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Scottish Mortgage Investment Trust PLC

Your low cost choice for global investment

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Annual Report and Accounts 31 March 2009

Centenary Year: 1909 – 2009

BAILLIE GIFFORD

Contents

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

The months between September and November were very difficult for markets and Scottish Mortgage as the historic magnitude of the financial crisis developed and then swamped the real economy. Many holdings in the portfolio were marked down in an often apparently indiscriminate way by markets that were gripped by fear and panic. The extent of the fall was exacerbated by the level of gearing. On a positive note, earnings rose, the dividend has been increased for the 27th successive year and many of our holdings have enjoyed a good recovery in recent months. We continue to concentrate on the long term prospects of individual companies rather than trying to predict shorter term market movements.

The portfolio has been carefully reviewed and a strategic assessment made in the light of the rapid change in markets. The broad conclusion is that the overall strategy to invest in equities on a worldwide and long term basis is sensible given the increasingly global nature of economic trading activity as the influence of countries outside of the Western economic area increases. During the year, some companies' operating conditions deteriorated but a large number continue to operate effectively and many actually enjoy strengthened relative positions. The survivors of this severe shock may be in dominant positions for many years to come. The Managers' Review on pages 8 to 10 gives a more detailed account of the investments over the past financial year.

This is our Centenary Year. A 100 year record is significant as it underlines the enduring aims and encouraging resilience of the Trust's business over the long term.

Financial Highlights – Year to 31 March 2009

Share Price (41.2%)

NAV (41.1%)

Benchmark* (22.8%)

Share Price (pence)

NAV and Benchmark
(rebased to 100 at 31 March 2008)

Discount

* Benchmark: FTSE All World Index (in sterling terms).
Source: Thomson Financial Datastream/Baillie Gifford & Co.
Past performance is not a guide to future performance.

One Year Summary

	31 March 2009	31 March 2008	% change
Total assets (before deduction of debentures, long and short term borrowings)	£1,398.3m	£2,276.1m	
Loans and debentures	£317.9m	£439.6m	
Equity shareholders' funds	£1,080.3m	£1,836.4m	
Net asset value per ordinary share (after deducting borrowings at fair value)*	383.8p	651.4p	(41.1)
Net asset value per ordinary share (after deducting borrowings at par)*	399.3p	672.5p	(40.6)
Share price†	353.0p	600.0p	(41.2)
FTSE All World Index (in sterling terms)	137.1	177.6	(22.8)
Dividends paid and proposed per ordinary share#	12.30p	10.30p	19.4
Revenue earnings per ordinary share#	12.67p	9.79p	29.4
Total expense ratio	0.54%	0.51%	
Discount (after deducting borrowings at fair value)	8.0%	7.9%	

	Year to 31 March 2009		Year to 31 March 2008	
Year's high and low	High	Low	High	Low
Share price†	710.0p	258.3p	679.0p	541.0p
Net asset value per ordinary share (after deducting borrowings at fair value)	780.0p	281.1p	746.5p	590.6p
Net asset value per ordinary share (after deducting borrowings at par)	799.2p	303.5p	769.2p	613.3p
Premium/(discount) (after deducting borrowings at fair value)	8.4%	(16.5%)	(5.0%)	(11.3%)
Average sector discount (AIC Global Growth Sector)	(6.2%)	(12.4%)	(7.8%)	(10.4%)

	31 March 2009	31 March 2008
Net return per ordinary share		
Revenue	12.67p	9.79p
Capital	(273.74p)	40.82p
Total	**(261.07p)**	**50.61p**

* 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.
# Both revenue earnings and the dividend include a non-recurring 1.5p per share from the reimbursement of previous years' VAT and associated interest thereon.
The percentage changes excluding the non-recurring 1.5p are revenue earnings 13.9% and dividend 4.9%.

Past performance is not a guide to 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 2009.

5 Year Total Return Performance
(figures rebased to 100 at 31 March 2004)

Dividend and RPI Growth
(cumulative from 31 March 2004)
(figures rebased to 100 at 31 March 2004)

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 not a guide to future performance.

Chairman's Statement

This has been a very difficult year for equity markets and Scottish Mortgage: net asset value per share and the share price both fell by 41% while the FTSE All World Index fell by 23% in sterling terms over the period. However, earnings were higher and the dividend has been increased. The pace and force of market events was extraordinary even in the context of Scottish Mortgage's hundred year history. The identification and assessment of companies from around the world that are capable of returning long term earnings growth is the strategic priority especially during periods of turbulent markets and economic crisis.

A year ago it was evident that confidence within the Western financial system was failing in an alarming way but the crisis that followed was of an unexpected magnitude and historic in scale. Confidence in financial markets evaporated in a brutal fashion after the collapse of Lehman Brothers in September. The consequent dramatic and destructive impact on the real economy was global and not limited to the areas of operation of the mainly Western banks and institutions that had failed.

While our portfolio had only a modest level of investment in Western financial companies, the large holdings which gave exposure to the long term trend of global growth suffered dramatic falls in value in the months between September and November. This, and the way in which many other holdings in the portfolio were marked down in an often apparently indiscriminate way, explains the fall in net asset value over the year. The extent of the fall was exacerbated by the level of gearing.

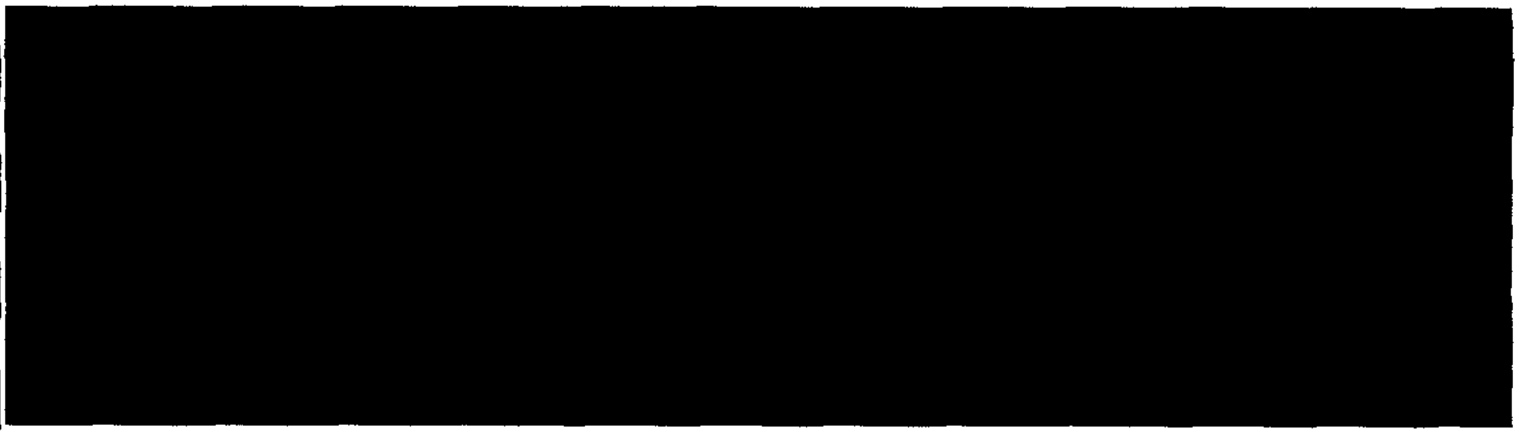
Outside the three month period described, market conditions were relatively normal and this was reflected in less volatile and better absolute and relative performance during those months. However, markets gripped by fear and panic do not take into account a sensible, considered and rational long term view. Although the short term consequences may sometimes prove painful, the Board supports the Managers in a strategy that sticks to a long term view and focuses on the prospects of individual companies. The portfolio does not attempt to match the index and there will be periods of marked underperformance as well as outperformance as was the case during part of last year. As of 31 March 2009, the five year share price total return (capital and dividends) was 27% and the net asset value total return, 12%. By way of comparison, the FTSE All World Index total return over the same period has been 16%. While a period of high volatility will be natural in the aftermath of a shock such as the recent one, an improvement in the long term trend and an eventual return to economic normality can be expected. It is interesting to note that over six months to the end of April 2009 the share price rose by 82p, a 25% increase (over the same short period the benchmark index rose 5%).

Past performance is not a guide to future performance.

The Managers carefully reviewed the portfolio in the second half of the financial year in light of the rapid change in markets and the Board then made a strategic assessment of the impact of events. These are continuing processes but the broad conclusion to date is that the overall strategy to invest in equities for the long term on a global basis is appropriate given the increasingly global nature of economic activity and trade. A central strategic thesis that countries outside of the Western economic block will become increasingly, and possibly rapidly, influential appears strengthened not diminished. The drop in economic activity will obviously affect company earnings, especially this year, but the deterioration in operating conditions is not universal. While there are some companies in the portfolio where operating conditions have deteriorated significantly, a large number of the holdings continue to operate effectively and in many cases enjoy strengthened relative positions. Also, many financially sound companies are now trading on historically attractive valuations; those that survive this severe shock are likely to enjoy dominant positions for some years to come. The task of the Managers is to identify such companies. The Managers' Review on pages 8 to 10 gives a detailed investment perspective of the portfolio.

Gearing

As markets fell great care was taken to manage the level of gearing. This was achieved by not renewing some borrowing facilities when they expired and also by the early repayment of other bank borrowings. While it is painful to sell investments in such conditions, it was important to ensure in those highly unpredictable markets that gearing was not allowed to rise beyond agreed levels. At the financial year end, total assets were £1,398m and borrowings were £318m. Investments in equities totalled £1,283m. Gearing magnifies gains in rising markets and, conversely, losses in falling markets. Gearing and the associated strategic issues are discussed by the Board and Managers on a regular basis.



Earnings and Dividend

Earnings per share were 12.7p (9.8p in the previous year) and included an element of past years' recovered VAT and associated interest of 1.5p per share. Excluding the VAT repayment, underlying earnings were therefore 14% higher which is a noteworthy achievement in the context of wider markets and one which provides confidence in the underlying investments.

A final dividend of 5.5p is proposed which will give a total of 12.3p for the year, an increase of 19% on the previous year's total of 10.3p. Stripping out the non-recurring VAT repayment, the underlying rate of dividend increase is 4.9% and well ahead of the 0.4% decrease in the Retail Price Index over the same period.

The Board is firmly committed to returning an increasing dividend to shareholders and in the event of a temporary shortfall in earnings, the revenue reserve is available for this very purpose. Revenue reserves stand at 21p per share of which over 6.5p has been accumulated since 2000.

The Centenary AGM

This year's AGM will be the Company's 100th and will be held in The Merchants' Hall, 22 Hanover Street, Edinburgh on Thursday 25 June 2009 at 4pm. At the meeting, the Managers will give a short presentation on the investments after which refreshments will be served. I hope that you will consider attending. Although the year just past has been extremely difficult, the Board and Managers are conscious that a 100 year record is significant as it underlines the enduring aims and encouraging resilience of the Trust's business. I am happy to report that a history of Scottish Mortgage has been commissioned and will be sent to all shareholders this year.

The Board

During the year two new Directors of a very high calibre with diverse and extremely relevant experience were welcomed to the Board: Professor John Kay and Fiona McBain. Geoff Ball who joined the Board in 1983 will retire on the day of the AGM. The Company has been fortunate in its association with Mr Ball and as the current Chairman I would like to thank Geoff for his single-hearted commitment and outstandingly helpful contribution to Scottish Mortgage over the past twenty five years.

Outlook

There is no denying that the outlook is uncertain, even more so than in an average year. As ever, within a wide range, many different outcomes are possible.

Ironically, the crisis can yield opportunities: the financial impact has been highly destructive but it may yield a simpler, and healthier, structural model for banking and finance. Above all, the continued growth and increasing importance, and even dominance, of non-Western economies, especially China, represent a major opportunity for shareholders today. By historic coincidence, this echoes the prospect facing initial Scottish Mortgage subscribers in 1909; then it was the expansion of America that was to fuel an ensuing span of long term economic growth and technological advancement. Today, after the passage of 100 years, it is still the identification and subsequent performance of individual companies and the success of their management, or otherwise, that will dictate long term shareholder returns.

Sir Donald MacKay
14 May 2009

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

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.

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. 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.

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 Winning Scotland Foundation and of The Scottish Government's Rural Development Council. He is a former director of Scottish Enterprise and the Scottish Community Foundation.

Professor John Kay

John Kay was appointed a Director on 11 December 2008. John has a distinguished record as an economist, academic, author and commentator on business, government and economic issues. He is a Visiting Professor at the London School of Economics, a Director of Law Debenture Corporation p.l.c., Value and Income Trust PLC and a member of the Scottish Government's Council of Economic Advisers.

FC McBain

Fiona McBain was appointed a Director on 26 February 2009. Fiona is Chief Executive of Scottish Friendly Assurance, a Glasgow based and mutually owned financial services group with over 500,000 policyholders. Before joining Scottish Friendly in 1998, Fiona, a chartered accountant, was employed by Prudential plc and Arthur Young (now Ernst & Young) where she spent some time working across a number of industry sectors, both in the UK and in the United States. She is also a Director of the Association of Friendly Societies and a Director of the Association of Mutual Insurers.

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. Until 2003 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.

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.

Donald MacKay

Geoffrey Ball

Michael Gray

John Kay

Fiona McBain

Gordon McQueen

John Scott

Thomas Strathclyde

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 Asset Management Limited, Marketform Limited and Hampden Agencies Limited. He is also president of the Quoted Companies Alliance.

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 £40 billion at 31 March 2009. Based in Edinburgh, it is one of the leading privately owned investment management firms in the UK, with 33 partners and a staff of over 600.

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.

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

We have had three strategic investment contentions over the last five years. They have been that:

- the rise of China (and to a lesser extent other emerging economies) will transform the global economic scene;
- stockmarkets underestimate the power of technological innovation in exaggerated revulsion to the bubble of 1998–2000; and
- the Western financial systems are dangerously flawed.

We sincerely believe that each of these three hypotheses have survived the extraordinary conditions of the last 12 months. Indeed we would argue that their explanatory power has only grown during this time of crisis. It has therefore thoroughly disturbed us that our shareholders have suffered so badly over the reporting period. We continue, however, to measure ourselves over rolling five year timeframes as an absolute minimum as we deeply believe that anything less is far more likely to encapsulate luck rather than skill. Even more dangerously, yearly assessment tends to endorse the pursuit of momentum in share prices rather than rewarding the gradual underlying value built by outstanding companies exploiting persistent opportunities. Therefore whilst we are sorry that the last year has been so tough (and damaging to our longer term record) we will only abandon our contentions and our stocks when their long-run prospects have deteriorated rather than when the dreadful mood of the market has hurt their immediate valuation. Unless the important facts change nor will our portfolio. We aim to be investors not speculators.

China

Twelve months ago China was suffering from a phase of economic overheating. Agricultural inflation, wage increases and property exuberance all needed to be dampened down. Government policy was aimed at accomplishing this. It succeeded. China was therefore enjoying a classic, traditional economic cycle of its own before the onset of the world financial crisis. Arguably we should have been paying even more attention to developments in China as the domestic stockmarket, for all its faults, indicated that first inflation and then the industrial and real estate slowdown were serious issues.

Since the global financial crisis of last autumn China's structural strengths have, however, been seen in full relief. The contrast with the travails of the West as well as with less well-positioned developing nations is startling. China's dramatic monetary stimulus is already feeding through to renewed bank lending whilst the room for fiscal expansion has been exploited but far from exhausted. This appears to be translating into an early and dramatic recovery of the economy despite the much feared export decline. At present we would expect China to account for up to 150% of total world growth in 2009.

Whilst this response has been formidable both in scale and apparent success it is every bit as important for us to contemplate the long term implications of China's evolution. We do not wish to imply either that there are not severe challenges or that the Chinese Communist Party has discovered the eternal secrets of economic management. In the next year the banking system needs to ensure that the monetary stimulus is channelled into productive investment rather than speculation. Beyond this timeframe the need to shift the balance of the economy from exports to the internal market, from East to West, from the cities of the coast to the rural interior are major challenges. We would not despair that they can be accomplished. China has already delivered the world's largest car market over 20 years of progress and the world's largest internet user base over a decade. Sensible reforms to healthcare too seem more easily achieved than in America.

The challenge for us is to reflect the changing nature of the Chinese economy in our portfolio. The shift towards domestic consumption and away from exports and even a moderation in the use of commodities mean that exposure more often needs to be sought in Greater China's own companies rather more than has been our historic policy. With the considerable assistance of my Chinese colleague Wanyi Yao we are gradually embarking on this evolution as opportunities permit. Our holdings in Tencent, China Merchants Bank, and Baidu.com as well as in China Mobile should be seen in this light. With the burgeoning rapprochement between China and Taiwan, TSMC might appropriately be included in this list.

1 Petrobras
Petrobras, huge unexploited oil reserves.

2 Google
Google, highly innovative search engine continually developing new uses.

1

2

Russia, Brazil and India

In the other key emerging markets for world growth the response to crisis has been less overwhelmingly successful. The most obvious casualty has been Russia. This has hurt our portfolio. The exaggerated appetite for debt finance displayed by many oligarchs and the large capital needs of the resource industry have been shown up. We do not think that these developments are insurmountable but they do moderate our prior enthusiasm. We have sold Norilsk Nickel where oligarch debt has opened the door to increased state machinations and cut back our position in Gazprom as current energy prices make the enormous investment programme problematic. We have no plans to make any further reductions.

We feel no such need for apology in the case of our substantial Brazilian holdings. The economy is enduring some current weakness but shows no signs of losing its fundamental balance. We are happy both to loan money to the Brazilian government (via our long term inflation protected bond holding) and to back the investment needs of Petrobras. Their remarkable oil discoveries in offshore Brazil seem to us to be much more significant than the wild oscillations of the spot oil price. The rewards for these projects are years ahead whilst the cost equation is improving as few apart from Petrobras are in a position to invest in such assets. To put it another way our enthusiasm for Petrobras is based on its own long term prospects not on a speculation about the course of monthly oil prices.

India shows encouraging signs of suffering less from the financial crisis than it did from the inflationary pressures and overheating of early last year. Our problem remains identifying attractive companies at reasonable prices. We admire the manner in which both Hero Honda (motorbikes) and HDFC (mortgage finance) are navigating their sectoral challenges.

Technology

Possibly the most puzzling experience of last year was the abject share price performance of our technology stocks in the autumn. This puzzles us because we can think of few companies that are in a better position to ride out the crisis. The industry in general, and the companies that we own in particular, tend to have extremely strong cash positions and are well used to deflationary trading conditions. Just as we were disturbed by their sharp declines so we are now pleased that there is every indication that the strengths of these businesses are being acknowledged. Indeed from Amazon to Google to Apple there are clear indications that both innovation and structural changes tend to be magnified in tough times and that these companies are actually thriving rather than merely surviving. Whilst the virtues of these three companies are gradually and variably being recognised by the markets there are still other stocks in related areas that we are increasingly enthused by as they remain out of investment favour. The principal example of this is Nintendo, which continues to churn out high returns and generate impressive cash flow by thinking differently about the gaming industry. We are delighted to continue to add to our holding as the market worries about exchange rates and monthly sales figures. Sadly we can find nothing else of similar attractions in the wastelands of the Japanese corporate sector.

We maintain our belief in investing in leading alternative energy businesses. We can understand their weak showings over the last year as (unlike the companies above) they do need access to bank and project finance. Yet we do not think that their prospects and value has been destroyed by challenging but temporary circumstances. Indeed those with relatively strong financial and competitive advantages may well emerge from this downturn in even stronger positions than we had estimated. We certainly judge that this is the case for Vestas (wind) and First Solar (thin film) whilst we hope, with less confidence, that this remains so for its fellow solar company Q-Cells. It seems to us that the two most important governments in the world are increasingly committed to alternative energy development. This is imminently important in both America and China although we will need to observe the competitive implications of Chinese investment in this area very carefully.

1 Nintendo
Nintendo is successfully dominating and broadening the games market.

2 Banco Santander
Banco Santander a combination of growth strategy coupled with more prudent lending.

1

2

The Aftermath of the Western Financial Debacle

We had long been concerned by the complexities, gearing and greed inculcated by far too much of the Western financial sector. Our direct exposure has been low. It would have been better if it had been non-existent. This, however, was less critical to our fortunes than the complete freezing of the financial system after the Lehman collapse. We confess to surprise that the deplorable conduct of the banking industry translated into an inability to provide even the most basic financial services to the real economy in a manner not seen at least since the 1930's and arguably not for several centuries. This situation was untenable for long and is being gradually corrected but even the temporary stoppage of credit has severely damaged the global economy.

Where does this sad series of events leave our attitude to the financial sector? We would like to say that bank managements are demonstrating a return to their dull reputations of yore and to less exotic reward structures but we see little evidence that this is true. From Barclays to Goldman Sachs there is no evidence of less complexity or reduced avarice. At the same time the re-financing of banking systems by state injection appears to us to be less than satisfactory. Creaking organisations such as Citi are being kept alive in an echo of Japanese 'zombie' banks whilst politics in Britain or America prevents full state control in the manner that served Sweden so well after its banking crisis. These drawbacks seem likely to lessen the available benefits for those financial institutions that have been both more prudently run and that have the interests of shareholders rather than insiders at their heart. Some benefits will, however, remain in the shape of higher spreads on new business and the balance sheet strength to expand organically and by acquisition. It is in this spirit that we own Berkshire Hathaway where the shrinking of insurance capacity can be exploited by Mr Buffett and Banco Santander where Snr. Botin can reap the advantages of his prior prudence as demonstrated in his part of the fateful ABN Amro deal.

Conclusion and Outlook

Over time we think that the crisis of 2008-9 will come to be seen as a defining event in the decline of the West and the rise of China. Whether this proves an absolute decline of the West or merely a relative one depends heavily on far-sighted political leadership as the financial and demographic challenges rise. We are more encouraged by progress in America than Britain on this score. The rise of China is unlikely to be smooth but it is also likely to encompass areas as yet little changed from defence relations to the global monetary system. We suspect too that it will become evident even to the most determined mathematical risk modellers that danger lies more in the West than in the emerging giants.

In the coming year we suspect that there will be many surprises. These are just as likely to be positive as negative despite the experiences of the last year. It appears to us that the scale of monetary and fiscal easing globally combined with the easing of the credit squeeze, a vicious inventory cycle and the sharp collapse of a commodity boom are now exerting very expansionary forces on the global economy. It is not inconceivable that animal spirits revive. It is conceivable that inflation rather than deflation is in eventual prospect. We will endeavour to plot our way around these challenges whilst remembering just how unpredictable markets can be in the short-run. Last year saw falls of historic proportions bringing decade long capital returns on equities into negative territory. This is unusual and suggests that a prolonged deep recession and savage corporate earnings falls are already discounted by markets. Such an atmosphere could easily prove a splendid time to invest and a questionable one at which to become pessimistic.

We maintain our belief in both our investment process and the economic viewpoints that have guided us over the last five years. The value of our companies lies not in the earnings of the next quarter or year but in their ability to deliver cash flows for their shareholders over decades. We will always make mistakes but we genuinely believe that more of our companies are in a stronger rather than a weaker position than a year ago. In the bulk of these cases it is because they can participate in the rising wealth of the emerging economies, that their competitive positions have been strengthened by the collapse of flawed financial models, or that their prospects are built on exceptional innovation. For all the difficulties of the last year we do not think that this is a framework for a global portfolio which we should be at all ashamed of now or in the future.

Thirty Largest Equity Holdings and Equity Performance as at 31 March 2009

Name	Business	Fair value 31 March 2009 £'000	% of total assets	Performance† Absolute %	Performance† Relative %	Contribution to absolute performance %	Fair value 31 March 2008 £'000
Petrobras	Oil producer	87,056	6.2	(16.9)	4.4	(0.4)	96,399
Amazon.com	Online retailer	62,512	4.5	42.6	79.1	3.2	61,714
Atlas Copco	Engineering	60,044	4.3	(37.8)	(21.9)	(1.0)	99,392
Nintendo	Games consoles and software	49,315	3.5	(19.8)	0.7	(0.8)	15,589
China Mobile	Mobile telecommunications	47,424	3.4	(17.1)	4.1	0.1	46,371
Google	Online search engine	44,751	3.2	9.1	37.0	0.2	14,958
Vale (CVRD)	Iron ore and nickel mining	41,632	3.0	(44.6)	(30.4)	(1.0)	101,078
Sandvik	Engineering	37,111	2.7	(52.8)	(40.7)	(2.3)	81,970
Banco Santander	Banking	34,179	2.4	(46.8)	(33.2)	(2.2)	11,913
Gazprom	Gas production and distribution	32,089	2.3	(59.7)	(49.4)	(2.9)	85,750
Porsche	Automobiles	31,918	2.3	(62.6)	(53.0)	(2.9)	90,222
Walgreen	Pharmacy chain	31,826	2.3	(4.8)	19.6	0.2	24,116
Vestas Windsystems	Wind power	31,423	2.3	(44.6)	(30.4)	(2.6)	77,204
Schlumberger	Oil services	28,276	2.0	(34.3)	(17.5)	(1.3)	43,723
Progressive Ohio	Property and casualty insurance	27,640	2.0	15.6	45.2	0.2	16,969
Berkshire Hathaway	Insurance	27,523	2.0	(12.6)	9.8	(0.4)	31,437
Deere	Farm machinery	27,478	2.0	(42.3)	(27.5)	(0.6)	44,777
First Solar	Solar energy technology	25,693	1.8	(20.6)	(0.2)	(0.1)	26,061
Canon	Printers, copiers and cameras	24,990	1.8	(12.8)	9.5	(0.8)	52,407
Taiwan Semiconductor Manufacturing	Semiconductor manufacturer	22,523	1.6	25.7	57.8	0.7	22,746
Standard Chartered	Banking	20,617	1.5	(38.7)	(23.0)	(0.6)	44,238
Brown-Forman	Wine and spirits producer	20,254	1.4	3.6	30.1	(0.1)	19,949
BASF	Chemicals	18,777	1.3	(35.6)	(19.1)	(0.4)	22,994
PPR	Luxury goods producer and retailer	18,132	1.3	(38.3)	(22.5)	(0.2)	17,283
ABB	Electronic and electrical equipment	18,094	1.3	(27.5)	(8.9)	(0.2)	12,976
Reed Elsevier	Publisher	17,171	1.2	(19.5)	1.1	(0.3)	31,629
SAP	Business software	16,876	1.2	(0.3)	25.2	(0.1)	17,138
Kroger	Food retailer	15,943	1.1	0.5*	1.6*	–	–
UBS	Banking	15,402	1.1	(49.6)	(36.8)	(1.6)	27,449
Novozymes	Enzyme manufacturer	14,992	1.1	7.4	34.9	0.1	10,856
		951,661	68.1				1,249,308

† Absolute and relative performance has been calculated on a total return basis over the period 1 April 2008 to 31 March 2009. 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 not a guide to future performance.

Investment Changes

	Valuation at 31 March 2008 £'000	Net acquisitions (disposals) £'000	Appreciation/ (depreciation) £'000	Valuation at 31 March 2009 £'000
Equities*:				
United Kingdom	250,942	(27,392)	(98,388)	125,162
Continental Europe	648,014	(25,681)	(292,966)	329,367
North America	554,418	(79,782)	(81,890)	392,746
Japan	89,457	8,950	(18,765)	79,642
Asia Pacific	200,761	(23,061)	(23,506)	154,194
Emerging Markets	427,332	(62,565)	(162,958)	201,809
Total equities	2,170,924	(209,531)	(678,473)	1,282,920
Bonds:				
Sterling bonds	17,228	3,300	(15,181)	5,347
Euro bonds	4,879	476	(3,469)	1,886
US dollar bonds	1,864	(481)	(979)	404
Brazilian real bonds	64,579	–	6,851	71,430
Total bonds	88,550	3,295	(12,778)	79,067
Total investments	2,259,474	(206,236)	(691,251)	1,361,987
Net liquid assets	16,597	14,555	5,131	36,283
Total assets	**2,276,071**	**(191,681)**	**(686,120)**	**1,398,270**

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 2009 (2008)

Sectoral 2009 (2008)

Classification of Investments

Classification Equities*:	UK %	Continental Europe %	North America %	Japan %	Asia Pacific %	Emerging Markets %	2009 Total %	2008 Total %
Oil and Gas	–	–	2.7	–	–	9.2	11.9	13.3
Oil and gas producers	–	–	0.7	–	–	9.2	9.9	11.4
Oil equipment, services and distribution	–	–	2.0	–	–	–	2.0	1.9
Basic Materials	0.8	1.3	0.9	–	–	3.0	6.0	11.7
Chemicals	–	1.3	0.9	–	–	–	2.2	2.8
Industrial metals	–	–	–	–	–	–	–	3.3
Mining	0.8	–	–	–	–	3.0	3.8	5.6
Industrials	3.9	11.3	2.9	–	0.8	–	18.9	20.3
Aerospace and defence	1.7	–	–	–	–	–	1.7	1.9
General industrials	–	–	0.9	–	–	–	0.9	1.0
Electronic and electrical equipment	–	2.0	–	–	–	–	2.0	1.7
Industrial engineering	–	9.3	2.0	–	0.8	–	12.1	14.0
Support services	2.2	–	–	–	–	–	2.2	1.7
Consumer Goods	0.7	3.1	1.4	3.5	1.0	–	9.7	8.0
Automobiles and parts	–	2.3	–	–	1.0	–	3.3	4.5
Beverages	–	–	1.4	–	–	–	1.4	0.9
Leisure goods	–	–	–	3.5	–	–	3.5	0.7
Personal goods	–	0.8	–	–	–	–	0.8	1.9
Tobacco	0.7	–	–	–	–	–	0.7	–
Health Care	–	1.1	–	–	–	–	1.1	2.1
Health care equipment and services	–	–	–	–	–	–	–	0.6
Pharmaceuticals and biotechnology	–	1.1	–	–	–	–	1.1	1.5
Consumer Services	1.4	1.3	9.7	–	–	0.6	13.0	13.1
Food and drug retailers	–	–	4.2	–	–	–	4.2	2.9
General retailers	0.2	1.3	4.5	–	–	0.6	6.6	8.0
Media	1.2	–	1.0	–	–	–	2.2	2.2
Telecommunications	–	–	–	–	3.4	0.7	4.1	3.8
Fixed line telecommunications	–	–	–	–	–	–	–	1.4
Mobile telecommunications	–	–	–	–	3.4	0.7	4.1	2.4
Financials	1.6	4.3	4.0	0.4	2.3	0.9	13.5	14.1
Banks	1.5	3.5	–	–	0.3	0.9	6.2	8.2
Nonlife insurance	–	–	4.0	0.4	–	–	4.4	3.0
Real estate	–	–	–	–	0.4	–	0.4	0.4
General financial	0.1	–	–	–	1.6	–	1.7	1.8
Open ended investment companies	–	0.8	–	–	–	–	0.8	0.7
Technology	0.6	1.2	6.5	1.8	3.5	–	13.6	9.0
Software and computer services	0.6	1.2	3.2	–	2.5	–	7.5	2.8
Technology hardware and equipment	–	–	3.3	1.8	1.0	–	6.1	6.2
Total Equities*	**9.0**	**23.6**	**28.1**	**5.7**	**11.0**	**14.4**	**91.8**	
Total Equities* – 2008	11.0	28.5	24.4	3.9	8.8	18.8		**95.4**
Bonds	0.3	0.2	–	–	–	5.1	5.6	3.9
Net Liquid Assets	0.2	2.1	–	0.2	0.1	–	2.6	0.7
Total Assets (before deduction of debentures, long and short term borrowings)	**9.5**	**25.9**	**28.1**	**5.9**	**11.1**	**19.5**	**100.0**	
Total Assets – 2008	12.1	28.8	24.8	3.9	8.8	21.6		**100.0**
Debentures, Long and Short Term Borrowings	(10.8)	(2.7)	(4.9)	(4.3)	–	–	(22.7)	(19.3)
Equity Shareholders' Funds	**(1.3)**	**23.2**	**23.2**	**1.6**	**11.1**	**19.5**	**77.3**	
Equity Shareholders' Funds – 2008	5.4	22.8	21.9	0.2	8.8	21.6		**80.7**
Number of equity investments*	**12**	**14**	**17**	**3**	**12**	**9**	**67**	**76**

* Including OEICs.

List of Investments as at 31 March 2009

Classification	Name	Business	Fair value £'000	% of total assets
United Kingdom				
Mining	Xstrata	Mining	10,586	0.8
Aerospace and defence	Meggitt	Aerospace equipment and systems	11,542	
	Rolls Royce Group	Aerospace equipment provider	11,750	
			23,292	1.7
Support services	Hays	Personnel and recruitment services	9,368	
	Intertek Group	Business support providers	12,951	
	Wolseley	Builders' merchant	8,405	
			30,724	2.2
Tobacco	British American Tobacco	Tobacco	9,861	0.7
General retailers	Inchcape	Motor distributor	2,397	0.2
Media	Reed Elsevier	Publisher	17,171	1.2
Banks	Standard Chartered	Banking	20,617	1.5
General financial	Intermediate Capital Group	Mezzanine finance provider	1,905	0.1
Software and computer services	Sage	Small business software	8,609	0.6
Total United Kingdom Equities			**125,162**	**9.0**
Continental Europe				
Chemicals	BASF	Chemicals – Germany	18,777	1.3
Electronic and electrical equipment	ABB	Electronic and electrical equipment – Switzerland	18,094	
	Q-cells	Solar energy production – Germany	9,722	
			27,816	2.0
Industrial engineering	Atlas Copco	Engineering – Sweden	60,044	
	Sandvik	Engineering – Sweden	37,111	
	Vestas Windsystems	Wind power – Denmark	31,423	
			128,578	9.3
Automobiles and parts	Porsche	Automobiles – Germany	31,918	2.3
Personal goods	Richemont	Luxury goods – Switzerland	10,903	0.8
Pharmaceuticals and biotechnology	Novozymes	Enzyme manufacturer – Denmark	14,992	1.1
General retailers	PPR	Luxury goods producer and retailer – France	18,132	1.3
Banks	Banco Santander	Banking – Spain	34,179	
	UBS	Banking – Switzerland	15,402	
			49,581	3.5
Open ended investment companies	Baillie Gifford European Smaller Companies Fund	Small company fund	11,794	0.8
Software and computer services	SAP	Business software – Germany	16,876	1.2
Total Continental European Equities			**329,367**	**23.6**
North America				
Oil and gas producers	EOG Resources	Oil and gas producer	9,540	0.7
Oil equipment, services and distribution	Schlumberger	Oil services	28,276	2.0
Chemicals	Monsanto	Seed and agricultural chemicals	13,324	0.9
General industrials	Rockwell Automation	Industrial automation providers	12,167	0.9
Industrial engineering	Deere	Farm machinery	27,478	2.0
Beverages	Brown-Forman	Wine and spirits producer	20,254	1.4
Food and drug retailers	Walgreen	Pharmacy chain	31,826	
	Whole Foods Market	General retailer	10,725	
	Kroger	Food retailer	15,943	
			58,494	4.2

Classification	Name	Business	Fair value £'000	% of total assets
North America continued				
General retailers	Amazon.com	Online retailer	62,512	4.5
Media	Omnicom	Advertising agency	13,653	1.0
Nonlife insurance	Berkshire Hathaway	Insurance	27,523	
	Progressive Ohio	Property and casualty insurance	27,640	
			55,163	4.0
Software and computer services	Google	Online search engine	44,751	3.2
Technology hardware and equipment	First Solar	Solar energy technology	25,693	
	Linear Tech	Integrated circuits	14,422	
	Apple	Computer hardware manufacturer	7,019	
			47,134	3.3
Total North American Equities			**392,746**	**28.1**
Japan				
Leisure goods	Nintendo	Games consoles and software	49,315	3.5
Nonlife insurance	Mitsui Sumitomo Insurance	Insurer	5,337	0.4
Technology hardware and equipment	Canon	Printers, copiers and cameras	24,990	1.8
Total Japanese Equities			**79,642**	**5.7**
Asia Pacific				
Industrial engineering	Samsung Heavy Industries	Construction and holding company – Korea	10,717	0.8
Automobiles and parts	Hero Honda Motors	Motorcycle and scooter manufacturer – India	13,539	1.0
Mobile telecommunications	China Mobile	Mobile telecommunications – Hong Kong	47,424	3.4
Banks	China Merchants Bank	Banking – China	4,322	0.3
Real estate	Shanghai Forte Land	Residential property – China	5,608	0.4
General financial	Hong Kong Exchanges and Clearing	Securities exchange owner/operator – Hong Kong	7,769	
	Housing Development Finance Corporation	Mortgage bank – India	5,439	
	Singapore Exchange	Securities exchange owner/operator – Singapore	10,518	
			23,726	1.6
Software and computer services	Baidu.com	Online search engine – China	5,357	
	Taiwan Semiconductor Manufacturing	Semiconductor manufacturer – Taiwan	22,523	
	Tencent Holdings	Internet service portal – China	7,566	
			35,446	2.5
Technology hardware and equipment	Samsung Electronics	Electronics manufacturer – Korea	13,412	1.0
Total Asia Pacific Equities			**154,194**	**11.0**

Classification	Name	Business	Fair value £'000	% of total assets
Emerging Markets				
Oil and gas producers	Gazprom	Gas production and distribution – Russia	32,089	
	Lukoil	Oil producer – Russia	9,899	
	Petrobras	Oil producer – Brazil	87,056	
			129,044	9.2
Mining	Vale (CVRD)	Iron ore and nickel mining – Brazil	41,632	3.0
General retailers	Walmex	General retailer – Mexico	7,809	0.6
Mobile telecommunications	MTN Group	Mobile telecommunications – South Africa	9,896	0.7
Banks	Garanti Bankasi	Banking – Turkey	6,225	
	Standard Bank Group	Banking – South Africa	6,673	
			12,898	0.9
Real estate	Black Sea Property Fund	Bulgarian property trust	530	–
Total Emerging Markets Equities			**201,809**	**14.4**
Total Equity Investments			**1,282,920**	**91.8**
Fixed Interest				
Sterling denominated	Business Mortgage Finance FRN 2037		484	
	Business Mortgage Finance FRN 2041		520	
	Business Mortgage Finance FRN 2045		350	
	Cairngorm Limited Class E FRN 2016		277	
	Royal Bank of Scotland 8.162% 2012		416	
	Pantheon Internatonal Participating Unsecured Loan Notes		3,300	
			5,347	0.3
Euro denominated	Old Mutual 4.5% 2017		524	
	Semper Finance 2006-1 Limited E FRN 2084		1,115	
	Skye CLO Income Notes 2019		247	
			1,886	0.2
US$ denominated	Old Mutual 8% 2008 Perpetual		404	–
Brazilian real denominated	Brazil CPI Linked 2045		71,430	5.1
Total Fixed Interest			**79,067**	**5.6**
Total Investments			**1,361,987**	**97.4**
Net Liquid Assets			**36,283**	**2.6**
Total Assets at Fair Value (before deduction of debentures, long and short term borrowings)			**1,398,270**	**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) %
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
2009	**1,398,270**	**317,933**	**1,080,337**	**397.1**	**383.8**	**399.3**	**353.0**	**8.0**	**11.6**

* 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 §§ %
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
2009	**57,470**	**34,571**	**12.67^^**	**12.30^^**	**0.54**

Gearing Ratios

Year to 31 March	Actual gearing ¶	Potential gearing II
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
2009	**119**	**129**

‡ 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.
II 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.
^^ Includes a non-recurring 1.5p per share from the reimbursement of previous years' VAT and associated interest thereon.

Cumulative Performance (taking 1999 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
1999	100	100	100	100	100	100	100	100	100
2000	125	126	116	118	131	133	139	103	103
2001	98	100	100	103	100	103	135	109	105
2002	93	96	94	100	98	102	135	114	106
2003	62	66	64	69	62	67	132	120	110
2004	83	91	79	89	81	90	143	127	112
2005	92	101	86	99	89	99	131	134	116
2006	134	148	109	128	139	159	157	155	119
2007	138	156	113	137	144	169	174	173	125
2008	147	169	109	135	160	190	174	187	129
2009	**87**	**102**	**84**	**107**	**94**	**115**	**225^^**	**224^^**	**129**
Compound annual returns									
5 year	0.9%	2.3%	1.2%	3.8%	3.0%	4.9%	9.5%^^	11.9%^^	2.7%
10 year	(1.3%)	0.2%	(1.7%)	0.7%	(0.6%)	1.4%	8.5%^^	8.4%^^	2.6%

‡‡ 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 not a guide to future performance.

Directors' Report

The Directors present their Report together with the financial statements of the Company for the year to 31 March 2009.

Business Review

Business and Status

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

The Company carries on business as an investment trust. It was approved as an investment trust under section 842 of the Income and Corporation Taxes Act 1988 for the year ended 31 March 2008, subject to matters that may arise from any subsequent enquiry by HM Revenue and Customs into the Company's tax return. In the opinion of the Directors, the Company has subsequently conducted its affairs so as to enable it to continue to seek approval as an investment trust under section 842 of the Income and Corporation Taxes Act 1988.

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 Company 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 pages 4 and 5 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 1,900,000 shares, all of which are held in treasury, increasing net asset value per share by 0.07%. Between 1 April 2009 and the date of this report, the Company has bought back a further 175,000 shares, which are being held in treasury, increasing net asset value per share by 0.01%.

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 of the Year and Future Trends
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 Company's assets consist mainly of listed securities and its principal risks are therefore market related and include market risk (comprising currency risk, interest rate risk and other price risk), liquidity risk and credit risk. An explanation of those risks and how they are managed are contained in note 23 to the accounts on pages 43 to 47.

Other risks faced by the Company include the following:

Regulatory Risk – failure to comply with applicable legal and regulatory requirements could lead to suspension of the Company's Stock Exchange Listing, financial penalties or a qualified audit report. Breach of section 842 of the Income and Corporation Taxes Act 1988 could lead to the Company being subject to tax on capital gains. Baillie Gifford's Heads of Business Risk & Internal Audit and Regulatory Risk provide regular reports to the Audit Committee on Baillie Gifford's monitoring programmes. The Managers monitor investment movements and the level of forecast income and expenditure to ensure the provisions of section 842 are not breached.

Operational/Financial Risk – failure of the Managers' accounting systems or those of other third party service providers could lead to an inability to provide accurate reporting and monitoring or a misappropriation of assets. The Board reviews the Managers' Report on Internal Controls and the reports by other key third party providers are reviewed by the Manager on behalf of the Board.

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

All borrowings require the prior approval of the Board and gearing levels are discussed by the Board and Managers at every meeting. The majority of the Company's investments are in quoted securities that are readily realisable.

Employees
The Company has no employees. The executive responsibility for investment management has been delegated to Baillie Gifford & Co.

Social and Community Issues
As an investment trust, the Company has no direct social or community responsibilities. The Company, however, believes that it is in the Shareholders' interests to consider environmental, social and governance factors when selecting and retaining investments. Details of the Company's policy on socially responsible investment are set out on page 23.

Borrowings
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.

During the year bank loans of ¥8,230 million, CHF 35.5 million, CHF 60.5 million, U$100 million, U$30 million and €73 million were repaid and a bank loan of U$99 million drawn down.

The Company has an Aaa Issuer Rating by Moody's.

Financials
The net asset value per share decreased by 41.1% during the year, compared to a decrease in the benchmark of 22.8%; dividends increased by 19.4% to 12.30p per share; at 31 March the discount was 8.0%. Both revenue earnings and the dividend include a non-recurring 1.5p per share from the reimbursement of previous years' VAT and associated interest thereon. The percentage changes excluding the non-recurring 1.5p are revenue earnings 13.9% and dividend 4.9%.

Directors' Interests

Name	Nature of interest	Ordinary 25p shares held at 31 March 2009	31 March 2008
Sir Donald MacKay	Beneficial	2,469	2,469
GA Ball	Beneficial	10,000	10,000
MM Gray	Beneficial	221,000†	272,900
	Non-beneficial	12,500	12,500
Professor JA Kay	Beneficial	5,000	–
FC McBain	Beneficial	1,069	–
WG McQueen	Beneficial	1,500	1,500
JPHS Scott	Beneficial	33,940	30,396
Lord Strathclyde	Beneficial	3,142	3,142

The Directors at the year end, and their interests in the Company, were as shown above.
Mr JPHS Scott acquired a further 458 shares on 7 April 2009. There have been no other changes intimated in the Directors' interests up to 13 May 2009.
† Change in connected party.

Dividends

The Board recommends a final dividend of 5.50p per ordinary share which, together with the interim of 6.80p already paid, makes a total of 12.30p for the year compared with 10.30p for the previous year. The dividend includes a non-recurring 1.50p per share from the reimbursement of previous years' VAT and associated interest thereon.

If approved, the recommended final dividend on the ordinary shares will be paid on 1 July 2009 to shareholders on the register at the close of business on 5 June 2009. The ex-dividend date is 3 June 2009.

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.

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.

Following the appointment of two Directors during the year, the Board now comprises eight 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 and his replacement will be announced on his retirement.

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 pages 6 and 7.

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

Terms of Appointment and Re-elections

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

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

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

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.

Sir Donald MacKay who has served on the Board for more than nine years, offers himself for re-election annually. 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. The Board concurs with the view expressed in the AIC Code that long-serving Directors should not be prevented from being considered as independent.

Following formal performance evaluation, the Board has concluded that, notwithstanding his length of service, Sir Donald MacKay retains independence of character and judgement and his skills and experience are a benefit to the the Board.

Directors' Attendance at Meetings

	Board	Audit Committee	Nomination Committee
Number of meetings	**7**	**2**	**2**
Sir Donald MacKay	7	2	2
GA Ball	5	1	1
MM Gray	6	2	2
Professor JA Kay (appointed 11 December 2008)	2	–	1
FC McBain (appointed 26 February 2009)	1	–	1
WG McQueen	7	2	2
JPHS Scott	6	2	1
Lord Strathclyde	7	2	2

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. The Annual General Meeting was attended by all Directors serving at that date.

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. The Committee is responsible for considering Directors' potential conflicts of interest and for making recommendations to the Board on whether or not the potential conflicts should be authorised. The terms of reference are available on request from the Company and on the Company's website: **www.scottishmortgageit.com**.

The Nomination Committee reviewed the Directors' balance of age, skills, knowledge and experience during the year. The Committee concluded that, in line with the policy for regular refreshment of the Board, two new Directors should be appointed. The Committee identified the skills and experience that would strengthen the Board and prepared a diverse list of high quality candidates. A short list was then prepared and an interview process was undertaken. At the conclusion of this process Professor JA Kay and Ms FC McBain were appointed to the Board on 11 December 2008 and 26 February 2009 respectively. Information on their background and experience can be found on page 6.

Given the quality of the candidates identified, it was not necessary to either appoint external search consultants or use open advertising on this occasion.

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.

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.

Major Interests in Shares

Name	No. of ordinary 25p shares held	% of issue
D.C. Thomson & Company Limited (Direct)	13,400,000	4.9
Legal & General Group Plc (Direct)	10,847,845	4.0
BlackRock Inc (Indirect)	8,461,197	3.1

The above information has been intimated to the Company as at 13 May 2009.

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 which complies with Technical Release AAF 01/06 – Assurance Reports on Internal Controls of Service Organisations made available to Third Parties. 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 manage 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.

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.

Going Concern

The Company's assets, the majority of which are investments in quoted securities which are readily realisable, exceed its liabilities significantly. The Board approves borrowing limits and reviews regularly the amount of any borrowings and compliance with banking covenants. The U$99 million loan with Lloyds TSB was repaid on 20 April 2009 and replaced with a U$99 million facility from The Bank of New York Mellon. Accordingly, 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 consisting of all Directors. Its authority and duties are clearly defined within its written terms of reference, which are available on request from the Company and on the Company's website: **www.scottishmortgageit.com**. As the Board believes that Sir Donald MacKay is independent and that there are no conflicts of interest, the Board considers it appropriate for Sir Donald MacKay to be a member of the Audit Committee. 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 half-yearly 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 partner 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 2009 were £565 and related to the certification of results for the debenture trustees. The Committee does not believe that this has impaired the auditors' independence.

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 Company, is therefore considered unnecessary.

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 Company's website: **www.scottishmortgageit.com**. 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's website: **www.scottishmortgageit.com**.

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.

The Managers are signatories of the United Nations Principles for Responsible Investment and the Carbon Disclosure Project.

Conflicts of Interest

Each Director submits a list of potential conflicts of interest to the Nomination Committee on an annual basis. The Committee considers these carefully, taking into account the circumstances surrounding them and makes a recommendation to the Board on whether or not the potential conflicts should be authorised. Board authorisation is for a period of one year. Having considered the lists of potential conflicts there were no situations which gave rise to a direct or indirect interest of a director which conflicted with the interests of the Company.

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. Careful consideration has been given by the Board as to the basis on which the management fee is charged. The Board considers that maintaining a relatively low total expense ratio is in the best interest of all shareholders as lower costs means higher returns, particularly when compounded over long periods. The Board is also of the view that calculating the fee with reference to performance would be unlikely to exert a positive influence over the long term performance. 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, 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. The past year has been difficult but the Board has no hesitation in fully backing the Managers' approach that is based on achieving long term growth on a global basis.

Directors

Professor JA Kay and Ms FC McBain were appointed on 11 December 2008 and 26 February 2009 respectively. Having been appointed during the year, Professor Kay and Ms McBain are required to seek election by shareholders at the Annual General Meeting. The Directors believe that the Board will benefit from Professor Kay's and Ms McBain's extensive experience and recommend their election to shareholders.

Lord Strathclyde retires by rotation at the Annual General Meeting and will offer himself for re-election.

Sir Donald MacKay having served more than nine years, is subject to annual re-election.

Following formal performance evaluation, the performance of Lord Strathclyde and Sir Donald MacKay 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.

Mr GA Ball will retire from the Board at the conclusion of the Annual General Meeting.

Director Indemnification and Insurance

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

The Company also maintains Directors' and Officers' liability insurance.

Share Capital

Capital Structure

The Company's capital structure as at 31 March 2009 consists of 284,346,176 ordinary shares of 25p each, of which 272,089,897 are allotted and fully paid and 12,256,279 are held in treasury. As at 31 March 2008, 284,346,176 ordinary shares of 25p each, of which 273,989,897 are allotted and fully paid and 10,356,279 held in treasury.

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 55.

Purchase of Shares

During the year to 31 March 2009 the Company bought back 1,900,000 ordinary shares (nominal value £475,000), on the London Stock Exchange, all of which are held in treasury. The total consideration for these shares was £10,761,000. Between 1 April 2009 and the date of this report the Company has bought back a further 175,000 shares, which are held in treasury, at a cost of £639,000. At 31 March 2009 the Company held 12,256,279 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 may 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 0.07%.

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 10, 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 2010. 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 10, in the Notice of Annual General Meeting.

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

Authority to Allot Shares and Disapply Pre-emption Rights

Resolution 11, 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 £6,797,872 in aggregate (representing 10% of the issued ordinary share capital of the Company as at 13 May 2009) 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 2010.

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 11 will give the Directors power to sell ordinary shares held in treasury on a non pre-emptive basis, subject always to the limitations noted above. (Treasury shares are explained in more detail under the heading 'Purchase of Shares' above). The Directors consider that the power proposed to be granted by Resolution 11 is advantageous should the shares trade at a premium to net asset value and natural liquidity is unable to meet demand. The Directors do not intend to use this power to sell shares on a non pre-emptive basis at a discount to net asset value.

At 13 May 2009 the Company held 12,431,279 treasury shares, representing 4.6% of the ordinary shares in issue (excluding treasury shares).

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.

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 2009 or 31 March 2008.

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.

Independent Auditors

The auditors, KPMG Audit Plc, are willing to continue in office and, in accordance with section 489 and section 491(i) of the Companies Act 2006, 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 2009

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

Following the appointment of two Directors during the year, the Company now has eight Directors, all of whom are non-executive. It is the intention in the longer term that the number of Directors will return to six. 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 2010 and subsequent years.

The fees for the non-executive Directors are determined within the limits set out in the Company's Articles of Association. Currently the remuneration paid to the Chairman shall not exceed £45,000 per annum and Directors' remuneration shall not exceed £30,000 per annum per Director. Non-executive Directors are not eligible for any other remuneration apart from the reimbursement of allowable expenses.

The Board carried out a review of the level of Directors' fees during the year, and concluded that the fees should be increased from £32,000 to £36,000 for the Chairman and from £21,000 to £24,000 for each Director with the additional fee for the Chairman of the Audit Committee increased from £2,000 to £3,000. The increase was effective from 1 April 2008. The Directors are not seeking a further increase until 2010 at the earliest.

Directors' Remuneration for the Year (audited)

	2009 £	2008 £
Directors who served during the year:		
Sir Donald MacKay (Chairman)	36,000	32,000
GA Ball	24,000	21,000
MM Gray	24,000	21,000
Professor JA Kay (appointed 11 December 2008)	7,299	–
FC McBain (appointed 26 February 2009)	2,236	–
WG McQueen (Audit Committee Chairman)	27,000	23,000
JPHS Scott	24,000	21,000
Lord Strathclyde	24,000	21,000
	168,535	**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 election/re-election
Sir Donald MacKay	1 July 1999	AGM June 2009
GA Ball	17 February 1983	Retires AGM June 2009
MM Gray	26 February 2004	AGM 2010
Professor JA Kay	11 December 2008	AGM June 2009
FC McBain	26 February 2009	AGM June 2009
WG McQueen	15 February 2001	AGM 2011
JPHS Scott	31 October 2001	AGM 2010
Lord Strathclyde	26 February 2004	AGM June 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 appointment letters 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 themself 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 2004)

Company Performance

The graph opposite compares the total return (assuming all dividends are reinvested) to ordinary shareholders compared to the total shareholder return on a notional investment made up of shares in the component parts of the FTSE All-Share Index. This index was chosen for comparison purposes, as it is a widely used measure of performance for UK listed companies. (Benchmark provided for information purposes only).

Approval

The Directors' Remuneration Report on pages 26 and 27 was approved by the Board of Directors and signed on its behalf on 14 May 2009.

SIR DONALD MACKAY
Chairman

Donald MacKay

* 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 not a guide to future performance.

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 (in which case there should be supporting assumptions or qualifications as necessary).

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

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 2009

Donald MacKay

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 2009 which comprise the Income Statement, Balance Sheet, Reconciliation of Movements in Shareholders' Funds, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 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 2009 and of its loss 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 2009

Income Statement

	Notes	For the year ended 31 March 2009 Revenue £'000	Capital £'000	**Total £'000**	For the year ended 31 March 2008 Revenue £'000	Capital £'000	**Total £'000**
(Losses)/gains on investments	10	–	(691,354)	**(691,354)**	–	159,406	**159,406**
Currency losses	15	–	(50,819)	**(50,819)**	–	(36,613)	**(36,613)**
Income	2	57,470	–	**57,470**	49,575	–	**49,575**
Investment management fee	3	(2,821)	(2,821)	**(5,642)**	(3,875)	(3,875)	**(7,750)**
Recovered VAT	4	3,850	1,816	**5,666**	–	–	–
Other administrative expenses	5	(1,885)	–	**(1,885)**	(2,068)	–	**(2,068)**
Net return before finance costs and taxation		56,614	(743,178)	**(686,564)**	43,632	118,918	**162,550**
Finance costs of borrowings	6	(10,786)	(11,548)	**(22,334)**	(10,025)	(10,025)	**(20,050)**
Net return on ordinary activities before taxation		45,828	(754,726)	**(708,898)**	33,607	108,893	**142,500**
Tax on ordinary activities	7	(11,257)	7,860	**(3,397)**	(6,564)	3,908	**(2,656)**
Net return on ordinary activities after taxation		**34,571**	**(746,866)**	**(712,295)**	**27,043**	**112,801**	**139,844**
Net return per ordinary share	8	**12.67p**	**(273.74p)**	**(261.07p)**	**9.79p**	**40.82p**	**50.61p**

The total column of this statement is the profit and loss account of the Company.

All revenue and capital items in this statement derive from continuing operations. No operations were acquired or discontinued during the year.

The accompanying notes on pages 35 to 47 are an integral part of the financial statements.

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.

Balance Sheet

	Notes	At 31 March 2009 £'000	At 31 March 2009 £'000	At 31 March 2008 £'000	At 31 March 2008 £'000
Fixed assets					
Investments held at fair value through profit or loss	10		1,361,987		2,259,474
Current assets					
Debtors	11	9,073		20,026	
Cash and short term deposits		35,774		13,030	
		44,847		33,056	
Creditors					
Amounts falling due within one year	12	(77,631)		(126,435)	
Net current liabilities			(32,784)		(93,379)
Total assets less current liabilities			1,329,203		2,166,095
Creditors					
Amounts falling due after more than one year	13		(248,866)		(329,651)
			1,080,337		**1,836,444**
Capital and reserves					
Called-up share capital	14		71,086		68,497
Capital redemption reserve	15		19,094		21,683
Capital reserve – realised	15		974,657		1,712,759
Capital reserve – unrealised	15		(55,955)		(36,430)
Revenue reserve	15		71,455		69,935
Equity shareholders' funds	16		**1,080,337**		**1,836,444**
Net asset value per ordinary share (after deducting borrowings at fair value)	17		**383.8p**		**651.4p**
Net asset value per ordinary share (after deducting borrowings at par)	17		**399.3p**		**672.5p**

The Financial Statements were approved and authorised for issue by the Board and signed on 14 May 2009.

SIR DONALD MACKAY
Chairman

Donald MacKay

The accompanying notes on pages 35 to 47 are an integral part of the financial statements.

Reconciliation of Movements in Shareholders' Funds

For the year ended 31 March 2009

	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 2008		68,497	21,683	1,712,759	(36,430)	69,935	**1,836,444**
Adjustment to reserves*		2,589	(2,589)	–	–	–	**–**
Net return on ordinary activities after taxation	15	–	–	(727,341)	(19,525)	34,571	**(712,295)**
Shares bought back	14	–	–	(10,761)	–	–	**(10,761)**
Dividends paid during the year	9	–	–	–	–	(33,051)	**(33,051)**
Shareholders' funds at 31 March 2009		**71,086**	**19,094**	**974,657**	**(55,955)**	**71,455**	**1,080,337**

* See note 15 on page 41.

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		–	–	155,173	(42,372)	27,043	**139,844**
Shares bought back	14	(1,868)	1,868	(45,539)	–	–	**(45,539)**
Dividends paid during the year	9	–	–	–	–	(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 15 on page 41.

The accompanying notes on pages 35 to 47 are an integral part of the financial statements.

Cash Flow Statement

	Notes	For the year ended 31 March 2009 £'000	£'000	For the year ended 31 March 2008 £'000	£'000
Net cash inflow from operating activities	18		56,685		36,358
Servicing of finance					
Interest paid		(21,862)		(18,708)	
Net cash outflow from servicing of finance			(21,862)		(18,708)
Taxation					
Income tax paid		(20)		(10)	
Overseas tax incurred		(3,381)		(2,560)	
Total tax paid			(3,401)		(2,570)
Financial investment					
Acquisitions of investments		(387,778)		(783,355)	
Disposals of investments		595,292		707,926	
Realised currency profit/(loss)		5,132		(1,051)	
Net cash inflow/(outflow) from financial investment			212,646		(76,480)
Equity dividends paid	9		(33,051)		(27,726)
Net cash inflow/(outflow) before financing			211,017		(89,126)
Financing					
Shares bought back		(10,761)		(45,539)	
Bank loans repaid		(227,492)		(72,480)	
Bank loans drawn down		49,980		201,010	
Net cash (outflow)/inflow from financing			(188,273)		82,991
Increase/(decrease) in cash	19		**22,744**		**(6,135)**
Reconciliation of net cash flow to movement in net debt	19				
Increase/(decrease) in cash in the period			22,744		(6,135)
Decrease/(increase) in bank loans			177,512		(128,530)
Exchange movement on bank loans			(55,951)		(35,562)
Other non-cash changes			133		115
Movement in net debt in the year			144,438		(170,112)
Net debt at 1 April			(426,597)		(256,485)
Net debt at 31 March			**(282,159)**		**(426,597)**

The accompanying notes on pages 35 to 47 are an integral part of the financial statements.

1 Principal Accounting Policies

The financial statements for the year to 31 March 2009 have been prepared on the basis of the accounting policies set out below. These are unchanged from last year and have been applied consistently.

(a) Basis of Accounting

The financial statements are prepared on a going concern basis 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 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.

The financial statements 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 interest rate basis.

(iii) Franked income is stated net of tax credits.

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

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

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

(d) Expenses

All expenses are accounted for on an accruals basis. Expenses are charged through the revenue 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 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

	2009 £'000	2008 £'000
Income from investments		
Franked investment income	5,624	11,391
UK unfranked investment income†	2,017	1,932
Overseas dividends	41,316	30,146
Overseas interest	5,406	5,428
	54,363	**48,897**
Other income		
Deposit interest	617	608
Interest on VAT recovered (see note 4)	1,910	–
Underwriting commission and commitment fees	580	70
	3,107	**678**
Total income	**57,470**	**49,575**
Total income comprises:		
Dividends from financial assets designated at fair value through profit or loss	47,287	41,859
Interest from financial assets designated at fair value through profit or loss	7,076	7,038
Deposit interest from financial assets not at fair value through profit or loss	617	608
Other income not from financial assets	580	70
	57,470	**49,575**
Income from investments		
Listed UK	5,624	11,482
Listed overseas	48,705	37,415
Unlisted	34	–
	54,363	**48,897**

†Includes OEIC income.

3 Investment Management Fee

	2009 Revenue £'000	2009 Capital £'000	2009 **Total £'000**	2008 Revenue £'000	2008 Capital £'000	2008 **Total £'000**
Investment management fee	2,821	2,821	**5,642**	3,717	3,717	**7,434**
Unrecovered VAT thereon	–	–	–	158	158	**316**
	2,821	**2,821**	**5,642**	**3,875**	**3,875**	**7,750**

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 Recovered VAT

In 2007 the European Court of Justice ruled that investment trust management fees should be exempt from VAT. During the period, in respect of the periods 1990 to 1996 and from 2000 to 2007 the Company received a reimbursement of £5,666,000 which has been allocated to revenue and capital in the manner in which it had originally been charged, plus £1,910,000 of interest thereon.

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

	2009 £'000	2008 £'000
General administrative expenses	1,695	1,908
Directors' fees (see Directors' Remuneration Report page 26)	169	139
Auditors' remuneration for audit services	20	20
Auditors' remuneration for other services – certification of results for the debenture trustees	1	1
	1,885	**2,068**

6 Finance Costs of Borrowings

	2009 Revenue £'000	2009 Capital £'000	2009 Total £'000	2008 Revenue £'000	2008 Capital £'000	2008 Total £'000
Financial liabilities not at fair value through profit or loss						
Bank loans and overdrafts repayable within five years	3,859	4,621	**8,480**	3,089	3,089	**6,178**
Debentures repayable wholly or partly in more than five years	6,927	6,927	**13,854**	6,936	6,936	**13,872**
	10,786	**11,548**	**22,334**	**10,025**	**10,025**	**20,050**

7 Tax on Ordinary Activities

	2009 Revenue £'000	2009 Capital £'000	2009 Total £'000	2008 Revenue £'000	2008 Capital £'000	2008 Total £'000
UK corporation tax	11,257	(7,860)	**3,397**	6,708	(3,908)	**2,800**
Overseas taxation	3,397	–	**3,397**	2,800	–	**2,800**
Double taxation relief	(3,397)	–	**(3,397)**	(2,800)	–	**(2,800)**
Total current tax	11,257	(7,860)	**3,397**	6,708	(3,908)	**2,800**
Recovery of refundable income written off in previous years	–	–	–	(144)	–	**(144)**
	11,257	**(7,860)**	**3,397**	**6,564**	**(3,908)**	**2,656**

	2009 £'000	2008 £'000
The tax charge for the year is lower than the standard rate of corporation tax in the UK of 28% (2008 – 30%)		
The differences are explained below:		
Net return on ordinary activities before taxation	(708,898)	142,500
Net return on ordinary activities before taxation multiplied by the standard rate of corporation tax in the UK of 28% (2008 – 30%)	(198,491)	42,750
Capital returns not taxable	207,808	(36,838)
Income not taxable (franked investment income)	(1,575)	(3,417)
Losses from previous periods utilised	(4,357)	–
Overseas withholding tax	3,397	2,800
Double taxation relief	(3,397)	(2,800)
Adjustment to income received from OEICs for tax purposes	12	17
Tax on refundable income written off in previous years	–	144
Current tax charge for the year	**3,397**	**2,656**

At 31 March 2009 the Company had surplus management expenses and losses on non-trading loan relationships of £42 million (2008 – £56 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.

8 Net Return per Ordinary Share

	2009 Revenue	 Capital	 **Total**	2008 Revenue	 Capital	 **Total**
	12.67p	**(273.74p)**	**(261.07p)**	**9.79p**	**40.82p**	**50.61p**

Revenue return per ordinary share is based on the net revenue on ordinary activities after taxation of £34,571,000 (2008 – £27,043,000), and on 272,833,733 (2008 – 276,364,832) ordinary shares, being the weighted average number of ordinary shares during the year.

Capital return per ordinary share is based on the net capital loss for the financial year of £746,866,000 (2008 – net capital gain of £112,801,000), and on 272,833,733 (2008 – 276,364,832) ordinary shares, being the weighted average number of ordinary shares during the year.

There are no dilutive or potentially dilutive shares.

9 Ordinary Dividends

	2009	2008	2009 £'000	2008 £'000
Amounts recognised as distributions in the period:				
Previous year's final (paid 2 July 2008)	5.30p	5.00p	14,521	13,984
Interim (paid 28 November 2008)	6.80p	5.00p	18,530	13,742
	12.10p	**10.00p**	**33,051**	**27,726**

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 £34,571,000 (2008 – £27,043,000).

	2009	2008	2009 £'000	2008 £'000
Dividends paid and proposed in the period:				
Interim dividend per ordinary share (paid 28 November 2008)†	6.80p	5.00p	18,530	13,742
Proposed final dividend per ordinary share (payable 1 July 2009)	5.50p	5.30p	14,965	14,521
Adjustment to previous year's final dividend re shares bought back			–	(89)
	12.30p	**10.30p**	**33,495**	**28,174**

†The interim dividend includes a non-recurring 1.5p per share.

10 Fixed Assets – Investments

	2009 £'000	2008 £'000
Financial assets designated at fair value through profit or loss on initial recognition		
Listed UK – equity investments	125,692	251,692
Listed Overseas – equity investments	1,153,928	1,919,232
Listed Overseas – debt instruments	79,067	88,550
Unlisted – debt instruments	3,300	–
Total investments in financial assets at fair value through profit or loss	**1,361,987**	**2,259,474**

10 Fixed Assets – Investments (continued)

	Listed in UK £'000	Listed overseas £'000	Unlisted £'000	**Total £'000**
Cost of investments at 1 April 2008	248,342	1,555,414	–	**1,803,756**
Fair value adjustment at 1 April 2008	3,350	452,368	–	**455,718**
Fair value of investments at 1 April 2008	251,692	2,007,782	–	**2,259,474**
Movements in year:				
Purchases at cost	57,612	322,921	3,300	**383,833**
Sales – proceeds	(85,004)	(505,065)	–	**(590,069)**
– gains	(16,922)	(48,134)	–	**(65,056)**
Amortisation of fixed interest book cost	–	103	–	**103**
Changes in fair value	(92,694)	(533,604)	–	**(626,298)**
Change in listing	11,008	(11,008)	–	–
Fair value of investments at 31 March 2009	**125,692**	**1,232,995**	**3,300**	**1,361,987**
Cost of investments at 31 March 2009	215,036	1,314,231	3,300	**1,532,567**
Fair value adjustment at 31 March 2009	(89,344)	(81,236)	–	**(170,580)**
Fair value of investments at 31 March 2009	**125,692**	**1,232,995**	**3,300**	**1,361,987**

The purchases and sales proceeds figures above include transaction costs of £596,000 (2008 – £1,443,000) and £811,000 (2008 – £923,000) respectively.

	Realised £'000	2009 Unrealised £'000	**Total £'000**	Realised £'000	2008 Unrealised £'000	**Total £'000**
Net gains on investments designated at fair value through profit or loss on initial recognition						
Securities:						
Gains on sales	(65,056)	–	**(65,056)**	238,925	–	**238,925**
Changes in fair value	(626,298)	–	**(626,298)**	(79,519)	–	**(79,519)**
	(691,354)	**–**	**(691,354)**	**159,406**	**–**	**159,406**

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 loss of £17,951,000 (2008 – gain of £49,109,000) 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:

	C income shares held	2009 Value £'000	% of fund held	C income shares held	2008 Value £'000	% of fund held
Baillie Gifford European Smaller Companies Fund	5,767,177	11,794	26.6	5,767,177	16,633	25.6

11 Debtors

	2009 £'000	2008 £'000
Amounts falling due within one year:		
Income accrued	8,185	9,260
Sales for subsequent settlement	–	5,223
FX sales for subsequent settlement	–	5,165
UK taxation recoverable	67	48
Other debtors and prepayments	821	330
	9,073	**20,026**

The carrying amount of debtors is a reasonable approximation of fair value.

12 Creditors – Amounts falling due within one year

	2009 £'000	2008 £'000
Lloyds TSB Scotland plc multi-currency loan	69,067	–
BNP Paribas multi-currency loan	–	59,661
The Royal Bank of Scotland multi-currency loan	–	50,315
Purchases for subsequent settlement	1,220	5,165
FX purchases for subsequent settlement	–	5,170
Other creditors and accruals	7,344	6,124
	77,631	**126,435**

Included in other creditors is £369,000 (2008 – £1,071,000) in respect of the investment management fee.

Borrowing facilities

A 1 year £50 million multi-currency loan facility, at the time of draw down, has been arranged with Lloyds TSB 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.

At 31 March 2009 drawings were as follows:

Lloyds TSB Scotland plc	US$ 99million at an interest rate of 3.11% per annum.
ING Bank N.V.	¥8,500 million at an interest rate of 1.63% per annum (see note 13).
	CHF 60.5 million at an interest rate of 3.45% per annum (see note 13).

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 £760 million.
(iii) The Company shall not change the investment manager without prior written consent of the lenders.

13 Creditors – Amounts falling due after more than one year

	Nominal rate	Effective rate	2009 £'000	2008 £'000
Debenture stocks:				
£20 million 8–14% stepped interest debenture stock 2020	14.0%	12.3%	22,052	22,132
£75 million 6.875% debenture stock 2023	6.875%	6.9%	74,488	74,451
£50 million 6–12% stepped interest debenture stock 2026	12.0%	10.8%	54,490	54,580
4½% irredeemable debenture stock			675	675
Bank loans:				
ING Bank N.V. multi-currency loan			97,161	119,614
Lloyds TSB Scotland plc multi-currency loan			–	58,199
			248,866	**329,651**

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 £6,030,000 (2008 – £6,163,000) over nominal value. The debenture stocks are secured by a floating charge over the assets of the Company.

14 Called-up Share Capital

	2009 Number	2009 £'000	2008 Number	2008 £'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	**272,089,897**	**68,022**	**273,989,897**	**68,497**
Treasury shares of 25p each	**12,256,279**	**3,064**	**10,356,279**	**2,589**
Total	**284,346,176**	**71,086**	**284,346,176**	**71,086**

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 per ordinary share) or cancelled. In the year to 31 March 2009, a total of 1,900,000 (2008 – 7,471,279) ordinary shares with a nominal value of £475,000 (2008 – £1,868,000) were bought back at a total cost of £10,761,000 (2008 – £45,539,000) and held in treasury. At 31 March 2009 the Company had authority to buy back a further 40,021,185 ordinary shares.

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

15 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 2008	68,497	21,683	1,712,759	(36,430)	69,935	**1,836,444**
Adjustment to reserves*	2,589	(2,589)	–	–	–	**–**
Net loss on realisation of investments	–	–	(65,056)	–	–	**(65,056)**
Fair value movement of investments	–	–	(626,298)	–	–	**(626,298)**
Exchange differences	–	–	5,132	–	–	**5,132**
Exchange differences on multi-currency loans	–	–	(36,426)	(19,525)	–	**(55,951)**
Shares bought back	–	–	(10,761)	–	–	**(10,761)**
Investment management fee charged to capital	–	–	(2,821)	–	–	**(2,821)**
VAT recovered	–	–	1,816	–	–	**1,816**
Finance costs of borrowings charged to capital	–	–	(11,548)	–	–	**(11,548)**
Tax relief on management fee and finance costs	–	–	7,860	–	–	**7,860**
Dividends paid in year	–	–	–	–	(33,051)	**(33,051)**
Revenue return on ordinary activities after taxation	–	–	–	–	34,571	**34,571**
At 31 March 2009	**71,086**	**19,094**	**974,657**	**(55,955)**	**71,455**	**1,080,337**

Distributable capital reserves

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.

*The adjustment to the share capital and the capital redemption reserve is to reflect that when shares have been bought back in prior years and held in treasury they should not have been treated as cancelled.

16 Total Shareholders' Funds

	2009 £'000	2008 £'000
Total shareholders' funds are attributable as follows:		
Equity shares	**1,080,337**	**1,836,444**

Total shareholders' funds have been calculated in accordance with the provisions of FRS26. However, the net asset value per share figures in note 17 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:

	2009	2008
Shareholders' funds attributable to ordinary shares (as above)	1,080,337,000	1,836,444,000
Number of ordinary shares in issue at the year end*	272,089,897	273,989,897
Shareholders' funds per ordinary share	397.1p	670.3p
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	**399.3p**	**672.5p**

*Excluding shares held in treasury.

17 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:

	2009	2008	2009 £'000	2008 £'000
Ordinary shares	**399.3p**	**672.5p**	**1,086,367**	**1,842,607**

	2009 £'000	2008 £'000
The movements during the year of the assets attributable to the ordinary shares were as follows:		
Total net assets at 1 April	1,842,607	1,776,143
Total recognised gains and losses for the year	(712,295)	139,844
Dividends appropriated in the year	(33,051)	(27,726)
Adjustment to debentures	(133)	(115)
Shares bought back	(10,761)	(45,539)
Total net assets at 31 March	**1,086,367**	**1,842,607**

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 272,089,897 (2008 – 273,989,897) 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 16.

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

	2009 £'000	2008 £'000
Net return on ordinary activities before finance costs and taxation	(686,564)	162,550
Losses/(gains) on investments – securities	691,354	(159,406)
Currency losses	50,819	36,613
Amortisation of fixed income book cost	(103)	43
Decrease in accrued income	1,058	635
(Increase) in debtors	(491)	(113)
Increase/(decrease) in creditors	612	(3,964)
Net cash inflow from operating activities	**56,685**	**36,358**

19 Analysis of Change in Net Debt

	At 1 April 2008 £'000	Cash flows £'000	Other non-cash changes £'000	Exchange movement £'000	At 31 March 2009 £'000
Cash at bank and in hand	13,030	22,744	–	–	**35,774**
Loans due within one year	(109,976)	123,941	(58,200)	(24,832)	**(69,067)**
Loans due in two to five years	(177,813)	53,571	58,200	(31,119)	**(97,161)**
Debenture stocks	(151,838)	–	133	–	**(151,705)**
	(426,597)	**200,256**	**133**	**(55,951)**	**(282,159)**

20 Related Party Transactions

The Directors' fees for the year are detailed in the Directors' Remuneration Report on page 26. 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 the Companies Act. The details of the management fee are set out in note 3, and the management fee due to Baillie Gifford as at 31 March 2009 is disclosed in note 12.

21 Contingencies, Guarantees and Financial Commitments

At the year end the Company had a contingent liability amounting to £6.7 million (2008 – £10 million) under a subscription agreement relating to participating unsecured loan notes. The obligation will expire on 31 December 2010.

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 of 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. Details of the Company's investment portfolio are shown in note 10.

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 2009	Investments £'000	Cash and deposits £'000	Loans and debentures £'000	Other debtors and creditors * £'000	**Net exposure £'000**
US dollar	591,706	–	(69,067)	1,136	**523,775**
Euro	148,661	–	–	368	**149,029**
Swedish krona	97,155	–	–	–	**97,155**
Swiss franc	44,399	28,935	(37,121)	(18)	**36,195**
Japanese yen	79,642	–	(60,040)	895	**20,497**
Other overseas currencies	274,762	–	–	2,435	**277,197**
Total exposure to currency risk	**1,236,325**	**28,935**	**(166,228)**	**4,816**	**1,103,848**
Sterling	125,662	6,839	(151,705)	(4,307)	**(23,511)**
	1,361,987	**35,774**	**(317,933)**	**509**	**1,080,337**

* Includes net non-monetary assets of £19,000.

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.

23 Financial Instruments (continued)

Currency Risk Sensitivity

At 31 March 2009, if sterling had strengthened by 5% in relation to all currencies, with all other variables held constant, total net assets and total return on ordinary activities would have decreased by the amounts shown below. A 5% weakening of sterling against all currencies, with all other variables held constant, would have had an equal but opposite effect on the financial statement amounts. The analysis is performed on the same basis for 2008.

	2009 £'000	2008 £'000
US dollar	26,189	44,564
Euro	7,451	10,912
Swedish krona	4,857	10,178
Swiss franc	1,810	1,078
Japanese yen	1,025	253
Other overseas currencies	13,860	19,370
	55,192	**86,355**

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 at fair value.

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

Financial Assets	2009 Fair value £'000	2009 Weighted average interest rate	2009 Weighted average period until maturity	2008 Fair value £'000	2008 Weighted average interest rate	2008 Weighted average period until maturity
Fixed rate:						
Sterling bonds	–	–	–	2,577	8.4%	5 years
Sterling bonds (perpetual)*	416	8.2%	N/A	–	–	–
Euro bonds	771	3.1%	8 years	2,735	13.8%	11 years
US bonds (perpetual)*	404	8.0%	N/A	1,864	17.0%	N/A
Floating rate:						
Sterling bonds (interest rate linked to sterling LIBOR)	4,931	4.7%	10 years	14,651	9.7%	31 years
Euro bonds (interest rate linked to euro LIBOR)	1,115	6.3%	76 years	2,144	10.2%	77 years
Brazilian bonds (index linked)	71,430	10.5%	36 years	64,579	11.4%	37 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		2009 £'000	2008 £'000
The interest rate risk profile of the Company's financial liabilities at 31 March was:			
Floating rate	– Swiss franc denominated	–	18,059
	– Yen denominated	–	41,602
	– US$ denominated	69,067	50,315
Fixed rate	– Sterling denominated	151,705	151,838
	– US$ denominated	–	15,094
	– Yen denominated	60,040	42,967
	– Swiss franc denominated	37,121	61,553
	– Euro denominated	–	58,199
		317,933	**439,627**

	2009 £'000	2008 £'000
The maturity profile of the Company's financial liabilities at 31 March was:		
In one year or less, or on demand	69,067	109,976
In two to five years	97,161	177,813
In more than five years (weighted average period fixed 15 years)	151,030	151,163
No fixed date for repayment	675	675
	317,933	**439,627**

Interest Rate Risk Sensitivity

An increase of 100 basis points in bond yields as at 31 March 2009 would have decreased total net assets and total return on ordinary activities by £6,633,000 (2008 – £7,201,000). 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 2009 would have increased the net asset value per share (with borrowings at fair value) by 2.40p (2008 – 3.70p). 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.

118.7% of the Company's net assets are invested in equities. A 3% increase in quoted equity valuations at 31 March 2009 would have increased total assets and total return on ordinary activities by £38,488,000 (2008 – £65,128,000). 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 potentially significant but as the majority of the Company's assets are investments in quoted securities that are believed to be 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.

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.

23 Financial Instruments (continued)

Credit Risk (continued)

- 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 held only at banks that are regularly reviewed by the Managers.

Credit Risk Exposure

The maximum exposure to credit risk at 31 March was:

	2009 £'000	2008 £'000
Fixed interest investments	79,067	88,550
Cash and short term deposits	35,774	13,030
Debtors and prepayments	9,073	20,026
	123,914	**121,606**

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:

	2009 Par/nominal £'000	2009 Book £'000	2009 Fair £'000	2008 Par/nominal £'000	2008 Book £'000	2008 Fair £'000
8–14% stepped interest debenture stock 2020	20,000	22,052	31,721	20,000	22,132	34,153
6.875% debenture stock 2023	75,000	74,488	77,282	75,000	74,451	82,176
6–12% stepped interest debenture stock 2026	50,000	54,490	76,249	50,000	54,580	83,375
4½% irredeemable debenture stock	675	675	540	675	675	606
Total debentures	**145,675**	**151,705**	**185,792**	**145,675**	**151,838**	**200,310**
Fixed rate loans		97,161	99,100		177,813	181,086
Total long term borrowings		**248,866**	**284,892**		**329,651**	**381,396**

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 399.3p to 383.8p. Taking the market price of the ordinary shares at 31 March 2009 of 353.0p, this would have given a discount to net asset value of 8.0% as against 11.6% on a traditional basis. At 31 March 2008 the effect would have been to reduce the net asset value 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.

Capital Management

The Company does not have any externally imposed capital requirements. The capital of the Company is the ordinary share capital (see note 14) which is managed in accordance with its investment policy in pursuit of its investment objective, both of which are detailed on pages 18 and 19. Shares may be issued and/or repurchased as explained on pages 24 and 25.

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 page 50). 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 Scottish Mortgage page of the Baillie Gifford website at **www.scottishmortgageit.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.

AIC

Scottish Mortgage was one of the founding members of The Association of Investment Companies in 1932. The AIC's website **www.theaic.co.uk** contains detailed information about investment trusts, such as factsheets and statistics on the investment trust industry. The AIC also hold a series of private investor roadshows throughout the year at which Baillie Gifford will be in attendance.

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.

This helpline also offers an automated selfservice functionality (available 24 hours a day, 7 days a week) which allows you to:

- hear the latest share price;
- confirm your current share holding balance;
- confirm your payment history; and
- order Change of Address, Dividend Bank Mandate and Stock Transfer forms.

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.

Analysis of Shareholders

	At 31 March 2009 Number of shares held	%	At 31 March 2008 Number of shares held	%
Institutions	106,515,744	39.2	113,932,814	41.6
Intermediaries	110,037,280	40.4	106,716,403	39.0
Individuals	30,286,931	11.1	31,294,080	11.4
Baillie Gifford Share Plans/ISA	20,926,116	7.7	19,454,203	7.1
Marketmakers	4,323,826	1.6	2,592,397	0.9
	272,089,897	**100.0**	**273,989,897**	**100.0**

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.eproxyappointment.com.** 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.

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.

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

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.

Press advertisement for Scottish Mortgage.

The Share Plan and ISA brochure available at **www.scottishmortgageit.com**

Cost-effective Ways to Buy and Hold Shares in Scottish Mortgage

Baillie Gifford & Co offers a number of plans that enable you to buy and hold shares of the Trust cost-efficiently. Purchases and sales are normally subject to a dealing price spread and Government stamp duty of 0.5% is payable on purchases.

The Baillie Gifford Investment Trust Share Plan

- No initial charge
- No annual wrapper charge
- Normally cheaper than dealing through a stockbroker
- Invest a lump sum from £250 or monthly from just £30
- No maximum investment limits
- Stop and start saving at any time with no charge
- Twice weekly dealing (usually Tuesday and Friday)
- A withdrawal charge of just £22

The Baillie Gifford Investment Trust ISA

- Tax-efficient investment
- No set-up charge
- Flat rate annual management charge currently of £32.50 + VAT
- Lump sum investment from £2,000 currently up to a maximum of £7,200 each year
- Save monthly from £100
- A withdrawal charge of just £22

ISA Transfers

- Transfer existing ISAs from other plan managers into the Baillie Gifford ISA
- Consolidate your plans into a managed global investment
- Minimum transfer value £2,000

The Baillie Gifford Children's Savings Plan

- An excellent way for parents, grandparents or other adults to invest *for a child*
- No initial charge
- No annual wrapper charge
- The option of a designated account or a bare trust in favour of the child
- Flexible investment options: lump sum from £250 or monthly saving from just £30
- A withdrawal charge of just £22

Further Information

If you would like more information on any of the plans described, please contact the Baillie Gifford Client Relations Team. Contact details are given below.

Literature in Alternative Formats

If you require literature in alternative formats, such as large print or on audio tape, please contact the Client Relations Team.

Client Relations Team Contact Details

Telephone: 0800 027 0133
E-mail: trustenquiries@bailliegifford.com
Fax: 0131 275 3955

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

www.bailliegifford.com

Your call may be recorded.

Please note that Baillie Gifford is not permitted to give financial advice. If you would like advice or if you have any questions about the suitability of any of these plans for you, please ask an authorised intermediary.

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

E-mail: scottishmortgage@bailliegifford.com

Article in 'Trust' magazine to mark Scottish Mortgage's centenary year.

A Scottish Mortgage web page at **www.scottishmortgageit.com**

Communicating with Shareholders

Promoting Scottish Mortgage

Baillie Gifford carries out extensive marketing activity to promote Scottish Mortgage to institutional, intermediary and direct investors. The Board warmly supports the promotion of the plans described on the previous page in order to bring the merits of Scottish Mortgage to as wide an audience as possible.

Trust Magazine – see below for link

Trust is the Baillie Gifford investment trust magazine which is published twice a year. It provides an insight to our investment approach by including interviews with our fund managers, as well as containing investment trust news, investment features and articles about the trusts managed by Baillie Gifford, including Scottish Mortgage. Trust plays an important role in helping to explain our products so that readers can really understand them. For a copy of Trust, please contact the Baillie Gifford Client Relations Team or visit **www.trustmagazine.co.uk**

All articles are available to read on screen and can now also be downloaded in PDF format.

Guide to Investment Trusts

Baillie Gifford has produced a 'Guide to Investment Trusts' that is designed to explain how trusts work and to demystify some of the terms used. They have also produced a guide explaining the various ways you can save or invest for a child, including how you can use investment trusts and how they compare to other savings and investment options. A new guide named 'Investing for retirement' is now also available. If you would like a copy, please contact the Client Relations Team.

Scottish Mortgage on the Web

Up-to-date information about Scottish Mortgage is on the Managers' website at **www.scottishmortgageit.com**. In the Investment Trust section you will find full details of the Trust, including a monthly commentary, recent portfolio information and performance figures.

You can also find a brief history of the Trust, an explanation of the effects of gearing and a flexible performance reporting tool.

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 our investment trust pages at **www.bailliegifford.com**.

Online Management Service

You can 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. 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.

Award Winners

For the second year in a row, Scottish Mortgage was successful in the *What Investment Awards*. Selected by a panel of industry experts, Scottish Mortgage won the Generalist Investment Trust of the Year award.

Baillie Gifford & Co was the Winner of the Premier Group Award in the *Money Observer* Investment Trust Awards 2008. Baillie Gifford also picked up a Highly Commended for 'Best Global Trust' award for Scottish Mortgage.

Suggestions and Questions

Any suggestions on how communications with shareholders can be improved are welcomed, so please do contact the Baillie Gifford Client Relations Team and give them your suggestions. They will also be very happy to answer any questions you may have, either about Scottish Mortgage or the plans described opposite.

Risk Factors

Any investment in the shares of Scottish Mortgage involves risk. You should be aware of the following risk factors that apply to investment trusts and investment through savings vehicles.

- Past performance is not a guide to future performance.
- Scottish Mortgage is listed on the stockmarket. 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.
- 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.
- 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 these investments may not be enough to cover the borrowing and interest costs, and the Trust will make a loss. If the Trust's investments fall in value, any borrowings will increase the amount of this loss.
- Scottish Mortgage can buy back and cancel its own shares. The risks from borrowing, referred to above, are increased when a trust buys back and cancels its shares.
- Scottish Mortgage charges 50% of the investment management fee and 50% of borrowing costs to capital which reduces the capital value. Also, where income is low, the remaining expenses may be greater than the total income received, meaning Scottish Mortgage may not pay a dividend and the capital value would be further reduced.
- The staff of Baillie Gifford & Co, and/or the Directors of Scottish Mortgage, may hold shares in Scottish Mortgage or may buy or sell shares from time to time, subject to Baillie Gifford's personal account dealing rules.
- The value of tax reliefs will depend on your individual circumstances and tax rates and reliefs, as well as the tax treatment of ISAs could change at any time in the future.
- Details of other risks that apply to investment in the plans shown on page 50 are contained in the plan brochures.
- Scottish Mortgage Investment Trust PLC is a UK public listed company and as such complies with requirements of the UK Listing Authority. It is not authorised and regulated by the Financial Services Authority.

The following risk factors only apply to investment in the Investment Trust ISA:

- You should be aware that in the case of a transfer, if you change your mind and exercise your cooling-off rights, your previous ISA manager is under no obligation to accept your proceeds back. In this case, all tax benefits will be lost. If your previous ISA manager accepts your money back, there may be costs involved.
- Investors should also note that during an ISA transfer the transfer proceeds will be uninvested for a period of time (between the sale of their existing holdings and the reinvestment of the proceeds following the end of the cooling-off period) and therefore they are exposed to the risk of missing any rise in the market during that time.

Baillie Gifford Savings Management Limited (BGSM) is the manager of The Baillie Gifford Investment Trust Share Plan, The Baillie Gifford Children's Savings Plan and The Baillie Gifford Investment Trust ISA. BGSM has provided the information about these savings vehicles. BGSM is wholly owned by Baillie Gifford & Co who are the Managers and Secretaries of Scottish Mortgage Investment Trust PLC. BGSM and Baillie Gifford & Co are authorised and regulated by the Financial Services Authority and both are based at Calton Square, 1 Greenside Row, Edinburgh EH1 3AN.

Baillie Gifford only provides information about its products and does not provide investment advice.

The Annual General Meeting of the Company will be held at The Merchants' Hall, 22 Hanover Street, Edinburgh EH2 2EP on Thursday, 25 June 2009 at 4.00pm.

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 one-hundredth Annual General Meeting of Scottish Mortgage Investment Trust PLC will be held within The Hall at The Merchants' Hall, 22 Hanover Street, Edinburgh EH2 2EP on Thursday, 25 June 2009 at 4.00pm 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 2009 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 2009.
3. To declare a dividend.
4. To elect Professor JA Kay as a Director.
5. To elect Ms FC McBain as a Director.
6. To re-elect Sir Donald MacKay as a Director
7. To re-elect Lord Strathclyde as a Director.
8. To reappoint KPMG Audit Plc as Independent Auditors.
9. To authorise the Directors to determine the remuneration of the Independent Auditors.

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

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

    (a) the maximum aggregate number of Shares hereby authorised to be purchased shall be 14.99% of the issued ordinary share capital on the date on which this resolution is passed;

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

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

    (d) unless previously varied, revoked or renewed by the Company in general meeting, the authority hereby conferred shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2010, save that the Company may, prior to the expiry of such authority, enter into a contract or contracts to purchase Shares under such authority which will or might be completed or executed wholly or partly after the expiration of such authority and may make a purchase of Shares pursuant to any such contract or contracts.

11. That, the Directors of the Company be and they are hereby generally empowered pursuant to section 95 of the Companies Act 1985 (the 'Act') to sell relevant shares (as defined in sections 94(2) to 94(3A) and section 94(5) of the Act) in the Company if, immediately before the sale, such shares are held by the Company as treasury shares (as defined in section 162A(3) of the Act) ('treasury shares') for cash (as defined in section 162D(2) of the Act) as if subsection (1) of section 89 of the Act did not apply to any such sale, provided that this power shall be limited to:

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

(b) the sale of treasury shares (other than pursuant to paragraph (a) of this resolution) of up to an aggregate nominal value of £6,797,872 being 10% of the Company's issued Share capital as at 13 May 2009;

and shall expire at the conclusion of the next Annual General Meeting of the Company to be held in 2010, save that the Company may, before such expiry, make any offer or enter into an agreement which would or might require treasury shares to be sold after the expiry of such power, and the Directors of the Company may sell treasury shares in pursuance of such offer or agreement as if the power conferred hereby had not expired.

By order of the Board
Baillie Gifford & Co
Managers and Secretaries
21 May 2009

Baillie Gifford & Co.

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, 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. Any Power of Attorney or any other authority under which the proxy is signed (or a duly certified copy of such power of authority) must be included with the proxy form. 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 23 June 2009 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 23 June 2009 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 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.

6 As at 13 May 2009, the latest practicable date prior to publication of this document, the Company had 271,914,897 ordinary shares (excluding treasury shares) in issue with a total of 271,914,897 voting rights.

7 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.

8 No Director has a contract of service with the Company.

9 The members of the Company may require the Company to publish, on its website, a statement setting out any matter relating to the audit of the Company's accounts, including the Auditors' Report and the conduct of the audit, which they intend to raise at the next meeting of the Company. The Company will be required to do so once it has received such requests from either (i) members representing at least 5% of the total voting rights of the Company or (ii) at least 100 members who have a relevant right to vote and hold shares in the Company on which there has been paid up an average sum per member of at least £100.

Directors

Chairman:
Sir Donald MacKay
MA FRSE FRSGS

GA Ball FCA
Dr MM Gray OBE DL
Professor JA Kay
FC McBain MA Hons ACA
WG McQueen BSc CA FCIBS
JPHS Scott FCII FSI
The Rt Hon Lord Strathclyde PC

Registrar

Computershare Investor
Services PLC
PO Box 82
The Pavilions
Bridgwater Road
Bristol BS99 6ZZ
Tel: 0870 707 1300

Banker

The Bank of
New York Mellon

Company Broker

Cenkos Securities plc
6.7.8 Tokenhouse
Yard
London
EC2R 7AS

Independent Auditors

KPMG Audit Plc
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG

www.scottishmortgageit.com
Company registration No. 7058

Managers, Secretaries and Registered Office

Baillie Gifford & Co
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1 Greenside Row
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