currency gains, but leaves it exposed to the risk of market volatility and currency fluctuations In the case of an investment trust, capital profits from investing activities and currency gains are prohibited from being distributed in the form of dividends

Gearing

The Company has long term and short term borrowings The aim of the use of gearing is to enhance long term returns to shareholders by investing borrowed funds in equities and other assets Gearing is actively managed How and where borrowings are invested is reviewed by the Board in consultation with the Managers at every Board meeting In light of the decisions made, appropriate adjustments to the gearing position are then made by the Managers Details of borrowings and where they are invested is given in monthly Factsheets published on the Managers' website, **www bailliegifford com**

The Company has been given an Aaa Issuer Rating by Moody's, the highest possible rating Issuer Ratings are opinions of the ability of entities to honour senior unsecured financial obligations and contracts

The Company's income may be affected by fluctuations in short term interest rates, income from overseas investment can be affected by currency fluctuations

The Company's financial instruments, which provide finance for investment activities, comprise its debenture stocks, its long and short term borrowings, and its cash and liquid resources In addition to the equity portfolio, the Company maintains investments in UK and overseas corporate bonds as part of its investment strategy

The Company may, from time to time, enter into derivative transactions to hedge specific currency or interest rate risk No such transactions were undertaken in the year

The Company has precisely defined guidelines to govern the purchase or writing of options on individual shares No options were purchased or written in the year Trading in financial instruments is not within the normal activities of an investment trust, nor is it the Company's policy to trade in such instruments Transactions in financial instruments generally arise as a result of strategic investment decisions

The Company's Managers may not enter into derivative transactions without the prior approval of the Board, and all borrowing facilities require Board authorisation The Board agrees policies for managing risk with the Company's Managers The main risks arising from the Company's financial instruments are market risk (as noted above), interest rate risk, credit risk, liquidity risk and foreign currency risk

Market Risk

The Company is exposed to market risk due to fluctuations in the market prices of its investments The Company's managers actively monitor market and economic data and report to the Board, which considers investment policy on a regular basis

Interest Rate Risk

The Company finances its operations by means of called up share capital, realised capital profits, retained revenue reserves, bank borrowings and the issue of debenture stocks The value of the Company's bond portfolio is subject to interest rate risk It is not the Company's policy to hedge this risk

The Company has negotiated short term multi-currency borrowing facilities at interest rates linked to LIBOR and may draw down funds for periods up to 3 years

The Company has issued a mix of stepped and fixed interest debenture stocks The stepped interest debenture stocks have reached their final step and are deemed to be fixed

Credit Risk

In addition to interest rate risk, the Company's investments in bonds are also subject to credit risk Credit risk reflects the possibility that a borrower will not be able to meet its obligation to make payments of interest or principal when they fall due The Managers analyse the credit risk of the Company's bond investments prior to purchase and continue to monitor developments in credit quality subsequently

Liquidity Risk

The Company's policy with regard to liquidity is to ensure continuity of funding Short term flexibility is achieved by overdraft facilities

The Company's assets comprise mainly readily realisable securities which can be sold freely to meet funding commitments if necessary

Foreign Currency Risk

The international nature of the Company's investment activities gives rise to a currency risk which is inherent in the performance of its overseas investments It is not the Company's policy to hedge this risk on a continuing basis, but the Company may from time to time match specific overseas investment with foreign currency borrowings or otherwise hedge the exposure in a temporary basis

The Company's overseas income is subject to currency fluctuation The Company does not hedge this currency risk

22 Derivatives and Other Financial Instruments (continued)

Foreign Currency Risk

Exposure to currency risk through asset allocation is indicated below

Financial Assets	Investments £'000	2007 Cash and deposits £'000	Short term debtors £'000	Investments £'000	2006 Cash and deposits £'000	Short term debtors £'000
Sterling	489,586	17,094	9,863	708,398	14,958	7,324
US dollar	773,737	290	4,128	726,286	6 923	1,852
Canadian dollar	22 597	–	60	21,962	–	50
Euro	187,985	–	464	150,369	738	436
Danish krone	17,440	–	–	–		–
Swedish kroner	128,918	–	–	85,623	–	–
Swiss franc	24,767	–	–	–	–	–
Japanese yen	66,237	1,781	8 136	77,958	–	260
Hong Kong dollar	57,454	–	619	33,427	–	–
Korean won	75,182	–		52,063	–	
Australian dollar	24,977	–		40,003	–	–
Singapore dollar	24,239		–	15,628	–	
Brazilian real	48,305		1,767	–		–
Mexican peso	15,804		–	–		–
Indian rupee	43,409		–	32,721	31	–
South African rand	16 826	–	–	12,142	–	–
Turkish lira	14,444	–	–	–	–	–
	2,031,907	**19,165**	**25,037**	**1,956,580**	**22,650**	**9,922**

Financial Liabilities	2007 Loans and debentures £'000	Other creditors and accruals £'000	2006 Loans and debentures £'000	Other creditors and accruals £'000
Sterling	151,953	17,346	152,053	3,721
US dollar	–	317	–	1
Euro	49,542	540	50,928	201
Japanese yen	59 330	9,861	28,828	67
Hong Kong dollar	–	619	–	–
Swiss franc	14,825	57		–
Indian rupee		1 854		–
	275,650	**30,594**	**231,809**	**3,990**

Short term debtors and creditors have been excluded from the disclosure of financial instruments other than for currency disclosures

Interest Rate Risk

The interest rate risk profile of the Company's financial assets and financial liabilities at 31 March was

Financial Assets	Fair value £'000	2007 Weighted average interest rate	Weighted average period until maturity	Fair value £'000	2006 Weighted average interest rate	Weighted average period until maturity
UK bonds	3 134	7 4%	40 years	24,172	5 8%	15 years
UK bonds (perpetual)*	–		–	5 321	6 3%	N/A
European bonds	9,674	8 9%	12 years	16,578	9 4%	13 years
US bonds	2,473	14 0%	9 years	8,761	10 9%	6 years
US bonds (perpetual)*	2,118	5 5%	N/A	2,408	6 1%	N/A
Floating rate						
UK bonds (interest rate linked to sterling LIBOR)	5,370	8 1%	21 years	4,850	5 5%	18 years
European bonds (interest rate linked to euro LIBOR)	6,104	8 1%	36 years	3,923	7 3%	12 years
Brazilian bonds (index linked)	48 305	7 0%	38 years	–	–	–

* Based on expected maturity dates

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

22 Derivatives and Other Financial Instruments (continued)

Interest Rate Risk (continued)
Financial Liabilities

	2007 £'000	2006 £'000
The interest rate risk profile of the Company's financial liabilities at 31 March was		
Floating rate – Swiss franc denominated	14,825	–
Floating rate – Euro denominated	–	50,928
Floating rate – Yen denominated	59,330	–
Fixed rate – Sterling denominated	151,953	152,053
Fixed rate – Euro denominated	49,542	–
Fixed rate – Yen denominated	–	28,828
	275,650	**231,809**
The maturity profile of the Company's financial liabilities at 31 March was		
In one year or less, or on demand	74,155	50,928
In two to five years	49,542	28,828
In more than five years (weighted average period fixed 17 years)	151,278	151,378
No fixed date for repayment	675	675
	275,650	**231,809**

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 with the exception of long term borrowing The fair value is shown under the heading 'Financial Liabilities' below

Financial Assets
Fixed asset investments are valued at bid prices which equate to their fair value A full list of the Company's investments is given on pages 14 to 16 In addition, a geographical analysis of the portfolio, an analysis of the investment portfolio by broad industrial or commercial sector and a list of the 30 largest equity investments by their aggregate market value are contained in the Managers' Review Section

Financial Liabilities
Long term borrowings are included in the accounts in accordance with FRS26 A comparison with the fair value (closing offer value) is as follows

	2007 Nominal £'000	2007 Book £'000	2007 Fair £'000	2006 Nominal £'000	2006 Book £'000	2006 Fair £'000
8–14% stepped interest debenture stock 2020	20,000	22,203	36,019	20,000	22,267	37,892
6 875% debenture stock 2023	75,000	74,414	87,298	75,000	74,377	90 545
6–12% stepped interest debenture stock 2026	50,000	54 661	89,026	50,000	54,734	93,658
4½% irredeemable debenture stock	675	675	607	675	675	633
Total Debentures	**145,675**	**151,953**	**212,950**	**145,675**	**152,053**	**222,728**
Fixed rate loans		49,542	49,630		28,828	28,833
Total Long Term borrowings		**201,495**	**262,580**		**180,881**	**251,561**

All short term borrowings are stated at fair value

Deducting long term borrowings at fair value would have the effect of reducing the net asset value per share from 631 0p to 607 1p Taking the market price of the ordinary shares at 31 March 2007 of 542 0p, this would have given a discount to net asset value of 10 7% as against 14 1% on a traditional basis At 31 March 2006 the effect would have been to reduce the net asset value from 610 9p to 584 1p Taking the market price of the ordinary shares at 31 March 2006 of 521 5p, this would have given a discount to net asset value of 10 7% as against 14 6% on a traditional basis

Further Shareholder Information

How to Invest

The Company's shares are traded on the London Stock Exchange They can be bought by placing an order with a stockbroker, by asking a professional adviser to do so, or through the Baillie Gifford savings vehicles (see inside back cover for details)

Sources of Further Information on the Company

The price of shares is quoted daily in the Financial Times and can also be found on the Baillie Gifford website at **www bailliegifford com**, Trustnet at **www trustnet co uk** and on other financial websites Company factsheets are also available on the Baillie Gifford website and are updated monthly These are available from Baillie Gifford on request

Key Dates

Ordinary shareholders normally receive two dividends in respect of each financial year An interim dividend is paid at the end of November and a final dividend is paid in early July The AGM is normally held in late June or early July

Capital Gains Tax

For Capital Gains Tax indexation purposes, the market value (adjusted for the bonus issue of 4 for 1) of an ordinary share in the Company as at 31 March 1982 was 30 6p

Share Register Enquiries

Computershare Investor Services PLC maintains the share register on behalf of the Company In the event of queries regarding shares registered in your own name, please contact the Registrars on 0870 707 1300 They also offer a free, secure share management website service which allows you to

- view your share portfolio and see the latest market price of your shares,
- calculate the total market price of each shareholding,
- view price histories and trading graphs,
- update bank mandates and change address details, and
- use online dealing services

To take advantage of this service, please log in at **www uk computershare com/investor** and enter your Shareholder Reference Number and Company Code (this information can be found on the last dividend voucher or your share certificate)

Electronic Communications and Proxy Voting

If you hold stock in your own name you can choose to receive communications from the Company, and vote, in electronic format This method reduces costs, is environmentally friendly and, for many, is convenient too The paragraphs below explain how you can use these services

- **Electronic Communications** If you would like to take advantage of this service, please visit our Registrar's website at **www uk computershare com/investor** and register You will need your shareholder reference number (which is on your share certificate and tax voucher) to hand If you then agree to the terms and conditions, in future, on the day that documents are sent to shareholders by post, you will receive an e-mail providing the website address link to the documents After you register, paper documents will be available on request
- **Electronic Proxy Voting** You can also return proxies electronically at **www uk computershare com/proxy** If you have registered for electronic communications you will be issued a PIN number to use when returning proxies to the secure Registrar website You do not need to register for electronic communications to use electronic proxy voting, paper proxy forms will contain a PIN number to allow you to return proxies electronically

If you have any questions about these services please contact Computershare on 0870 707 1300

Analysis of Shareholders

	At 31 March 2007 Number of shares held	%	At 31 March 2006 Number of shares held	%
Institutions	116,187,173	41 3	115,762,290	40 2
Intermediaries	94,683,540	33 6	94,006,279	32 6
Individuals	48,158,007	17 1	51,608,130	17 9
Baillie Gifford Share Plans/PEP/ISA	18,829,753	6 7	19,021,034	6 6
Marketmakers	3,602,703	1 3	7 677,382	2 7
	281,461,176	**100 0**	**288,075,115**	**100 0**

CREST Proxy Voting

If you are a user of the CREST system (including a CREST Personal Member), you may appoint one or more proxies or give an instruction to a proxy by having an appropriate CREST message transmitted To appoint a proxy or to give an instruction to a proxy (whether previously appointed or otherwise) via the CREST system, the CREST message must be received by the issuer's agent (ID number 3RA50) not later than 48 hours before the time appointed for holding the meeting For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp generated by the CREST system) from which the issuer's agent is able to retrieve the message CREST Personal Members or other CREST sponsored members should contact their CREST sponsors for assistance with appointing proxies via CREST For further information on CREST procedures, limitations and systems timings, please refer to the CREST Manual The Company may treat as invalid a proxy appointment sent by CREST in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001 Computershare Investor Services PLC is authorised and regulated by the Financial Services Authority

Where this has been received in a country where the provision of such a service would be contrary to local laws or regulations, this should be treated as information only

Scottish Mortgage is an investment trust Investment trusts offer investors the following

- Participation in a diversified portfolio of shares
- Constant supervision by experienced professional managers
- The Company is free from capital gains tax on capital profits realised within its portfolio although investors are still liable for capital gains tax on profits when selling their investment

These accounts have been approved by the Directors of Scottish Mortgage Investment Trust PLC Baillie Gifford Savings Management Limited is the ISA Manager of the Baillie Gifford Investment Trust ISA, the PEP Manager of the Baillie Gifford Investment Trust PEP, the Manager of the Baillie Gifford Investment Trust Share Plan and Children's Savings Plan and the promoter of the Baillie Gifford Select Pension Alliance Trust Savings Limited is the provider, trustee and administrator of the Alliance Trust Personal Pension Plan through which the Baillie Gifford Select Pension is made available Baillie Gifford Savings Management Limited is wholly owned by Baillie Gifford & Co Both are authorised and regulated by the Financial Services Authority Baillie Gifford only provides information about its products and does not provide investment advice The staff of Baillie Gifford and the Directors may hold shares in Scottish Mortgage and may buy or sell such shares subject to Baillie Gifford's personal account dealing rules

Risks

Past performance is no guarantee of future performance

The value of your investment and any income from it is not guaranteed and may go down as well as up and you may not get back the amount invested This is because the share price is determined by the changing conditions in the relevant stockmarkets in which the Trust invests and by the supply and demand for the Trust's shares You should regard your investment as medium to long term

Scottish Mortgage has borrowed money to make further investments This is commonly referred to as gearing The risk is that, when this money is repaid by the Trust, the value of these investments may not be enough to cover the borrowing and interest costs, and the Trust will make a loss If the Trust's investments fall in value, gearing will increase the amount of the loss in value to investors The more highly geared the Trust, the greater this effect will be

As Scottish Mortgage invests in overseas securities changes in the rates of exchange may also cause the value of your investment (and any income it may pay) to go down or up

The value of tax reliefs will depend on your personal circumstances and tax rates and reliefs, as well as the tax treatment of ISAs and PEPs, could change at any time in the future

The Annual General Meeting of the Company will be held at the offices of Baillie Gifford & Co, Calton Square, 1 Greenside Row, Edinburgh EH1 3AN, on Wednesday, 27 June 2007 at 4 00 pm

If you have any queries as to how to vote or how to attend the meeting, please call us on 0800 027 0133

Baillie Gifford may record your call

Notice of Annual General Meeting

Notice is hereby given that the ninety eighth Annual General Meeting of Scottish Mortgage Investment Trust PLC will be held within the Registered Office of the Company, Calton Square, 1 Greenside Row, Edinburgh EH1 3AN, on Wednesday, 27 June 2007 at 4 00 pm for the following purposes

Ordinary Business

To consider and, if thought fit, to pass the following resolutions as Ordinary Resolutions

1 To receive and approve the Accounts of the Company for the year to 31 March 2007 with the Reports of the Directors and of the Auditors thereon

2 To approve the Directors' Remuneration Report for the year to 31 March 2007

3 To declare a dividend

4 To reappoint Sir Donald MacKay, who has reached the age of 70, as a Director of the Company

5 To re elect Mr GA Ball as a Director

6 To re-elect Lord Strathclyde as a Director

7 To re-elect Mr JPHS Scott as a Director

8 To reappoint KPMG Audit Plc as Independent Auditors

9 To authorise the Directors to determine the remuneration of the Independent Auditors

To consider and, if thought fit, to pass the following resolutions as Special Resolutions

10 That, in substitution for any existing authority under section 166 of the Companies Act 1985 (the 'Act'), but without prejudice to the exercise of any such authority prior to the date hereof, the Company be authorised, in accordance with section 166 of the Act, to make market purchases (within the meaning of section 163(3) of the Act) of ordinary shares of 25p each in the capital of the Company (either for retention as treasury shares for future sale or cancellation) ('Shares'), provided that

(a) the maximum aggregate number of Shares hereby authorised to be purchased shall be 14 99% of the issued ordinary share capital on the date on which this resolution is passed,

(b) the minimum price which may be paid for a Share shall be 25p (exclusive of expenses),

(c) the maximum price (exclusive of expenses) which may be paid for a Share shall be an amount equal to the higher of (a) 105% of the average of the middle market quotations (as derived from the Daily Official List of the London Stock Exchange) for the Shares for the 5 business days immediately preceding the date of purchase and (b) the higher of the price of the last independent trade and the highest current independent bid as stipulated by Article 5(1) of Commission Regulation (EC) 22 December 2003 implementing the Market Abuse Directive as regards exemptions for buy-back programmes and stabilisation of financial instruments (No 2273/2003), and

(d) unless previously varied, revoked or renewed by the Company in general meeting, the authority hereby conferred shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2008 or 26 December 2008, whichever is the earlier, save that the Company may, prior to the expiry of such authority, enter into a contract or contracts to purchase Shares under such authority which will or might be completed or executed wholly or partly after the expiration of such authority and may make a purchase of Shares pursuant to any such contract or contracts

11 That, the Directors of the Company be and they are hereby generally empowered pursuant to section 95 of the Companies Act 1985 (the 'Act') to sell relevant shares (as defined in sections 94(2) to 94(3A) and section 94(5) of

the Act) in the Company if, immediately before the sale, such shares are held by the Company as treasury shares (as defined in section 162A(3) of the Act) ('treasury shares') for cash (as defined in section 162D(2) of the Act) as if subsection (1) of section 89 of the Act did not apply to any such sale, provided that this power shall be limited to

(a) the sale of treasury shares in connection with a rights issue in favour of the holders of ordinary shares of 25p each in the Company ('Shares') where the equity securities respectively attributable to the interests of all such shareholders are proportionate (as nearly as may be practicable) to the respective number of Shares held (or deemed or notionally held) by them but subject to such exclusions or other arrangements as the Directors deem necessary or expedient in relation to fractional entitlements or to deal with problems under the laws, or requirements of, any regulatory body or stock exchange in any territory, and

(b) the sale of treasury shares (other than pursuant to paragraph (a) of this resolution) of up to an aggregate nominal value of £7,036,529 being 10% of the Company's issued Share capital as at 14 May 2007,

and shall expire at the conclusion of the next Annual General Meeting of the Company to be held in 2008 or on 26 December 2008, whichever is the earlier, save that the Company may, before such expiry, make any offer or enter into an agreement which would or might require treasury shares to be sold after the expiry of such power, and the Directors of the Company may sell treasury shares in pursuance of such offer or agreement as if the power conferred hereby had not expired

By order of the Board

Baillie Gifford & Co
Managers and Secretaries
24 May 2007

Baillie Gifford & Co.

Notes

1 A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, vote on his/her behalf A proxy need not be a member of the Company A Form of Proxy for the use of members is enclosed and to be valid must be lodged with the Registrar of the Company not later than 48 hours before the time set for the meeting

2 Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that only those shareholders entered on the Register of Members of the Company as at 4 00 pm on 25 June 2007 or, in the event that the meeting is adjourned, on the Register of Members 48 hours before the time of any adjourned meeting, shall be entitled to attend or vote at the meeting in respect of the number of ordinary shares registered in their name at that time Changes to the entries on the Register of Members after 4 00 pm on 25 June 2007 or, in the event that the meeting is adjourned, in the Register of Members 48 hours before the time of any adjourned meeting, shall be disregarded in determining the rights of any person to attend or vote at the meeting, notwithstanding any provisions in any enactment, the Articles of Association of the Company or other instrument to the contrary

3 Shareholders participating in the Baillie Gifford Investment Trust Share Plan, Children's Savings Plan or the Baillie Gifford Investment Trust ISA/PEP who wish to vote and/or attend the meeting must complete and return the enclosed reply-paid Form of Direction

4 In accordance with section 293 of the Companies Act 1985 special notice has been given to the Company of the resolution to reappoint a Director who is over the age of 70

5 No Director has a contract of service with the Company

Scottish Mortgage's shares are traded on the London Stock Exchange They can be bought through a stockbroker, by asking a professional adviser to do so, or through the Baillie Gifford savings vehicles

Baillie Gifford's Investment Trust Share Plan

You can invest from £250 or from £30 per month The plan is designed to be a cost effective way of saving on a regular or lump sum basis

Baillie Gifford's Investment Trust ISA

You can invest in a tax efficient way by investing a minimum of £2,000 or from £250 per month or by transferring an ISA with a value of at least £2,000 from your existing manager

Baillie Gifford's Children's Savings Plan

A cost-effective plan tailored especially to meet the requirements to save for children You can invest a minimum of £250 or from £30 per month

Baillie Gifford's Investment Trust PEP Transfer

You can transfer an existing PEP to access a different market or to change your investment manager (minimum value of £2,000)

Baillie Gifford Select Pension

The Baillie Gifford Select Pension, provided by Alliance Trust Savings Limited is a self invested personal pension The minimum contribution is £50 per month

Further Information

Client Relations Team Baillie Gifford Savings Management Limited
Calton Square
1 Greenside Row
EDINBURGH EH1 3AN

Tel 0800 027 0133
We may record your call

E mail trustenquiries@bailliegifford com
Website www bailliegifford com

Fax 0131 275 3955