SC 7058

Scottish Mortgage Investment Trust PLC

Your low cost choice for global investment

Annual Report and Accounts 31 March 2008

BAILLIE GIFFORD

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

Benchmark

The portfolio benchmark against which performance is measured is the 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

Share price and net asset value have risen this year in sharp contrast to a fall in the FTSE All World Index, the Benchmark This builds on a longer term performance which has been outstanding Absolute and relative five year figures are shown on pages 3 and 4 At the moment some of the changes occurring within economies throughout the world are transformational The scale of the major developing economies, particularly China and India, is such that their growth is the main driver of a period of rising real incomes, unprecedented in our economic history While change brings uncertainty, it also provides opportunities The Managers' Review on pages 8 to 10 gives an interesting account of some of your investments and the current economic background

Financial Highlights – Year to 31 March 2008

Share Price +10 7%

NAV +7 3%

Benchmark* (3 7%)

Share Price (pence)

NAV and Benchmark
(rebased to 100 at 31 March 2007)

Discount

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

One Year Summary

	31 March 2008	31 March 2007	% change
Total assets (before deduction of debentures, long and short term borrowings)	£2,276 1m	£2,045 5m	
Loans and debentures	£439 6m	£275 6m	
Equity shareholders' funds	£1 836 4m	£1,769 9m	
Net asset value per ordinary share (after deducting borrowings at fair value)*	651 4p	607 1p	7 3
Net asset value per ordinary share (after deducting borrowings at par)*	672 5p	631 0p	6 6
Share price†	600 0p	542 0p	10 7
FTSE All World Index (in sterling terms)	177 6	184 3	(3 7)
FTSE All Share Index	2,927 1	3,283 2	(10 8)
FTSE World Ex UK Index (in sterling terms)	306 9	319 7	(4 0)
Dividends paid and proposed per ordinary share	10 30p	9 50p	8 4
Revenue return per ordinary share	9 79p	9 80p	(0 1)
Total expense ratio	0 51%	0 49%	
Discount (after deducting borrowings at fair value)	7 9%	10 7%	

	Year to 31 March 2008		Year to 31 March 2007	
Year's high and low	**High**	Low	High	Low
Share price†	679 0p	541 0p	551 0p	432 0p
Net asset value per share (after deducting borrowings at fair value)	746 5p	590 6p	614 3p	489 9p
Net asset value per share (after deducting borrowings at par)	769 2p	613 3p	638 7p	515 4p
Discount (after deducting borrowings at fair value)	5 0%	11 3%	7 9%	13 2%
Average sector discount (AIC Global Growth Sector)	7 8%	10 4%	7 1%	8 9%

	31 March 2008	31 March 2007
Net return per ordinary share		
Revenue	9 79p	9 80p
Capital	40 82p	17 19p
Total	**50 61p**	**26 99p**

* 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
† 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 2008

5 Year Total Return Performance
(figures rebased to 100 at 31 March 2003)

Dividend and RPI Growth
(cumulative from 31 March 2003)
(figures rebased to 100 at 31 March 2003)

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

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

* On 1 April 2007 the Company changed its benchmark from 50% FTSE All Share Index and 50% FTSE World ex UK Index (in sterling terms) to 100% FTSE All World Index (in sterling terms) For the purposes of the above graphs the returns on both benchmarks for their respective periods have been linked to form a single benchmark

Past performance is no guarantee of future performance

Chairman's Statement

Over the year net asset value increased by 7 3% and the share price by 10 7%, this is in sharp contrast to the FTSE All World Index, which fell by 3 7% (all in sterling terms) This means we outperformed our benchmark by 11 percentage points The longer term performance record is also extremely good, most notably over the past five years It was at the start of this period that changes to the way the portfolio is managed were initiated This includes the gradual reduction of the number of investments and the wholehearted adoption of an integrated global approach where close attention is paid to individual companies but index weightings are ignored when constructing the portfolio and regional allocations are the outcome of global stock selection

Long Term Performance

Given the long term investment approach, performance over more than one year provides a better measure of progress The Managers are primarily assessed over a five year period and this table gives absolute and relative figures

Five Year Performance to 31 March 2008

Total Return (capital and reinvested dividends)

Scottish Mortgage – Share Price	184%
Scottish Mortgage Net Asset Value	156%
FTSE All World Index (in sterling terms)	83%
AIC Global Growth Sector Average Share Price	136%
AIC Global Growth Sector Average Net Asset Value	111%

Source Fundamental Data/Thomson Financial Datastream

It should be remembered that past performance is not an indicator of future performance Conditions do, and will, change

The good performance over the past five years can be attributed to a number of factors

- The Managers' early recognition of the changing shape of global economic and trade patterns, in particular the increasing relative importance of emerging markets Shifting the centre of gravity of the portfolio away from UK listed companies towards those listed overseas has proved highly beneficial to date
- Good individual investment decisions were made When the number of holdings was reduced a high level of conviction was expressed in determining the shape of the portfolio Notably, profits have been run and not taken too early, especially amongst many of the larger holdings
- Market volatility was exploited New and additional holdings have been acquired in attractive companies at times when share prices have been marked down through market nervousness

Individual investments drive performance This year a commentary on some of the larger holdings is given in the Managers' Review on pages 8 to 10 When purchased some were controversial ideas but the Board encourages the Managers to find such situations and to act decisively on their judgements This is how our performance has been achieved With over 70 holdings the portfolio is suitably diversified and performance is not dependent on any one company, sector or region

A further important contributor to performance is the low cost base Scottish Mortgage's total expense ratio for the past year was 0 51% Lower costs mean higher returns for shareholders particularly when compounded over long periods Conversely, high management levies eat into capital and jeopardise future returns The Board and Managers remain determined that Scottish Mortgage's cost advantage be maintained for the benefit of all shareholders

Dividend and Earnings

The overall level of earnings per share was unchanged at 9 8p Paying growing dividends to shareholders is important and the Board has recommended a final dividend of 5 3p which, if approved, will bring the total for the year to 10 3p, an 8 4% increase on last year The inflation rate over the period as measured by the Retail Price Index was 3 8% As the dividend payment exceeds earnings this year, the balance will be met from the substantial revenue reserve The fall in earnings was anticipated and a revenue reserve has been built up over time and exists precisely for this purpose After the dividend payment, the revenue reserve will stand at 20p per share Over time we think it probable that the growth in earnings from the portfolio will exceed the UK inflation rate and that earnings will rise back to the level of the dividend

Borrowings

Over the year the net borrowings increased as opportunities were taken in volatile markets to borrow in order to increase holdings or take new ones Borrowings are a mixture of bank loans, drawn in different currencies where there are underlying investments, and the listed sterling debentures, details are shown on page 40 Potential gearing with the debentures valued at par is currently 124% of shareholders' funds After cash and the fixed interest holdings are offset, equity gearing stands at 118% In the coming year, the Managers are likely to continue to maintain, or even increase gearing levels, as opportunities are identified

Discount, Buybacks and Marketing

During the period the discount (measured with debt at fair value) narrowed both in absolute terms, from 10 7% to 7 9%, and also relative to the AIC Global Growth Sector Narrowing the discount over time and reducing volatility remain important aims Share buybacks during the year totalled 7 5m shares or 2 7% of issued share capital at the start of the period Against the general trend, there was a net positive investment flow into the various Baillie Gifford run plans and a number of new shareholders, including some institutional ones, joined the main register Scottish Mortgage won two awards during the year the What Investment "Generalist Investment Trust of the Year" award and the Investment Trust Magazine "Best Global Trust" award

The Managers undertook a number of initiatives to ensure effective communication with shareholders including improving the website so that shares can be bought on line and enabling holders within the Baillie Gifford plans to view valuations on line If you hold shares in your own name, as opposed to in a nominee name, you will also be able to benefit from a dividend re-investment plan which the Company's registrars are introducing It will allow you to re-invest your dividend directly into Scottish Mortgage shares Further details are given on page 48 The marketing initiatives will be continued vigorously in the coming year

Electronic Communications

One resolution that you are being asked to vote on at the AGM is to enable the Company to extend the use of electronic communications to shareholders Disseminating reports electronically saves consumption of resources and reduces cost If this resolution is approved, shareholders will still be able to elect to receive written communications through the post if they prefer This initiative is one of a number that the Board and the Managers are taking to modernise and improve communications with shareholders and potential shareholders I encourage you to visit the Scottish Mortgage pages of the Managers' website **www bailliegifford com**

AGM

The AGM will be held on Thursday 26 June 2008 in Edinburgh Details are given on page 50 I hope you will be able to come and meet the Board The Manager will give a presentation on the investments

VAT

HM Revenue and Customs have accepted a European Court of Justice ruling that investment trust management fees should be exempt from VAT As a result there will be a recovery of VAT that has already been paid in previous years The Managers are discussing with HMRC the extent and date of the repayment As the amount is still uncertain and, in the context of the size of the Trust, it will not be material, the ~~contingent~~ asset has not been recognised in this set of accounts

Outlook

The growth of many large and rapidly developing economies including China and India remains prodigious The resultant transformation of economies around the world is likely to dominate markets for some time to come The speed, scale and impact of this transformation has been greater than many expected The financial crisis in Western markets is, in part, a consequence of abundant availability of capital from these new sources After a period of exuberant lending and investment, credit has now dried up and trust between Western financial institutions evaporated The US Federal Reserve Bank took swift and decisive action to address the unusual position by cutting interest rates and by being willing to provide central credit support to financial institutions

Many companies around the world which have less, or little, direct exposure to the financial storm, continue to report favourable trading conditions Strong demand from rapidly growing economies for a number of resources, primary materials and equipment looks likely to persist and prices may remain high

On a global basis the Managers are finding no shortage of new investment ideas Indeed, in many cases, their enthusiasm for the existing holdings is strengthening not diminishing

Donald MacKay

Sir Donald MacKay
14 May 2008

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 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 was appointed a Director in 1983 He is executive chairman of Cala Group Ltd, having led the management buy out in 1999, and chairman of McCarthey and Stone 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 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 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 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 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 deputy chairman of Endace Limited

6 Lord Strathclyde

Thomas Strathclyde, currently Leader of the Opposition in the House of Lords, has considerable political experience Tom 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, a director of Galena Capital Management Limited and Marketform Limited and the president of the Quoted Companies Alliance

1 2 3

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 £51 billion at 31 March 2008 Based in Edinburgh, it is one of the leading privately owned investment management firms in the UK, with 33 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

Over the last five years this review has charted Scottish Mortgage's evolution from a collection of index aware regional portfolios with a heavy bias to UK listed companies into a single focussed, stock-driven global entity investing for the long term We have commented on our suspicions of excessive diversification and the exaggerated fears of temporary share price volatility based on dubious correlations and near meaningless quarterly earnings releases We have now reached a point where the structure of the portfolio is as we would wish it after a final re-balancing away from British equities Therefore this review will discuss a selection of the individual investments that have been critical to our performance and some that may be vital in the future

The Current Top Five

CVRD (Brazil)

CVRD or Vale as it is now to be called is the world's largest iron ore company Its reserves are the most productive to be found anywhere Production capacity has risen sharply at comparatively low cost We have owned the shares since 2004 since when they have risen 475%

Plainly this return has been gratifying but it raises the question as to whether the virtues of Vale are now fully recognised and discounted by the markets One of the features of the iron ore market that attracted us was that world class capacity was concentrated in just three hands (Vale, Rio Tinto and BHP) and pricing was settled by a system of annual price negotiations with major steel manufacturers This translated into an industry with better and more stable returns than was the case for most commodities We have some concerns that these features are starting to break down under the pressure of the extraordinary boom induced by Chinese infrastructure demands New competitors are gradually entering the market whilst a spot market has appeared and as the cost of shipping from (now strong currency) Brazil has soared At the same time Vale has been tempted to use its substantial cash flows to diversify away from the very assets that have made it great In fairness we found the deal to buy Inco appealing as it brought the prospect of a genuine franchise in the concentrating nickel market but we have been unsure that talks with Xstrata are likely to be as beneficial We were therefore glad that they have been broken off However we have trimmed our holding and remain wary of such ambitions undermining a superb and still lowly valued core business

Atlas Copco (Sweden)

This Swedish engineering company has been owned by Scottish Mortgage for well over a decade The move to a global approach has led to a significant increase in the scale of our holding Previously the exposure has been limited by concerns over its size relative to European or even Scandinavian assets whilst its outstanding business prospects may have been underestimated Atlas continues to boast formidable strength in its core compressor business which has shown impressive levels of profitability and market share More recently it has also built a powerful mining equipment division that was assembled at a time when the industry was in the doldrums With over 40% of orders now derived from emerging markets the obsessive desire of the market to see the ghosts of past US recessions as a harbinger of doom for Atlas seems miscalculated We have steadily been adding to our stake and regard the stock as highly attractive at current share prices

Petrobras (Brazil)

Since the end of March Petrobras has become our largest holding by dint of renewed excitement over the prospects for its drilling success in deep offshore Brazilian waters It appears probable that its finds may be amongst the largest discoveries ever made if also being amongst the most technically demanding None of the traditional Western oil majors has remotely comparable prospects

Petrobras captures core aspects of our investment philosophy We have been fortunate enough to have seen the market value of the shares rise tenfold over the last five years but this outcome could only have been of significant benefit to us because of our willingness to invest in the most *attractive stocks without constraint by index* weights and geographical preconceptions Equally we have owned it because of its great potential not simply to have a set

1 CVRD (or Vale)
The world's largest iron ore producer production capacity has risen and costs are low

2 Petrobras
Brazilian oil company – major new discoveries this year

1

2

percentage of assets in the oil industry BP has risen only 28% in the last five years by comparison In recent weeks Petrobras has even exceeded BP in market capitalisation Inevitably the valuation of Petrobras now includes some acknowledgement of its dramatic reserve potential Our future holding size will depend principally on how far the scale of the discoveries outweighs the development costs in the years ahead

Porsche (Preference shares) (Germany)

We consider Porsche to be a thoroughly misunderstood company Its share price oscillates violently according to the mood of the markets about US economic activity and the dollar combined with screaming newspaper headlines pointing at the supposedly vainglorious ambitions of the Porsche and Piech families

We see Porsche in a very different light Its Chief Executive, Wendelin Wiedeking, has been one of the outstanding global corporate leaders of the last twenty years We believe Porsche's growing control of Volkswagen is driven by shrewd economic assessment rather than dynastic pride Porsche is rapidly moving its original brand towards leading positions in emerging markets to replace reliance on the whims and bonuses of bankers in London and New York Given that the valuation of Porsche still reflects a more pessimistic and to our mind passe view we remain enthusiastic owners of the shares

Gazprom (Russia)

Our stake in Gazprom has been controversial There is no stock about which we receive more sceptical questioning and there are few stocks that have been more rewarding for our shareholders (with a gain of over 750% in the last five years) Whilst we cannot guarantee that there will not be adverse political developments in Russia we think that the odds are significantly in our favour in investing in Gazprom We own the same shares as the Russian government and regard its continued support as both beneficial to the company and economically justifiable It is reasonable to expect Ukraine to pay market prices for gas and to anticipate liberalisation of domestic prices It is surely more rational to be worried about foreign resource holders in Russia than about Gazprom Even more critically the valuation of Gazprom shares suggests that the opportunity remains very significant Reserves are still valued at little more than a tenth the level per barrel as for Western companies For the greatest reserve base in the world this seems an exaggerated discount We think the risks associated with investing in Gazprom are far more likely to be rewarded than those of allocating our assets to Western majors with stagnant or declining reserves

Potentially Important Holdings

All these five stocks have helped our shareholders in the past We believe they will continue to do so in the future but we would also like to point to several areas which we have been adding to in recent months and about which we have great hopes for in the future If the flavour of the top five holdings encapsulates the powerful trends of globalisation and industrialisation of emerging markets then we would emphasise that we see technological innovation as almost as critical a force in shaping the global economy in the years ahead

Investing in technology companies involves a willingness to accept both volatility and diverse returns in the search for the select band of companies that will prove to be persistent winners in their sectors but the rewards for doing so can be dramatic In the last year this battle has been exemplified by the success of **Amazon** and the struggles of **eBay** but the net effects have been pleasing

As might be imagined anxieties over the US consumer have badly hurt the share prices of many companies in this area in recent months We think this is giving us significant opportunities if we can retain our patience In particular we have started buying **Google** and **Nintendo** which seem to us to be extraordinarily strong businesses whose growth and value will endure well beyond current market nerves Google's ability to revolutionise the advertising industry and to disrupt traditional software markets seems to be accelerating rather than fading We intend to continue buying the shares even if the period of greatest opportunity may now be past

1 Porsche
Strong brand, first class leadership and shrewd strategy

2 China Mobile
China Mobile is China's dominant mobile telecoms company with over 350m mobile subscribers

1

2

In the case of Nintendo we are thrilled that after almost twenty years of decline we have now found at least one additional Japanese stock that excites us both in its business model and by its low valuation relative to its foreseeable returns Nintendo's success in attracting a far wider set of participants to its Wii and DS platforms than traditional gaming companies seems to us to be emblematic of a distinctive and thoughtful approach that is curiously simple yet hard to imitate That both Google and Nintendo relish competing with Microsoft is perhaps non-coincidental

Finally we would highlight our exposure to alternative energy companies This is a difficult, volatile and complex field and some of our most thoughtful shareholders have expressed doubts about prevailing valuations but on balance we consider that this remains an intriguing area for future expansion In particular we think that the progress being made in solar power is deeply encouraging We estimate this ought to translate into parity of cost with traditional energy sources within 3–5 years – or well within our investment horizon We have tried to use the excessive volatility of these stocks to add to our holdings in a disciplined manner We see little sensible reason for the collapse of this sub-sector in the market nerves of the last three months especially since energy prices have remained so disconcertingly buoyant We have therefore added to our holdings in two companies where we feel the dynamism of technical progress and business execution has begun to translate into structural advantages One, **First Solar**, is the clear leader in thin film technology and the closest to grid parity Its early backing by the Walton family (of Walmart fame) is now set to pay off in initial US utility contracts The second is **Q-cells** which has turned a favourable research and subsidy environment in Germany into scale and technology leadership The potential scope and profitability of these companies reconciles us to their ratings within the overall portfolio context As we also have holdings in two Danish companies in the form of **Vestas** (wind power) and **Novozymes** (enzymes) our investments in alternative energy have significantly contributed to a stock driven rise in our European assets

Future Policy

Our policy will remain set on the course we have pursued over the last five years It would be a pleasant surprise if this were to prove quite as dramatically successful in the years ahead In particular it would be strange if the experience of the last year in which only two of our top twenty holdings (held throughout the period) deducted from absolute or relative performance were to be easily repeated Indeed we cannot hope to *generate good overall returns unless we are* prepared to accept the near inevitability of several holdings disappointing

These cautions aside we feel optimistic about the future of the Trust Tactically we are finding many opportunities As indicated above several of these are now to be found in the angst ridden markets of the West as well as in the structural growth areas of Asia and Emerging Markets There are even some banks that we have been tempted to start buying – if prematurely at the date of record For these reasons we have been happy to see gearing levels edge higher To our minds a world economy less dominated by Anglo-American consumers and bankers and more exposed to the march of China, India and Brazil away from poverty is a more appealing and better balanced environment for equity investors rather than a cause for panic

In strategic terms we feel that the advantages of a genuinely global approach run with the discipline to endeavour to distinguish underlying change from the cacophony of noise that preoccupies markets and offering the flexibility offered by the combination of the ability to borrow with a strong foundation of permanent capital is becoming ever more valuable It is these advantages that we constantly need to try to exploit rather than falling into the trap of behaving as a lightly disguised index fund or an extravagantly remunerated hedge fund If we can achieve this then the prospects are good given reasonable good fortune

Name	Business	Fair value 31 March 2008 £'000	% of total assets	Performance† Absolute %	Performance† Relative %	Contribution to absolute performance %	Fair value 31 March 2007 £'000
CVRD (or Vale)	Iron ore and nickel mining	101,078	4 4	86 0	88 7	2 9	58,188
Atlas Copco	Engineering	99,392	4 4	21 8	23 5	1 0	55,919
Petrobras	Oil producer	96,399	4 2	91 4	94 1	3 0	72,913
Porsche	Automobiles	90,222	4 0	20 6	22 3	0 5	35,543
Gazprom	Gas producer	85,750	3 8	21 1	22 8	0 5	62,715
Sandvik	Engineering	81,970	3 6	2 2	3 7	0 3	55,596
Vestas Windsystems	Wind power systems	77,204	3 4	95 4	98 2	1 6	17,440
eBay	Internet trading company	69,684	3 1	(11 2)	(9 9)	(0 2)	68,697
Amazon com	Online retailer	61,714	2 7	76 6	79 1	1 2	26,466
EOG Resources	Oil and gas producer	53,374	2 3	66 6	69 0	1 0	32,094
Canon	Printers, copiers and cameras	52,407	2 3	(13 1)	(11 9)	(0 3)	44,206
Norilsk Nickel	Diversified mining	51,066	2 3	50 0	52 1	0 8	28,179
China Mobile	Mobile telecommunications	46,371	2 0	65 2	67 6	0 7	21,536
Deere	Farm machinery	44,777	2 0	47 2	49 3	0 6	19,590
Standard Chartered	Banking	44,238	1 9	20 4	22 1	0 4	37,610
Schlumberger	Oil services	43,723	1 9	25 3	27 1	0 5	35,189
Monsanto	Seed and agricultural chemicals	41,336	1 8	101 5	104 4	1 0	20,724
Unicredito Italiano	Banking	35,607	1 6	(34 1)*	(30 8)*	(0 8)	
Swisscom	Fixed line telecommunications	33,035	1 4	(0 8)*	6 3*	–	
Reed Elsevier	Publisher	31,629	1 4	8 7	10 2	0 2	34,145
Berkshire Hathaway	Insurance	31,437	1 4	21 3	23 0	0 3	25,839
Richemont	Luxury goods	28,335	1 2	(0 6)*	(2 0)*		
UBS	Banking	27,449	1 2	(50 1)	(49 4)	(1 3)	24,767
Samsung Electronics	Electronics manufacturer	26,892	1 2	4 8	6 3	0 1	42,572
Xstrata	Iron ore and nickel mining	26,657	1 2	(7 5)*	(7 0)*	(0 2)	–
Q-cells	Solar energy production	26,363	1 1	54 2	56 4	0 3	12,599
First Solar	Solar energy technology	26,061	1 1	7 0*	17 1*	0 2	–
Tesco	Food retailer	25,143	1 1	(13 6)	(12 3)	(0 2)	40,911
Walgreen	Pharmacy chain	24,116	1 1	(17 3)	(16 1)	(0 1)	21,043
Rockwell Automation	Industrial automation providers	23,076	1 0	(3 6)	(2 2)	–	20,732
		1,506,505	66 1				915,213

† Absolute and relative performance has been calculated on a total return basis over the period 1 April 2007 to 31 March 2008 Absolute performance is in sterling terms, relative performance is against the benchmark FTSE All World Index (in sterling terms)

* Figures relate to part period returns where the equity has been purchased during the period

Source Baillie Gifford & Co/StatPro

Past performance is no guarantee of future performance

Investment Changes

	Valuation at 31 March 2007 £'000	Net acquisitions (disposals) £'000	Appreciation/ (depreciation) £'000	Valuation at 31 March 2008 £'000
Equities*				
United Kingdom	507,412	(194,772)	(61,698)	250,942
Continental Europe	327,515	320,035	464	648,014
North America	488 738	28,175	37,505	554,418
Japan	66,237	37,473	(14,253)	89,457
Asia Pacific	241,031	(81,588)	41 318	200,761
Emerging Markets	323,796	(44,181)	147,717	427,332
Total equities	1,954,729	65 142	151,053	2 170,924
Bonds				
Sterling bonds	8,504	9,504	(780)	17,228
Euro bonds	15,778	(8,583)	(2 316)	4,879
US dollar bonds	4,591	(2,840)	113	1,864
Brazilian real bonds	48,305	4,981	11,293	64,579
Total bonds	77,178	3 062	8,310	88 550
Total investments	2,031,907	68,204	159,363	2,259,474
Net liquid assets	13,608	4,040	(1,051)	16,597
Total assets	**2,045,515**	**72,244**	**158,312**	**2,276,071**

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

Distribution of Portfolio

Geographical 2008 (2007)

Sectoral 2008 (2007)

Classification of Investments

Classification Equities*	UK %	Continental Europe %	North America %	Japan %	Asia Pacific %	Emerging Markets %	2008 Total %	2007 Total %
Oil and Gas	–	–	4.2	–	0.4	8.7	13.3	11.2
Oil and gas producers	–	–	2.3	–	0.4	8.7	11.4	9.5
Oil equipment, services and distribution	–	–	1.9	–	–	–	1.9	1.7
Basic Materials	1.2	1.0	2.8	–	–	6.7	11.7	6.3
Chemicals	–	1.0	1.8	–	–		2.8	1.0
Industrial metals	–		1.0	–	–	2.3	3.3	1.4
Mining	1.2	–	–	–	–	4.4	5.6	3.9
Industrials	3.6	13.1	3.0		0.6		20.3	13.6
Aerospace and defence	1.9		–		–		1.9	–
General industrials	–		1.0		–		1.0	1.0
Electronic and electrical equipment		1.7	–		–		1.7	0.6
Industrial engineering	–	11.4	2.0	–	0.6		14.0	7.9
Industrial transportation		–	–	–	–	–	–	0.7
Support services	1.7	–		–	–		1.7	3.4
Consumer Goods	–	5.9	0.9	0.7	0.5	–	8.0	10.3
Automobiles and parts	–	4.0		–	0.5	–	4.5	3.8
Beverages	–	–	0.9	–	–	–	0.9	1.0
Leisure goods	–	–		0.7	–	–	0.7	–
Food producers	–	–		–	–	–	–	1.3
Household goods	–	–		–	–	–		1.1
Personal goods	–	1.9		–	–	–	1.9	0.6
Tobacco	–	–		–	–	–	–	2.5
Health Care	–	0.5	0.6	–	–	1.0	2.1	4.8
Health care equipment and services	–	–	0.6	–	–	–	0.6	1.2
Pharmaceuticals and biotechnology	–	0.5	–	–		1.0	1.5	3.6
Consumer Services	3.1	0.8	8.4	–	–	0.8	13.1	16.6
Food and drug retailers	1.1		1.8	–		–	2.9	5.1
General retailers	0.6	0.8	5.8	–	–	0.8	8.0	6.6
Media	1.4	–	0.8	–	–	–	2.2	3.7
Travel and leisure	–		–	–	–	–	–	1.2
Telecommunications	–	1.4	–	–	2.0	0.4	3.8	1.0
Fixed line telecommunications	–	1.4	–	–	–	–	1.4	–
Mobile telecommunications	–		–	–	2.0	0.4	2.4	1.0
Financials	2.8	4.0	2.1	0.9	3.1	1.2	14.1	22.1
Banks	2.4	3.3	–	–	1.3	1.2	8.2	11.8
Nonlife insurance	–		2.1	0.9		–	3.0	2.7
Real estate	–		–	–	0.4	–	0.4	0.6
General financial	0.4		–	–	1.4	–	1.8	6.1
Nonequity investment instruments	–	0.7	–	–	–	–	0.7	0.9
Technology	0.3	1.8	2.4	2.3	2.2	–	9.0	9.6
Software and computer services	0.3	0.8	0.7		1.0	–	2.8	3.8
Technology hardware and equipment	–	1.0	1.7	2.3	1.2	–	6.2	5.8
Total Equities*	**11.0**	**28.5**	**24.4**	**3.9**	**8.8**	**18.8**	**95.4**	
Total Equities* – 2007	24.8	16.0	23.9	3.2	11.8	15.8		**95.5**
Bonds	0.8	0.2	0.1	–	–	2.8	3.9	3.8
Net Liquid Assets	0.3	0.1	0.3	–	–	–	0.7	0.7
Total Assets (before deduction of debentures, long and short term borrowings)	**12.1**	**28.8**	**24.8**	**3.9**	**8.8**	**21.6**	**100.0**	
Total Assets – 2007	25.7	16.8	24.3	3.2	11.7	18.3		**100.0**
Debentures, Long and Short Term Borrowings	(6.7)	(6.0)	(2.9)	(3.7)	–	–	(19.3)	(13.5)
Equity Shareholders' Funds	**5.4**	**22.8**	**21.9**	**0.2**	**8.8**	**21.6**	**80.7**	
Equity Shareholders' Funds – 2007	18.3	13.6	24.3	0.3	11.7	18.3		**86.5**
Number of equity investments*	**13**	**18**	**18**	**3**	**13**	**11**	**76**	**75**

* Including OEICs

Classification	Name	Business	Fair value £'000	% of total assets
United Kingdom				
Mining	Xstrata	Iron ore and nickel mining	26,657	1.2
Aerospace and defence	Meggitt	Aerospace and defence	21,509	
	Rolls Royce Group	Aerospace equipment provider	22,554	
			44,063	1.9
Support services	Hays	Personnel and recruitment services	11,105	
	Intertek Group	Business support providers	12,573	
	Wolseley	Builders' merchant	14,005	
			37,683	1.7
Food and drug retailers	Tesco	Food retailer	25,143	1.1
General retailers	Inchcape	Motor distributor	12,838	0.6
Media	Reed Elsevier	Publisher	31,629	1.4
Banks	Royal Bank of Scotland	Banking	11,963	
	Standard Chartered	Banking	44,238	
			56,201	2.4
General financial	Intermediate Capital Group	Mezzanine finance provider	9,900	0.4
Software and computer services	Sage	Small business software	6,828	0.3
Total United Kingdom Equities			**250,942**	**11.0**
Continental Europe				
Chemicals	BASF	Commodity chemicals – Germany	22,994	1.0
Electronic and electrical equipment	Q-cells	Solar energy production – Germany	26,363	
	ABB	Electronic and electrical equipment – Switzerland	12,976	
			39,339	1.7
Industrial engineering	Atlas Copco	Engineering – Sweden	99,392	
	Sandvik	Engineering – Sweden	81,970	
	Vestas Windsystems	Wind power systems – Denmark	77,204	
			258,566	11.4
Automobiles and parts	Porsche	Automobiles – Germany	90,222	4.0
Personal goods	Hermes	Luxury goods – France	16,433	
	Richemont	Luxury goods – Switzerland	28,335	
			44,768	1.9
Pharmaceuticals and biotechnology	Novozymes	Generic drugs manufacturer – Denmark	10,856	0.5
General retailers	PPR	Broadline retailer – France	17,283	0.8
Fixed line telecommunications	Swisscom	Fixed line telecommunications – Switzerland	33,035	1.4
Banks	Banco Santander	Banking – Spain	11,913	
	UBS	Banking – Switzerland	27,449	
	Unicredito Italiano	Banking – Italy	35,607	
			74,969	3.3
Nonequity investment instruments	Baillie Gifford European Smaller Companies Fund	Small company fund	16,633	0.7
Software and computer services	SAP	Business software – Germany	17,138	0.8
Technology hardware and equipment	Ericsson	Telecommunications equipment – Sweden	22,211	1.0
Total Continental European Equities			**648,014**	**28.5**

Classification	Name	Business	Fair value £'000	% of total assets
North America				
Oil and gas producers	EOG Resources	Oil and gas producer	53,374	2 3
Oil equipment, services and distribution	Schlumberger	Oil services	43,723	1 9
Chemicals	Monsanto	Seed and agricultural chemicals	41,336	1 8
Industrial metals	US Steel	Steel mill products	22,289	1 0
General industrials	Rockwell Automation	Industrial automation providers	23,076	1 0
Industrial engineering	Deere	Farm machinery	44,777	2 0
Beverages	Brown Forman	Wine and spirits producer	19,949	0 9
Healthcare equipment and services	Wellpoint	Managed care	13,319	0 6
Food and drug retailers	Walgreen	Pharmacy chain	24,116	
	Whole Foods Market	General retailer	15,176	
			39,292	1 8
General retailers	Amazon com	Online retailer	61 714	
	eBay	Internet trading company	69,684	
			131,398	5 8
Media	Omnicom	Advertising agency	18,594	0 8
Nonlife insurance	Berkshire Hathaway	Insurance	31,437	
	Progressive Ohio	Property and casualty insurance	16,969	
			48,406	2 1
Software and computer services	Google	Online search engine	14,958	0 7
Technology hardware and equipment	Linear Tech	Linear integrated circuits	13,866	
	First Solar	Solar energy technology	26 061	
			39,927	1 7
Total North American Equities			**554,418**	**24 4**
Japan				
Leisure goods	Nintendo	Leisure, amusement, motion pictures, entertainment	15,589	0 7
Nonlife insurance	Mitsui Sumitomo Insurance	Non life insurer	21,461	0 9
Technology hardware and equipment	Canon	Printers, copiers and cameras	52,407	2 3
Total Japanese Equities			**89,457**	**3 9**
Asia Pacific				
Oil and gas producers	CNOOC	Oil and gas production China	9,821	0 4
Industrial engineering	Samsung Heavy Industries	Construction and holding company – Korea	13,283	0 6
Automobiles and parts	Hero Honda Motors	Motorcycle and scooter manufacturer – India	11,607	0 5
Mobile telecommunications	China Mobile	Mobile telecommunications Hong Kong	46,371	2 0
Banks	Kookmin Bank	Banking Korea	15,524	
	Hana Financial Group	Banking Korea	9,248	
	DBS Group Holdings	Banking Singapore	5 166	
			29,938	1 3
Real estate	Shanghai Forte Land	Residential property China	9,132	0 4
General financial	Housing Development Finance Corporation	Mortgage bank India	8,427	
	Singapore Exchange	Securities exchange owner/operator Singapore	12 305	
	Hong Kong Exchanges and Clearing	Securities exchange owner/operator Hong Kong	10,239	
			30,971	1 4

Classification	Name	Business	Fair value £'000	% of total assets
Asia Pacific continued				
Software and computer services	Taiwan Semiconductor Manufacturing	Semiconductor manufacturer – Taiwan	22,746	1 0
Technology hardware and equipment	Samsung Electronics	Electronics manufacturer Korea	26,892	1 2
Total Asia Pacific Equities			**200,761**	**8 8**
Emerging Markets				
Oil and gas producers	Gazprom	Gas producer – Russia	85,750	
	Lukoil	Oil producer – Russia	16,343	
	Petrobras	Oil producer – Brazil	96,399	
			198,492	8 7
Industrial metals	Norilsk Nickel	Diversified mining – Russia	51,066	2 3
Mining	CVRD (or Vale)	Iron ore and nickel mining – Brazil	101,078	4 4
Pharmaceuticals and biotechnology	Teva Pharmaceuticals	Generic drugs manufacturer – Israel	21,444	1 0
General retailers	Walmex	General retailer – Mexico	17,640	0 8
Mobile telecommunications	MTN Group	Mobile telecommunications – South Africa	9,816	0 4
Banks	Garanti Bankasi	Banking – Turkey	14,326	
	Standard Bank Group	Banking – South Africa	12,720	
			27,046	1 2
Real estate	Black Sea Property Fund	Bulgarian property trust	750	–
Total Emerging Markets Equities			**427,332**	**18 8**
Total Equity Investments			**2,170,924**	**95 4**
Fixed Interest				
Sterling denominated	Business Mortgage Finance FRN 2037		1,576	
	Business Mortgage Finance FRN 2041		4,000	
	Business Mortgage Finance FRN 2045		6,722	
	Cairngorm Limited Class E FRN 2016		2,353	
	Royal Bank of Scotland 8 162% 2012		2 577	
			17,228	0 8
Euro denominated	Euro Max IV Income Notes		478	
	Semper Finance FRN 2006-1		2,144	
	Skye CLO Income Notes 2019		2,257	
			4,879	0 2
US$ denominated	Old Mutual 8% 2008 Perpetual		1,864	0 1
Brazilian real denominated	Brazil CPI Linked 2045		64,579	2 8
Total Fixed Interest			**88,550**	**3 9**
Total Investments			**2,259,474**	**99 3**
Net Liquid Assets			**16,597**	**0 7**
Total Assets at Fair Value (before deduction of debentures, long and short term borrowings)			**2,276,071**	**100 0**

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* (fair) p	Net asset value per share* (par) p	Share price p	Discount† (fair) %	Discount† (par) %
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
2008	**2,276,071**	**439,627**	**1,836,444**	**670 3**	**651 4**	**672 5**	**600 0**	**7 9**	**10 8**

* Net asset value per ordinary share has been calculated after deducting long term borrowings at either par value or fair value (see note 23, page 47)
† Discount is the difference between Scottish Mortgage's quoted share price and its underlying net asset value with borrowings at either par 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

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 §§ %
1998	52 184	21,685	6 01	5 35	0 37
1999	44,894	20,263	5 62	5 50	0 38
2000	44,100	27,807**	7 82**	5 65	0 50
2001	44,075	25,212	7 57	6 00	0 51
2002	36,377	24 213	7 56	6 25	0 47
2003	33,909	22,597	7 43	6 60	0 49
2004	35,829	23,931	8 05	7 00	0 60
2005	35,456	21,809	7 37	7 35	0 52
2006	41,456	25,738	8 82	8 50	0 52
2007	45,522	27,817	9 80	9 50	0 49
2008	**49,575**	**27,043**	**9 79**	**10 30**	**0 51**

Gearing Ratios

Year to 31 March	Actual gearing ¶	Potential gearing ॥
1998	107	119
1999	107	114
2000	105	114
2001	104	113
2002	109	116
2003	113	125
2004	111	120
2005	110	117
2006	108	113
2007	110	116
2008	**118**	**124**

‡ 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 38)
§§ 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 1998 as 100)

At 31 March	Net asset value per share (par)	Net asset value total return (par) ‡‡	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
1998	100	100	100	100	100	100	100	100	100
1999	105	107	110	112	98	100	94	103	102
2000	130	134	127	132	129	133	130	106	105
2001	102	106	109	115	98	103	126	112	107
2002	97	102	103	112	96	103	126	117	109
2003	65	70	70	77	61	67	124	123	112
2004	87	97	87	99	79	91	134	131	115
2005	97	107	95	111	87	100	123	137	118
2006	140	158	120	143	136	160	147	159	121
2007	144	166	124	153	141	169	163	178	127
2008	**154**	**180**	**120**	**151**	**156**	**190**	**163**	**193**	**132**
Compound annual returns									
5 year	18 7%	20 7%	11 4%	14 4%	20 7%	23 3%	5 7%	9 3%	3 3%
10 year	4 4%	6 1%	1 8%	4 2%	4 6%	6 6%	5 0%	6 8%	2 8%

‡‡ Source Thomson Financial Datastream
^ On 1 April 2007 the Company changed its benchmark from 50% FTSE All Share Index and 50% FTSE World ex UK Index (in sterling terms) to 100% FTSE All World Index (in sterling terms) For the purposes of the above the returns on both benchmarks for their respective periods have been linked to form a single benchmark

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 2008

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 The Company aims to achieve a greater return than the FTSE All World Index (in sterling terms) over a five year rolling period

Investment Policy

Scottish Mortgage is a truly active fund and does not attempt to track its benchmark index Its objective is to maximise total return, whilst also generating real dividend growth, from a focused and actively managed global portfolio Investments are chosen for inclusion within the equity portfolio by looking closely at the merits of individual companies in a structured and rational fashion

A global perspective is taken Asset allocation is the outcome of stock selection and not arrived at by making specific weightings to regions, industries or sectors Achieving diversification is a requirement when selecting investments but an unconstrained approach is adopted and there are no fixed limits set as to geographical, industry and sector exposure Levels of diversity achieved are monitored by the Board on a regular basis

The number of equity holdings will typically range between 50 and 100 and are chosen from around the world

A long term investment horizon is observed and little attention is paid to short term market trends when deciding policy This patient approach allows market volatility to be exploited to shareholders' long term advantage An average holding period for investments of five years or more is targeted

Investment may be made in fixed interest securities, convertible securities funds, unquoted entities and other assets based on the individual investment cases With prior approval of the Board, the Company may use derivatives for the purpose of efficient portfolio management (i e for the purpose of reducing, transferring or eliminating investment risk in its investment, including protection against currency risk) and for investment purposes The primary investment focus is on equity investments predominantly with good liquidity

Exposures to any one entity are monitored regularly by the Board At the time of investment the maximum exposure to any one holding is limited to 8% of total assets A maximum of 40% of total assets may be invested in holdings exceeding 3% of total assets These two restrictions do not apply to investment in unit trusts or OEICs, investments by way of rights issues or certain government bonds The maximum permitted investment in other UK listed investment companies in aggregate is 15% of gross assets

Borrowings are invested in equity markets when it is believed that investment considerations 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 Apart from in exceptional circumstances the Board will not take out additional borrowings if, at the time of borrowing, this takes the level of effective gearing beyond 130% with net asset value calculated with borrowings at par value

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 and there will be periods when performance diverges significantly from the benchmark Performance against the benchmark is assessed over a five year rolling term

Details of investment strategy and activity this year can be found in the Chairman's Statement on page 4 and the Managers' Review on pages 8 to 10

Discount

The Board recognises that it is in the long term interests of shareholders to manage 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 7,471,279 shares, all of which are held in treasury, 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 which can be found on pages 2 and 3

Review

A review of the main features of the year and the investment outlook is contained in the Chairman's Statement and the Managers' Review on pages 4, 5 and 8 to 10 respectively

Principal Risks and Uncertainties

The principal risks facing the Company relate to the Company's investment activities An explanation of these risks and how they are managed is contained in note 23 to the accounts on pages 43 to 47

In addition, breach of section 842 of the Income and Corporation Taxes Act 1988 could lead to the Company being subject to capital gains tax The Managers monitor investment movements, the level of forecast income and expenditure to ensure the provisions of the Act are not breached

Financials

There are four debentures in issue, all of which are listed and quoted on the London Stock Exchange and details of which are given on pages 40, 46 and 47 In addition, term bank borrowings and loan facilities are in place which are also shown on page 40 The financial highlights for the year under review are as follows the net asset value per share increased by 7 3% during the year, compared to a decrease in the benchmark of 3 7%, dividends increased by 8 4% to 10 30p per share, and the discount has fallen to 7 9%

The Company has an Aaa Issuer Rating by Moody's

Dividends

The Board recommends a final dividend of 5 30p per ordinary share which, together with the interim of 5 00p already paid, makes a total of 10 30p for the year compared with 9 50p for the previous year

If approved, the recommended final dividend on the ordinary shares will be paid on 2 July 2008 to shareholders on the register at the close of business on 6 June 2008 The ex-dividend date is 4 June 2008

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 2007, 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 2006, (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's 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

Directors' Attendance at Meetings

	Board	Audit Committee	Nomination Committee
Number of meetings	**6**	**2**	**1**
Sir Donald MacKay	6	2	1
GA Ball	5	1	1
MM Gray	6	2	1
WG McQueen	6	2	1
JPHS Scott	6	2	1
Lord Strathclyde	4	2	–

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 comprising only 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 enables it to provide effective strategic leadership and proper governance of the Company Information about the Directors, including their relevant experience, can be found on page 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 is 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 Company's page 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 remains 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

Directors' Interests

Name	Nature of interest	Ordinary 25p shares held at 31 March 2008	31 March 2007
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
JPHS Scott	Beneficial	30,396	30,402
Lord Strathclyde	Beneficial	3,142	3 142

The Directors at the year end, and their interests in the Company, were as shown above There have been no changes intimated in the Directors' interests up to 13 May 2008

have served for more than nine years offer themselves for re-election annually

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 pages 22 and 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

As all the Directors are non-executive, the provisions of the Combined Code in respect 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 26 and 27

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 have 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 conduct an annual review of their system of internal controls which is documented within an internal controls report 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 Mellon 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 and the internal audit function in place within the Managers and Secretaries 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 28 to 30

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

Audit Committee

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

Major Interests in Shares

Name	No of ordinary 25p shares held	% of issue
D C Thomson & Company Limited (Direct)	14,300,000	5 2
Barclays PLC (Indirect)	13,980,283	5 1
BlackRock Inc (Indirect)	13 949,207	5 1
Prudential plc group of companies (Direct)	10,477,844	3 8
Legal & General Group Plc (Direct)	9,858 900	3 6

The above information has been intimated to the Company as at 13 May 2008

terms of reference, which are available on request from the Company and on 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,
- 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 2008 were £540 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 sets 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 36

The Board considers the Company's investment management and secretarial arrangements 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, given the excellent performance, 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

Directors

Dr MM Gray and Mr WG McQueen 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

Share Capital

Capital structure

The Company's capital structure consists of 273,989,897 ordinary shares of 25p each (2007 – 281,461,176 ordinary shares), 284,346,176 including treasury shares at 31 March 2007 and 2008

Dividends

The ordinary shares carry a right to receive dividends Interim dividends are determined by the Directors, whereas the proposed final dividend is subject to shareholder approval

Capital entitlement

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

Voting

On a show of hands, every ordinary shareholder present in person or by proxy has one vote and on a poll every ordinary shareholder present in person has one vote for every share he/she holds and a proxy has one vote for every share in respect of which he/she is appointed

Information on the deadlines for proxy appointments can be found on page 52

Purchase of Shares

During the year to 31 March 2008 the Company bought back 7,471,279 ordinary shares (nominal value £1,868,000), on the London Stock Exchange, all of which are held in treasury The total consideration for these shares was £45,539,000 Between 1 April 2008 and the date of this report no further shares have been bought back At 31 March 2008 the Company held 10,356,279 treasury shares

The principal reasons for such share buy backs are

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

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

The shares in question were purchased at a price (after allowing for costs) below the net asset value As a result of such purchases the net asset value of the Company has increased by approximately 0 3%

The current authority of the Company to make market purchases of up to 14 99% of the issued ordinary shares expires at the end of the Annual General Meeting

Resolution 9, which is being proposed as a special resolution, seeks to renew the Company's authority 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 2009 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 9, 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

Authority to Allot Shares and Disapply Pre emption Rights

Resolution 10, which is being proposed as a special resolution, seeks to give the Directors power to sell ordinary shares held in treasury (see above) for cash up to a maximum of £6,849,747 in aggregate (representing 10% of the issued ordinary share capital of the Company as at 13 May 2008) without first being required to offer such shares to existing shareholders pro rata to their existing holdings

This power will last until the Annual General Meeting of the Company to be held in 2009

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 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 10 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' above) The Directors consider that the power proposed to be granted by Resolution 10 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

Changes to the Company's Articles of Association

Resolution 11, which is being proposed as a special resolution, will be put to the AGM to amend certain of the provisions of the Company's Articles of Association in the light of certain of the provisions of the Companies Act 2006 An explanation of the principal proposed changes is set out in paragraphs 1 to 4 below In addition, it is proposed to remove the requirement that share certificates and, subject to the terms of any debenture stock issued by the Company, other certificates of title have the Company seal affixed to them

The proposed changes to the Company's Articles of Association are set out in the copy of the Articles of Association marked "A" which will be available for inspection at the Company's registered office, Calton Square, 1 Greenside Row, Edinburgh EH1 3AN and at the offices of the Company's legal advisers, Shepherd and Wedderburn LLP, at Condor House, 10 St Paul's Churchyard, London EC4M 8AL during normal business hours on any week day (Saturdays, Sundays and public holidays excepted) from the date of this annual report until the close of the AGM and at the place of the AGM from 15 minutes prior to and during the continuance of the meeting

Explanation of principal changes to the Company's Articles of Association

1 Director's age limit

The Company's current Articles of Association contain a provision, regarding an age limit for Directors which, amongst other things, requires a Director's age to be disclosed, if he has attained the age of 70 years or more, in the notice convening a meeting at which the Director is proposed to be elected or re elected Such provision could now fall foul of the Employment Equality (Age) Regulations 2006 and so it is proposed that it be deleted

2 Conflicts of interest

The Companies Act 2006 sets out directors' general duties which largely codify the existing law but with some changes Under the Companies Act 2006, from 1 October 2008 a director must avoid a situation where he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict with the company's interests The requirement is very broad and could apply, for example, if a director becomes a director of another company or a trustee of another organisation The Companies Act 2006 allows directors of public companies to authorise conflicts and potential conflicts, where appropriate, where the articles of association contain a provision to this effect The Companies Act 2006 also allows the articles of association to contain other provisions for dealing with directors' conflicts of interest to avoid a breach of duty

The proposed changes to the Company's Articles of Association empower Directors to authorise conflicts or potential conflicts subject to such terms as the Directors may determine at their absolute discretion

There are safeguards which will apply when Directors decide whether to authorise a conflict or potential conflict First, only Directors who have no interest in the matter being considered will be able to take the relevant decision and, secondly, in taking the decision the Directors must act in a way they consider, in good faith, will be most likely to promote the Company's success The Directors will be able to impose limits or conditions when giving authorisation

It is also proposed that the Company's Articles of Association should contain provisions relating to confidential information, attendance at Board meetings and availability of Board papers to protect a Director being in breach of duty if a conflict of interest or potential conflict of interest arises These provisions will only apply where the position giving rise to the potential conflict has previously been authorised by the Directors and will take effect from 1 October 2008 It is the Board's intention to report annually on the Company's procedures for ensuring that the Board's powers to authorise conflicts are operated effectively

3 Electronic and web communications
Provisions of the Companies Act 2006 which came into force in January 2007 enable companies to communicate with members by electronic and/or website communications The proposed changes to the Company's Articles of Association would allow communications to members in electronic form and, in addition, permit the Company to take advantage of the new provisions relating to website communications Before the Company can communicate with a member by means of website communication, the relevant member must be asked individually by the Company to agree that the Company may send or supply documents or information to him by means of a website, and the Company must either have received a positive response or have received no response within the period of 28 days beginning with the date on which the request was sent The Company will notify the member (either in writing, or by other permitted means) when a relevant document or information is placed on the website and a member can always request a hard copy version of the document or information

4 Directors' indemnities and loans to fund expenditure
The Directors have the benefit of the indemnity provision set out in the Company's Articles of Association which is a qualifying third party indemnity provision (as defined by the Companies Acts) and which was in force throughout the year and is currently in force

The Companies Act 2006 has in some areas widened the scope of the powers of a company to indemnify directors and to fund expenditure incurred in connection with certain actions against directors In addition, the existing exemption allowing a company to provide money for the purpose of funding a director's defence in court proceedings now expressly covers regulatory proceedings

The proposed amendments to the Company's Articles of Association reflect these provisions of the Companies Act 2006 and extend the indemnity currently permitted under the Company's articles of association to cover the liability of a Director (but not another officer of the Company or the Company's auditors) to a third party, other than the Company for breach of trust or duty It would not permit the Director to be indemnified in respect of such liabilities to the Company itself or cover any liability to pay any regulatory or criminal fines It would not cover any liability incurred by the Director in defending any criminal proceedings in which he is convicted or civil proceedings brought by the Company in which judgement is given against him

There are also proposed amendments to the Articles of Association inserting new provisions in the Articles to allow Directors to be counted in the quorum and vote at a meeting of the Directors in respect of a resolution relating to the entry into of any indemnity in favour of him or any provision to him of funds to meet expenditure incurred or to be incurred by him in certain investigations, actions or proceedings where he would otherwise not be entitled to be counted in the quorum and vote

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 2008 or 31 March 2007

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 the Directors have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company auditors are aware of that information

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
14 May 2008

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 29 and 30

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 2009 and subsequent years

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 remain unchanged at £32,000 for the Chairman and £21,000 for each Director with an additional fee of £2,000 for the Chairman of the Audit Committee

Directors' Emoluments for the Year (audited)

	2008 £	2007 £
Directors who served during the year		
Sir Donald MacKay (Chairman)	32 000	32,000
GA Ball	21,000	21,000
MM Gray	21,000	21,000
WG McQueen (Audit Committee Chairman)	23,000	23,000
JPHS Scott	21,000	21 000
Lord Strathclyde	21 000	21,000
	139,000	**139,000**

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

Directors' Service Details

	Date of appointment	Due date for re-election
Sir Donald MacKay	1 July 1999	AGM 2010
GA Ball	17 February 1983	AGM June 2008
MM Gray	26 February 2004	AGM June 2008
WG McQueen	15 February 2001	AGM June 2008
JPHS Scott	31 October 2001	AGM 2009
Lord Strathclyde	26 February 2004	AGM 2009

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 2003)

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

† Benchmark FTSE All World Index (in sterling terms) The benchmark has been chain linked, see footnote *on page 3

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 World 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 26 and 27 was approved by the Board of Directors and signed on its behalf on 14 May 2008

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 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

We confirm that to the best of our knowledge

- the financial statements, prepared in accordance with the applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company, and
- the Annual Report includes a fair view of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that the Company faces

By order of the Board
SIR DONALD MACKAY
14 May 2008

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 2008 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 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 28

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 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 2006 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 2008 and of its profit 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, and
- the information given in the Directors' Report is consistent with the financial statements

KPMG Audit Plc KPMG Audit Plc
Chartered Accountants
Registered Auditor
Edinburgh
14 May 2008

	Notes	For the year ended 31 March 2008 Revenue £'000	Capital £'000	**Total £'000**	For the year ended 31 March 2007 Revenue £'000	Capital £'000	**Total £'000**
Gains on investments	9	–	159,406	**159,406**	–	53,001	**53,001**
Currency (losses)/gains	14	–	(36 613)	**(36,613)**	–	5 083	**5,083**
Income	2	49 575	–	**49,575**	45,522	–	**45,522**
Investment management fee	3	(3,875)	(3,875)	**(7,750)**	(3,462)	(3,462)	**(6,924)**
Other administrative expenses	4	(2,068)	–	**(2,068)**	(1,731)		**(1,731)**
Net return before finance costs and taxation		43,632	118,918	**162,550**	40,329	54,622	**94,951**
Finance costs of borrowings	5	(10,025)	(10,025)	**(20,050)**	(8,452)	(8,452)	**(16,904)**
Net return on ordinary activities before taxation		33,607	108,893	**142,500**	31,877	46,170	**78,047**
Tax on ordinary activities	6	(6,564)	3,908	**(2,656)**	(4,060)	2,650	**(1,410)**
Net return on ordinary activities after taxation		**27,043**	**112,801**	**139,844**	**27,817**	**48,820**	**76,637**
Net return per ordinary share	8	**9 79p**	**40.82p**	**50 61p**	**9 80p**	**17 19p**	**26 99p**

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 35 to 47 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 2008 £'000	£'000	At 31 March 2007 £'000	£'000
Fixed assets					
Investments held at fair value through profit or loss	9		2,259,474		2,031,907
Current assets					
Debtors	10	20,026		25,037	
Cash and short term deposits		13,030		19,165	
		33,056		44 202	
Creditors					
Amounts falling due within one year	11	(126 435)		(104,749)	
Net current liabilities			(93,379)		(60,547)
Total assets less current liabilities			2,166,095		1,971,360
Creditors					
Amounts falling due after more than one year	12		(329,651)		(201,495)
			1,836,444		**1,769,865**
Capital and reserves					
Called up share capital	13		68,497		70,365
Capital redemption reserve	14		21,683		19 815
Capital reserve – realised	14		1,712 759		1,067,888
Capital reserve – unrealised	14		(36,430)		541,179
Revenue reserve	14		69 935		70,618
Equity shareholders' funds	15		**1,836,444**		**1,769,865**
Net asset value per ordinary share (after deducting borrowings at fair value)	23		**651 4p**		**607 1p**
Net asset value per ordinary share (after deducting borrowings at par)	16		**672 5p**		**631 0p**

The Financial Statements were approved and authorised for issue by the Board and signed on 14 May 2008

SIR DONALD MACKAY
Chairman

Donald Mackay

The accompanying notes on pages 35 to 47 are an integral part of this statement

For the year ended 31 March 2008

	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 2007		70,365	19,815	1,067,888	541,179	70,618	**1,769,865**
Transfer between reserves*			–	535,237	(535,237)	–	–
Net return on ordinary activities after taxation	14	–	–	155,173	(42,372)	27,043	**139,844**
Shares bought back	13	(1,868)	1,868	(45,539)	–	–	**(45,539)**
Dividends paid during the year	7		–	–	–	(27,726)	**(27,726)**
Shareholders' funds at 31 March 2008		**68,497**	**21,683**	**1,712,759**	**(36,430)**	**69,935**	**1,836,444**

* See note 14 on page 41

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**
Net return on ordinary activities after taxation		–	–	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**

The accompanying notes on pages 35 to 47 are an integral part of this statement

	Notes	For the year ended 31 March 2008 £'000	£'000	For the year ended 31 March 2007 £'000	£'000
Net cash inflow from operating activities	17		36 358		40,741
Servicing of finance					
Interest paid		(18,708)		(16,570)	
Net cash outflow from servicing of finance			(18,708)		(16,570)
Taxation					
Income tax paid		(10)		(15)	
Overseas tax incurred		(2,560)		(1,407)	
Total tax paid			(2,570)		(1,422)
Financial investment					
Acquisitions of investments		(783,355)		(688,970)	
Disposals of investments		707,926		673,837	
Realised currency loss		(1,051)		(2 293)	
Net cash outflow from financial investment			(76,480)		(17,426)
Equity dividends paid	7		(27,726)		(25,994)
Net cash outflow before financing			(89,126)		(20,671)
Financing					
Shares bought back		(45,539)		(34,131)	
Bank loans repaid		(72,480)		(99,145)	
Bank loans drawn down		201,010		150,462	
Net cash inflow from financing			82,991		17,186
Decrease in cash	18		**(6,135)**		**(3,485)**

	Notes	2008 £'000	2007 £'000
Reconciliation of net cash flow to movement in net debt	18		
Decrease in cash in the period		(6 135)	(3,485)
Increase in bank loans		(128,530)	(51 317)
Exchange movement on bank loans		(35,562)	7,376
Other non-cash changes		115	100
Movement in net debt in the year		(170,112)	(47,326)
Net debt at 1 April		(256 485)	(209,159)
Net debt at 31 March		**(426,597)**	**(256,485)**

The accompanying notes on pages 35 to 47 are an integral part of this statement

1 Principal Accounting Policies

The financial statements for the year to 31 March 2008 have been prepared on the basis of the accounting policies set out below These are unchanged from last year and have been applied consistently

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 upon initial recognition 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

Gains and losses arising from changes in the fair value of investments are considered to be realised to the extent that they are readily convertible to cash, without accepting adverse terms, at the balance sheet date Fair value gains on unlisted investments are not considered to be readily convertible to cash and are therefore treated as unrealised The treatment of listed investments is dependent upon the individual circumstances of each holding

(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 yield 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 column of the Income Statement except as follows where they relate directly to the acquisition or disposal of an investment (transaction costs), in which case they are recognised as capital, 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 column of the Income Statement 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 Reserve Realised
Gains and losses on realisation of investments, changes in fair value of instruments which are readily convertible to cash, without accepting adverse terms, 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 Reserve Unrealised
Changes in fair value of investments that are not readily convertible to cash, without accepting adverse terms, and the amounts by which other assets and liabilities valued at fair value differ from their book value are dealt with in this reserve

2 Income

	2008 £'000	2007 £'000
Income from investments		
Franked investment income	11,391	18,344
UK unfranked investment income†	1,932	3,203
Overseas dividends	30,146	18,243
Overseas interest	5,428	5 059
	48,897	**44,849**
Other income		
Deposit interest	608	623
Underwriting commission and commitment fees	70	50
	678	**673**
Total income	**49,575**	**45,522**
Total income comprises		
Dividends from financial assets designated at fair value through profit or loss	41,859	37 138
Interest from financial assets designated at fair value through profit or loss	7 038	7,711
Deposit interest from financial assets not at fair value through profit or loss	608	623
Other income not from financial assets	70	50
	49,575	**45,522**
Income from investments		
Listed UK	11,482	18,954
Listed overseas	37,415	25,895
	48,897	**44,849**

†Includes OEIC income

3 Investment Management Fee

	Revenue £'000	2008 Capital £'000	**Total £'000**	Revenue £'000	2007 Capital £'000	**Total £'000**
Investment management fee	3,717	3,717	**7,434**	3,129	3,129	**6,258**
Unrecovered VAT thereon	158	158	**316**	333	333	**666**
	3,875	**3,875**	**7,750**	**3,462**	**3,462**	**6,924**

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) The management fee is levied on all assets, including holdings in collective investment schemes (OEICs) managed by Baillie Gifford & Co, however the OEICs' 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

	2008 £'000	2007 £'000
General administrative expenses	1,908	1,573
Directors' fees (see Directors' Remuneration Report page 26)	139	139
Auditors' remuneration for audit services	20	18
Auditors' remuneration for other services – certification of results for the debenture trustees	1	1
	2,068	**1,731**

5 Finance Costs of Borrowings

	2008 Revenue £'000	2008 Capital £'000	2008 **Total £'000**	2007 Revenue £'000	2007 Capital £'000	2007 **Total £'000**
Financial liabilities not at fair value through profit or loss						
Bank loans and overdrafts repayable within five years	3,089	3,089	**6,178**	1,508	1,508	**3,016**
Debentures repayable wholly or partly in more than five years	6 936	6,936	**13,872**	6,944	6,944	**13,888**
	10,025	**10,025**	**20,050**	**8,452**	**8,452**	**16,904**

6 Tax on Ordinary Activities

	2008 Revenue £'000	2008 Capital £'000	2008 **Total £'000**	2007 Revenue £'000	2007 Capital £'000	2007 **Total £'000**
UK corporation tax	6,708	(3 908)	**2,800**	4,060	(2,650)	**1,410**
Overseas taxation	2,800	–	**2,800**	1,410	–	**1,410**
Double taxation relief	(2,800)		**(2,800)**	(1,410)	–	**(1,410)**
Total current tax	6,708	(3 908)	**2,800**	4 060	(2,650)	**1,410**
Recovery of refundable income written off in previous years	(144)		**(144)**	–		–
	6,564	**(3,908)**	**2,656**	**4,060**	**(2,650)**	**1,410**

	2008 £'000	2007 £'000
The tax charge for the year is lower than the standard rate of corporation tax in the UK of 30% (2007 – 30%)		
The differences are explained below		
Revenue return on ordinary activities before taxation	33,607	31,877
Revenue return on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2007 – 30%)	10,082	9,563
Income not taxable (franked investment income)	(3 417)	(5,503)
Overseas tax	(2,800)	(1,410)
Double taxation relief	2,800	1,410
Tax on refundable income written off in previous years	43	–
Current revenue tax charge for the year	**6,708**	**4,060**

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 2008 the Company had surplus management expenses of £56 million (2007 – £54 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

	2008	2007	2008 £'000	2007 £'000
Amounts recognised as distributions in the period				
Previous year's final (paid 4 July 2007)	5 00p	4 65p	13,984	13,222
Interim (paid 23 November 2007)	5 00p	4 50p	13,742	12,772
	10 00p	**9 15p**	**27,726**	**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 £27,043,000 (2007 – £27,817,000)

	2008	2007	2008 £'000	2007 £'000
Dividends paid and proposed in the period				
Interim dividend per ordinary share (paid 23 November 2007)	5 00p	4 50p	13,742	12,772
Proposed final dividend per ordinary share (payable 2 July 2008)	5 30p	5 00p	14,521	14,073
Adjustment to previous year's final dividend re shares bought back			(89)	(173)
	10 30p	**9 50p**	**28,174**	**26,672**

8 Net Return per Ordinary Share

	2008 Revenue	2008 Capital	2008 **Total**	2007 Revenue	2007 Capital	2007 **Total**
	9 79p	**40 82p**	**50 61p**	**9 80p**	**17 19p**	**26 99p**

Revenue return per ordinary share is based on the net revenue on ordinary activities after taxation of £27,043,000 (2007 – £27,817,000), and on 276,364,832 (2007 – 283,953,088) 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 £112,801,000 (2007 – net capital gain of £48,820,000), and on 276,364,832 (2007 – 283,953,088) 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

	2008 £'000	2007 £'000
Financial assets designated at fair value through profit or loss on initial recognition		
Listed UK – equity investments	251 692	509 312
Listed Overseas – equity investments	1,919,232	1 445,417
Listed Overseas – debt instruments	88,550	77,178
Total investments in financial assets at fair value through profit or loss	**2,259,474**	**2,031,907**

9 Fixed Assets – Investments (continued)

	Listed in UK £'000	Listed overseas £'000	Total £'000
Cost of investments at 1 April 2007	344,049	1,152,621	**1,496,670**
Fair value adjustment at 1 April 2007	165,263	369,974	**535,237**
Fair value of investments at 1 April 2007	509,312	1,522 595	**2,031,907**
Movements in year			
Purchases at cost	104,045	672,591	**776,636**
Sales – proceeds	(298,817)	(409,615)	**(708,432)**
– gains	99 064	139,861	**238,925**
Amortisation of fixed interest book cost	–	(43)	**(43)**
Changes in fair value	(161,912)	82,393	**(79,519)**
Fair value of investments at 31 March 2008	**251,692**	**2,007,782**	**2,259,474**
Cost of investments at 31 March 2008	248,341	1,555,415	**1,803,756**
Fair value adjustment at 31 March 2008	3 351	452,367	**455,718**
Fair value of investments at 31 March 2008	**251,692**	**2,007,782**	**2,259,474**

The purchases and sales proceeds figures above include transaction costs of £1,443,000 (2007 – £1,549,000) and £923,000 (2007 – £653,000) respectively

	2008 Realised £'000	2008 Unrealised £'000	2008 Total £'000	2007 Realised £'000	2007 Unrealised £'000	2007 Total £'000
Net gains on investments designated at fair value through profit or loss on initial recognition						
Securities						
Gains on sales	238,925	–	**238,925**	221,145	–	**221,145**
Changes in fair value	(79,519)		**(79,519)**	–	(168,144)	**(168,144)**
	159,406	**–**	**159,406**	**221,145**	**(168,144)**	**53,001**

With effect from 1 April 2007, changes in fair value of investments which are readily convertible to cash, without accepting adverse terms, at the balance sheet date are considered to be realised Fair value gains on unlisted investments are not treated as readily convertible to cash, whereas the treatment of fair value gains on listed investments depends upon the individual circumstances of each investment

Of the gains on sales during the year a net gain of £49,109,000 (2007 – gain of £49,181,000) was included in the fair value adjustment 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

	2008 C income shares held	2008 % of fund held	2007 C income shares held	2007 % fund fund held
Baillie Gifford European Smaller Companies Fund	5,767,177	25 6	5,767,177	18 9

10 Debtors

	2008 £'000	2007 £'000
Amounts falling due within one year		
Income accrued	9,260	9,993
Sales for subsequent settlement	5 223	4 717
FX sales for subsequent settlement	5,165	10,073
UK taxation recoverable	48	37
Other debtors and prepayments	330	217
	20,026	**25,037**

11 Creditors Amounts falling due within one year

	2008 £'000	2007 £'000
National Australia Bank Limited multi-currency loan	–	25,476
BNP Paribas multi currency loan	59,661	48,679
The Royal Bank of Scotland multi currency loan	50,315	–
Purchases for subsequent settlement	5,165	11 884
FX purchases for subsequent settlement	5,170	10,103
Other creditors and accruals	6,124	8,607
	126,435	**104,749**

Included in other creditors is £1,071,000 (2007 – £886,000) in respect of the investment management fee

Borrowing facilities

A 364 day £50 million multi-currency loan facility, at the time of draw down, has been arranged with BNP Paribas
A £100 million short term multi currency loan facility, at the time of draw down, has been arranged with The Royal Bank of Scotland plc
A 3 year £100 million multi-currency loan facility, at the time of draw down, has been arranged with ING Bank N V
A 3 year £50 million multi currency loan facility, at the time of draw down, has been arranged with Lloyds TSB Scotland plc

At 31 March 2008 drawings were as follows

BNP Paribas	¥8,230 million at an interest rate of 1 24% per annum
	CHF 35 5 million at an interest rate of 3 11% per annum
The Royal Bank of Scotland plc	US$ 100 million at an interest rate of 3 46% per annum
ING Bank N V	¥8,500 million at an interest rate of 1 63% per annum (see note 12)
	US$ 30 million at an interest rate of 5 65% per annum (see note 12)
	CHF 121 million at an interest rate of 3 45% per annum (see note 12)
Lloyds TSB Scotland plc	€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 £900 million
(iii) The Company shall not change the investment manager without prior written consent of the lenders

12 Creditors – Amounts falling due after more than one year

	Nominal rate	Effective rate	2008 £'000	2007 £'000
Debenture stocks				
£20 million 8–14% stepped interest debenture stock 2020	14 0%	12 3%	22,132	22,203
£75 million 6 875% debenture stock 2023	6 875%	6 9%	74,451	74,414
£50 million 6–12% stepped interest debenture stock 2026	12 0%	10 8%	54,580	54 661
4½% irredeemable debenture stock			675	675
Bank loans				
ING Bank N V multi-currency loan			119 614	–
Lloyds TSB Scotland plc multi-currency loan			58,199	49,542
			329,651	**201,495**

Debenture stocks

The debenture stocks are stated at 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 £6,163,000 (2007 – £6,278,000) over nominal value The debenture stocks are secured by a floating charge over the assets of the Company

13 Called up Share Capital

	2008 Number	2008 £'000	2007 Number	2007 £'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	**273,989,897**	**68,497**	**281,461,176**	**70,365**
Treasury shares of 25p each	**10,356,279**		**2,885,000**	

The Company's authority 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 In the year to 31 March 2008, a total of 7,471,279 (2007 – 6,613,939) ordinary shares with a nominal value of £1,868,000 (2007 – £1,654,000) were bought back at a total cost of £45,539,000 (2007 – £34,131,000) At 31 March 2008 the Company had authority to buy back a further 36,908,758 ordinary shares

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

The Company does not have any externally imposed capital requirements The capital of the Company is managed in accordance with its investment policy in pursuit of its investment objective, both of which are detailed on page 18

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 2007	70,365	19,815	1,067,888	541,179	70,618	**1,769,865**
Transfer between reserves*	–		535,237	(535,237)	–	–
Net gain on realisation of investments	–		238,925	–	–	**238,925**
Fair value movement of investments	–	–	(79,519)		–	**(79,519)**
Exchange differences	–		(1,051)	–		**(1,051)**
Exchange differences on multi-currency loans	–	–	6,810	(42 372)		**(35,562)**
Shares bought back	(1 868)	1,868	(45,539)	–		**(45,539)**
Investment management fee charged to capital		–	(3,875)	–		**(3,875)**
Finance costs of borrowings charged to capital			(10 025)	–		**(10,025)**
Tax relief on management fee and finance costs		–	3,908	–	–	**3,908**
Dividends paid in year	–	–	–		(27,726)	**(27,726)**
Revenue return on ordinary activities after taxation	–	–	–	–	27,043	**27,043**
At 31 March 2008	***68,497***	***21,683***	***1,712,759***	***(36,430)***	***69,935***	**1,836,444**

* With effect from 1 April 2007, changes in fair value of investments which are readily convertible to cash, without accepting adverse terms, at the balance sheet date are included in realised, rather than unrealised, capital reserves The balances on both reserves at 1 April 2007 have been amended by a reserve transfer to reflect this change

15 Total Shareholders' Funds

	2008 £'000	2007 £'000
Total shareholders' funds are attributable as follows		
Equity shares	**1,836,444**	**1,769,865**

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)	£1,836 444 000	£1 769,865,000
Number of ordinary shares in issue at the year end*	273,989,897	281,461 176
Shareholders' funds per ordinary share	670 3p	628 8p
Additions/(deductions)		
– expenses of debenture issue	(0 7p)	(0 7p)
– allocation of interest on borrowings	2 9p	2 9p
Net asset value per ordinary share	**672 5p**	**631 0p**

*Excluding shares held in treasury

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

	2008	2007	2008 £'000	2007 £'000
Ordinary shares	**672 5p**	**631 0p**	**1,842,607**	**1,776,143**

	2008 £'000	2007 £'000
The movements during the year of the assets attributable to the ordinary shares were as follows		
Total net assets at 1 April	1,776,143	1 759 731
Total recognised gains and losses for the year	139 844	76,637
Dividends appropriated in the year	(27,726)	(25,994)
Adjustment to debentures	(115)	(100)
Shares bought back	(45 539)	(34,131)
Total net assets at 31 March	**1,842,607**	**1,776,143**

Net asset value per ordinary share is based on net assets (adjusted to reflect the deduction of the debentures at par/nominal value (see note 23)) and on 273,989,897 (2007 – 281,461,176) ordinary shares, being the number of ordinary shares (excluding treasury 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

	2008 £'000	2007 £'000
Net return on ordinary activities before finance costs and taxation	162,550	94,951
Gains on investments – securities	(159,406)	(53,001)
Currency losses/(gains)	36,613	(5 083)
Amortisation of fixed income book cost	43	(26)
Decrease/(increase) in accrued income	635	(298)
(Increase) in debtors	(113)	(15)
(Decrease)/increase in creditors	(3,964)	4,213
Net cash inflow from operating activities	**36,358**	**40,741**

18 Analysis of Change in Net Debt

	At 1 April 2007 £'000	Cash flows £'000	Other non-cash changes £'000	Exchange movement £'000	At 31 March 2008 £'000
Cash at bank and in hand	19,165	(6,135)	–	–	13,030
Loans due within one year	(74,155)	(28 137)		(7,684)	(109,976)
Loans due in two to five years	(49,542)	(100 393)		(27,878)	(177,813)
Debenture stocks	(151,953)		115	–	(151,838)
	(256,485)	**(134,665)**	**115**	**(35,562)**	**(426,597)**

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 (2007 – £10 million) under a subscription agreement relating to participating loan notes The obligation will expire on 31 December 2010

21 Contingent Asset

In June 2007 the European Court of Justice ruled that investment trust management fees should be exempt from VAT and this decision has now been accepted by HM Revenue and Customs The result of this decision is that future management fees will not be subject to VAT and the Company will be able to recover some of the VAT incurred on past management fees A number of procedural matters remain to be resolved however before certainty is reached in respect of the amount of VAT that will be repaid Consequently, no amounts have been recognised as an asset within these Accounts The amount recoverable however will not be material and, for the period from 2000 to 2007, is expected to be about 0 2% of shareholders' funds

22 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 HM Revenue and Customs guidelines so as to ensure maintenance of the Company's Investment Trust status

23 Financial Instruments

As an Investment Trust, the Company invests in equities and makes other investments so as to achieve its investment objective of maximising total return, whilst also generating real dividend growth, from a focused and actively managed global portfolio In pursuing its investment objective, the Company is exposed to various types of risk that are associated with the financial instruments and markets in which it invests

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

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

23 Financial Instruments (continued)

Market Risk

The fair value or future cash flows of a financial instrument or other investment held by the Company may fluctuate because of changes in market prices This market risk comprises three elements – currency risk, interest rate risk and other price risk The Board of Directors reviews and agrees policies for managing these risks and the Company's Investment Managers both assess the exposure to market risk when making individual investment decisions and monitor the overall level of market risk across the investment portfolio on an ongoing basis

Currency Risk

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

The Investment Managers monitor the Company's exposure to foreign currencies and report to the Board on a regular basis The Investment Managers assess the risk to the Company of the foreign currency exposure by considering the effect on the Company's net asset value and income of a movement in the rates of exchange to which the Company's assets, liabilities, income and expenses are exposed However, the country in which a company is listed is not necessarily where it earns its profits The movement in exchange rates on overseas earnings may have a more significant impact upon a company's valuation than a simple translation of the currency in which the company is quoted

Foreign currency borrowings can limit the Company's exposure to anticipated future changes in exchange rates which might otherwise adversely affect the value of the portfolio of investments

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

At 31 March 2008	Investments £'000	Cash and deposits £'000	Loans and debentures £'000	Other debtors and creditors * £'000	**Net exposure £'000**
US dollar	951 109	3,754	(65,409)	1,826	**891,280**
Euro	274,461	2,291	(58,199)	(317)	**218,236**
Swedish krona	203,573	–		–	**203,573**
Swiss franc	101,795	–	(79 612)	(619)	**21,564**
Japanese yen	89,457	–	(84 569)	166	**5,054**
Other overseas currencies	385,155	–		2,244	**387,399**
Total exposure to currency risk	**2,005,550**	**6,045**	**(287,789)**	**3,300**	**1,727,106**
Sterling	253,924	6,985	(151 838)	267	**109,338**
	2,259,474	**13,030**	**(439,627)**	**3,567**	**1,836,444**

* Includes net non monetary assets of £19,000

At 31 March 2007	Investments £'000	Cash and deposits £'000	Loans and debentures £'000	Other debtors and creditors * £'000	**Net exposure £'000**
US dollar	773 737	290	–	3,811	**777,838**
Euro	187 985	–	(49,542)	(76)	**138,367**
Swedish krona	128 918	–	–	–	**128,918**
Swiss franc	24,767	–	(14,825)	(57)	**9,885**
Japanese yen	66,237	1,781	(59 330)	(1,725)	**6,963**
Other overseas currencies	360 677		–	(27)	**360,650**
Total exposure to currency risk	**1,542,321**	**2,071**	**(123,697)**	**1,926**	**1,422,621**
Sterling	489 586	17 094	(151,953)	(7,483)	**347,244**
	2,031,907	**19,165**	**(275,650)**	**(5,557)**	**1,769,865**

* Includes net non monetary assets of £25,000

23 Financial Instruments (continued)

Currency Risk Sensitivity

At 31 March 2008, if sterling had strengthened by 5% in relation to all currencies, with all other variables held constant, total net assets and total return on ordinary activities would have decreased by the amounts shown overleaf A 5% weakening of sterling against all currencies, with all other variables held constant, would have had an equal but opposite effect on the financial statement amounts The analysis is performed on the same basis for 2007

	2008 £'000	2007 £'000
US dollar	44,564	38,892
Euro	10,912	6,918
Swedish krona	10,178	6,446
Swiss franc	1 078	494
Japanese yen	253	348
Other overseas currencies	19 370	18 033
	86,355	**71,131**

Interest Rate Risk

Interest rate movements may affect directly

- the fair value of the investments in fixed interest rate securities ,
- the level of income receivable on cash deposits,
- the fair value of the Company's fixed-rate borrowings, and
- the interest payable on the Company's variable rate borrowings

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

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

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

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

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

Financial Assets	2008 Fair value £'000	2008 Weighted average interest rate	2008 Weighted average period until maturity	2007 Fair value £'000	2007 Weighted average interest rate	2007 Weighted average period until maturity
Fixed rate						
Sterling bonds	2,577	8 4%	5 years	3,134	7 4%	40 years
Euro bonds	2,735	13 8%	11 years	9,674	8 9%	12 years
US bonds	–		–	2,473	14 0%	9 years
US bonds (perpetual)*	1 864	17 0%	N/A	2,118	5 5%	N/A
Floating rate						
Sterling bonds (interest rate linked to sterling LIBOR)	14,651	9 7%	31 years	5,370	8 1%	21 years
Euro bonds (interest rate linked to euro LIBOR)	2,144	10 2%	77 years	6,104	8 1%	36 years
Brazilian bonds (index linked)	64,579	11 4%	37 years	48,305	11 5%	38 years

*Based on expected maturity date

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

23 Financial Instruments (continued)

Interest Rate Risk (continued)

Financial Liabilities	2008 £'000	2007 £'000
The interest rate risk profile of the Company's financial liabilities at 31 March was		
Floating rate – Swiss franc denominated	18,059	14,825
– Yen denominated	41,602	59,330
– US$ denominated	50,315	
Fixed rate – Sterling denominated	151,838	151,953
– US$ denominated	15,094	
– Yen denominated	42,967	
– Swiss franc denominated	61,553	49 542
– Euro denominated	58,199	–
	439,627	**275,650**

	2008 £'000	2007 £'000
The maturity profile of the Company's financial liabilities at 31 March was		
In one year or less, or on demand	109,976	74,155
In two to five years	177,813	49,542
In more than five years (weighted average period fixed 16 years)	151 163	151,278
No fixed date for repayment	675	675
	439,627	**275,650**

Interest Rate Risk Sensitivity

An increase of 100 basis points in bond yields as at 31 March 2008 would have decreased total net assets and total return on ordinary activities by £7,201,000 (2007 – £5,322,000) A decrease of 100 basis points would have had an equal but opposite effect

An increase of 100 basis points in bond yields as at 31 March 2008 would have increased the net asset value per share (with borrowings at fair value) by 3 70p (2007 – 4 80p) A decrease of 100 basis points would have had an equal but opposite effect

Other Price Risk

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

The Board manages the market price risks inherent in the investment portfolio by ensuring full and timely access to relevant information from the Investment Managers The Board meets regularly and at each meeting reviews investment performance, the investment portfolio and the rationale for the current investment positioning to ensure consistency with the Company's objectives and investment policies The portfolio does not seek to reproduce the index, investments are selected based upon the merit of individual companies and therefore performance may well diverge from the short term fluctuations of the benchmark

Other Price Risk Sensitivity

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

118 2% of the Company's net assets are invested in equities A 3% increase in quoted equity valuations at 31 March 2008 would have increased total assets and total return on ordinary activities by £65,128,000 (2007 – £58,642,000) A decrease of 3% would have had an equal but opposite effect

Liquidity Risk

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

Liquidity risk is not significant as the majority of the Company's assets are investments in quoted securities that are readily realisable The Board provides guidance to the Investment Managers as to the maximum exposure to any one holding and to the maximum aggregate exposure to substantial holdings

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

23 Financial Instruments (continued)

Credit Risk

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

This risk is managed as follows

- Where the Investment Managers make an investment in a bond or other security with credit risk, that credit risk is assessed and then compared to the prospective investment return of the security in question
- The Board regularly receives information from the Investment Managers on the credit ratings of those bonds and other securities in which the Company has invested
- The Company's listed investments are held on its behalf by The Bank of New York Mellon acting as agent, the Company's custodian Bankruptcy or insolvency of the custodian may cause the Company's rights with respect to securities held by the custodian to be delayed The Investment Managers monitor the Company's risk by reviewing the custodian's internal control reports and reporting its findings to the Board
- Investment transactions are carried out with a large number of brokers whose creditworthiness is reviewed by the Investment Managers Transactions are ordinarily undertaken on a delivery versus payment basis whereby the Company's custodian bank ensures that the counterparty to any transaction entered into by the Company has delivered on its obligations before any transfer of cash or securities away from the Company is completed
- Transactions involving derivatives, and other arrangements wherein the creditworthiness of the entity acting as broker or counterparty to the transaction is likely to be of sustained interest, are subject to rigorous assessment by the Investment Managers of the creditworthiness of that counterparty The Company's aggregate exposure to each such counterparty is monitored regularly by the Board
- Cash is only held at banks that have been identified by the Managers as reputable and of high credit quality

Credit Risk Exposure

The maximum exposure to credit risk at 31 March was

	2008 £'000	2007 £'000
Fixed interest investments	88,550	77,178
Cash and short term deposits	13,030	19,165
Debtors and prepayments	20,026	25,037
	121,606	**121,380**

None of the Company's financial assets are past due or impaired

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

	2008 Par/nominal £'000	2008 Book £'000	2008 Fair £'000	2007 Par/nominal £'000	2007 Book £'000	2007 Fair £'000
8–14% stepped interest debenture stock 2020	20 000	22 132	34,153	20,000	22,203	36,019
6 875% debenture stock 2023	75,000	74 451	82 176	75,000	74 414	87,298
6–12% stepped interest debenture stock 2026	50,000	54,580	83,375	50,000	54,661	89,026
4½% irredeemable debenture stock	675	675	606	675	675	607
Total debentures	**145,675**	**151,838**	**200,310**	**145,675**	**151,953**	**212,950**
Fixed rate loans		177,813	181,086		49 542	49,630
Total long term borrowings		**329,651**	**381,396**		**201,495**	**262,580**

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 672 5p to 651 4p Taking the market price of the ordinary shares at 31 March 2008 of 600 0p, this would have given a discount to net asset value of 7 9% as against 10 8% on a traditional basis At 31 March 2007 the effect would have been to reduce the net asset value 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

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) If you are interested in investing directly in Scottish Mortgage, you can do so online There are a number of companies offering real time online dealing services – find out more by visiting the investment trust pages at **www bailliegifford com**

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)

Dividend Reinvestment Plan

Computershare operate a Dividend Reinvestment Plan which can be used to buy additional shares instead of receiving your dividend via cheque or into your bank account For further information log in to **www-uk computershare com/investor** and follow the instructions or telephone 0870 707 1694

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 2008 Number of shares held	%	At 31 March 2007 Number of shares held	%
Institutions	113,932,814	41 6	106,871,094	38 0
Intermediaries	106,716,403	39 0	113,040,348	40 1
Individuals	31,294,080	11 4	38 252 267	13 6
Baillie Gifford Share Plans/PEP/ISA	19,454,203	7 1	18,875,507	6 7
Marketmakers	2,592,397	0 9	4,421,960	1 6
	273,989,897	**100 0**	**281,461,176**	**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 and the Manager of the Baillie Gifford Investment Trust Share Plan and Children's Savings Plan 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

Scottish Mortgage is listed on the stock market As a result, the value of the shares, and any income from those shares, is not guaranteed and could go down as well as up You may not get back the amount you invested You should view your investment as long term

Scottish Mortgage can borrow money to make further investments (sometimes known as "gearing") The risk is that when this money is repaid by the Trust, the value of the 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, any borrowings will increase the amount of this loss

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

Tax rates and reliefs may change at any time The value of any tax benefits will depend on investors' individual circumstances

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 Thursday, 26 June 2008 at 11 00 am

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 ninth 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 Thursday, 26 June 2008 at 11 00 am for the following purposes

Ordinary Business

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

1 To receive and adopt the Accounts of the Company for the year to 31 March 2008 with the Reports of the Directors and of the Independent Auditors thereon

2 To approve the Directors' Remuneration Report for the year to 31 March 2008

3 To declare a dividend

4 To re-elect Mr GA Ball as a Director

5 To re-elect Dr MM Gray as a Director

6 To re elect Mr WG McQueen as a Director

7 To reappoint KPMG Audit Plc as Independent Auditors

8 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

9 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 2009, 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

10 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 £6,849,747 being 10% of the Company's issued Share capital as at 13 May 2008,

and shall expire at the conclusion of the next Annual General Meeting of the Company to be held in 2009, 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

Special Business

11 That the Company's Articles of Association be amended by making the alterations marked on the print of the Articles of Association produced to the meeting marked "A" and initialled by the Chairman of the meeting for the purpose of identification

By order of the Board

Baillie Gifford & Co
Managers and Secretaries
22 May 2008

Notes

1 A member entitled to attend, speak and vote at the meeting is entitled to appoint one or more proxies to attend, speak 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 The appointment of a proxy will not prevent a member from subsequently attending and voting in person

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 the close of business on 24 June 2008 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 the close of business on 24 June 2008 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 who wish to vote and/or attend the meeting must complete and return the enclosed reply paid Form of Direction

4 In order to facilitate voting by corporate representatives at the meeting, arrangements will be put in place at the meeting so that (i) if a corporate shareholder has appointed the Chairman of the meeting as its corporate representative with instructions to vote on a poll *in accordance with the directions of all* of the other corporate representatives for that shareholder at the meeting, then on a poll those corporate representatives will give voting directions to the Chairman and the Chairman will vote (or withhold a vote) as corporate representative in accordance with those directions, and (ii) if more than one corporate representative for the same corporate shareholder attends the meeting but the corporate shareholder has not appointed the Chairman of the meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative Corporate shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives – **www icsa org uk** – for further details of this procedure The guidance includes a sample form of representation letter if the Chairman is being appointed as described in (i) above

5 The changes to the Articles of Association proposed in Resolution 11 are set out in the copy of the Articles of Association marked "A" which will be available for inspection at the Company s registered office, Calton Square, 1 Greenside Row, Edinburgh EH1 3AN and at the offices of the Company's legal advisers, Shepherd and Wedderburn LLP, at Condor House 10 St Paul's Churchyard London EC4M 8AL during normal business hours on any week day (Saturdays, Sundays and public holidays excepted) from the date of this Annual Report until the close of the AGM and at the place *of the meeting from 15 minutes prior to and* during the continuance of the meeting

6 The right to appoint a proxy does not apply to persons whose shares are held on their behalf by another person and who have been nominated to receive communications from the Company in accordance with section 146 of the Companies Act 2006 ('nominated persons') Nominated persons may have a right under an agreement with the registered shareholder who holds the shares on their behalf to be appointed (or to have someone else appointed) as a proxy Alternatively if nominated persons do not have such a right or do not wish to exercise it, they may have a right under such an agreement to give instructions to the person holding the shares as to the exercise of voting rights

7 As at 13 May 2008, the latest practicable date prior to publication of this document the Company had 273,989,897 ordinary shares (excluding treasury shares) in issue with a total of 273,989,897 voting rights

8 Any person holding 3% of the total voting rights in the Company who appoints a person other than the Chairman as his proxy will need to ensure that both he and such third party complies with their respective disclosure obligations under the Disclosure and Transparency Rules

9 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 £100 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

Online Management Service

You can now also open and manage your Share Plan and/or ISA online, through our secure Online Management Service (OMS) which can be accessed through the Baillie *Gifford website at* ***www bailliegifford com*** OMS enables you to apply for, open and administer a Baillie Gifford Investment Trust Share Plan or Investment Trust ISA online As well as being able to view the details of your plan online, the service also allows you to

- get current valuations,
- make lump sum investments,
- switch between investment trusts (except where there is more than one holder),
- set up a direct debit to make regular investments, and
- update certain personal details

Further Information

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Tel 0800 027 0133
We may record your call

E mail trustenquiries@bailliegifford com
Website www bailliegifford com

Fax 0131 275 3955

For Scottish Mortgage specific queries, please use the following contact details

E mail scottishmortgage@bailliegifford com

Directors

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Sir Donald MacKay
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GA Ball FCA
Dr MM Gray OBE DL
WG McQueen BSc CA FCIBS
JPHS Scott FCII FSI
The Rt Hon Lord Strathclyde PC

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Company Broker

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Independent Auditors

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Company registration No 7058

Managers, Secretaries
and Registered Office

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