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Scottish Mortgage Investment Trust PLC

Your low cost choice for global investment

Annual Report and Financial Statements 31 March 2010

BAILLIE GIFFORD

Scottish Mortgage Investment Trust PLC is a low cost investment trust that aims to maximise total return over the long term from a focused and actively managed portfolio. 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 the 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

In the 12 months to 31 March 2010, not only did stock markets stage a remarkable recovery from the lows of Spring 2009, Scottish Mortgage also delivered an exceptional performance and more than made up the ground that was lost in the previous year.

In keeping with the long term approach, the five year record is much more relevant than one year's individual figures; over five years the share price total return (both capital and dividends) has been 104% (or 15.3% on an annualised basis) and the net asset value return 86% (13.2% per annum). These can be compared to 58% returned on the same basis by the FTSE All World Index.

Experience suggests that Scottish Mortgage shares will be volatile against the comparative index, sometimes considerably so in the short term; Scottish Mortgage does not attempt to track any index but instead strives to deliver to its owners long term absolute and relative returns that are well above average.

The Managers conclude that there is no current shortage of companies with exciting growth prospects. These are often, but not exclusively, those exposed to domestic growth in countries where wealth is increasing and being spread rapidly. As ever there is considerable uncertainly about precisely how economies and trade patterns will develop but your Board takes a positive long term view of the global outlook.

Financial Highlights – Year to 31 March 2010

Share Price +72.5%

NAV +80.5%

Benchmark* +44.5%

Share Price (pence)

NAV and Benchmark
(rebased to 100 at 31 March 2009)

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 2010	31 March 2009	% change
Total assets (before deduction of debentures, long and short term borrowings)	£2,154.6m	£1,398 3m	
Loans and debentures	£314.7m	£317.9m	
Shareholders' funds	£1,839.9m	£1,080.3m	
Net asset value per ordinary share (after deducting borrowings at fair value)*	692.8p	383.8p	80.5
Net asset value per ordinary share (after deducting borrowings at par)*	711.2p	399.3p	78.1
Share price†	609.0p	353.0p	72.5
FTSE All World Index (in sterling terms)	198.1	137.1	44.5
Dividends paid and proposed per ordinary share#	11.30p	12.30p	(8.1)
Revenue earnings per ordinary share#	11.18p	12.67p	(11.8)
Total expense ratio	0.52%	0.54%	
Discount (after deducting borrowings at fair value)	12.1%	8.0%	

	Year to 31 March 2010		Year to 31 March 2009	
Year's high and low	High	Low	High	Low
Share price†	611.0p	350.0p	710.0p	258.3p
Net asset value per ordinary share (after deducting borrowings at fair value)	695.4p	383.8p	780.0p	281.1p
Net asset value per ordinary share (after deducting borrowings at par)	713.5p	399.3p	799.2p	303.5p
(Discount)/premium (after deducting borrowings at fair value)	(6.2%)	(15.1%)	8.4%	(16.5%)
Average sector discount (AIC Global Growth Sector)	(7.2%)	(13.0%)	(6.2%)	(12.4%)

	31 March 2010	31 March 2009
Net return per ordinary share		
Revenue return	11.18p	12.67p
Capital return	306.88p	(273.74p)
Total return	**318.06p**	**(261.07p)**

* 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.
# In the year to 31 March 2009 both revenue earnings and the dividend included 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 0.1% and dividend 4.6%.

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 2010.

5 Year Total Return Performance
(figures rebased to 100 at 31 March 2005)

Dividend and RPI Growth
(cumulative from 31 March 2005)
(figures rebased to 100 at 31 March 2005)

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

Results

The end of our last financial year coincided with a welcome turning point for equities, which recovered strongly after many months of retreat. So I am pleased to be able to report that, in the 12 months to 31 March 2010, not only did stock markets stage a remarkable rally from the lows of Spring 2009, Scottish Mortgage also delivered an exceptional performance and more than made up the ground that was lost in the previous year. By all measures we were considerably ahead of our benchmark: over the year to 31 March 2010, net asset value per share appreciated by 81%, while the increase in the FTSE All World Index (in sterling) was 45%. The share price started the year at 353p and was 609p at its close, representing a 73% increase – a new year-end high for Scottish Mortgage.

Investment Philosophy and Five Year Record

After the extreme disruption endured in 2008/09, the past twelve months demonstrate the considerable value of a soundly based investment philosophy and the benefits of sticking to fundamental beliefs. Scottish Mortgage's style is first of all determined by a long term perspective. An approach is then taken where the assessment of the prospects and progress of individual companies is kept to the fore. This "bottom-up" approach is in contrast to attempts to anticipate shorter term trends and market direction.

In keeping with the long term approach, the five year record is much more relevant than one year's individual figures – however good the past 12 months' numbers may be. I am happy to report that over five years the share price total return (both capital and dividends) has been 104% (or 15.3% on an annualised basis) and the net asset value return was 86% (13.2% per annum). These can be compared to 58% returned on the same basis by the FTSE All World Index (9.6% per annum).

Investment and International Environment

The Managers' Review contains a full commentary on the progress of Scottish Mortgage's investments and the investment perspective encompassed by the current portfolio.

The past year saw a resumption (or, in the case of China, an acceleration) of growth, across most economies. The financial and banking system is once again functioning, although in many developed economies a legacy of the crisis has been the transfer of debt from the private to the public sector and reluctance on the part of the banks to lend, due partly to regulatory, capital and liquidity constraints, to those businesses most in need of funding. While the move away from some of the extraordinary excesses seen in financial markets is to be welcomed, the paucity of bank lending is undoubtedly hindering the nascent economic recovery in Britain and other developed economies; low base rates are of little use to companies who cannot access funds.

Within the developed world, governments and regulators are still grappling with the problem of finding acceptable ways to ensure that banking crises can be averted in future, while at the same time trying to maintain confidence in some of the worst-hit economies, of which Greece is so far the most prominent example. While Western governments' attentions are occupied with such issues, it is already evident that economic and political influence is shifting inexorably away from Europe and the United States towards rapidly growing powers, particularly in Asia, at a considerable pace. It is also apparent that the recent crisis has, at a corporate level, produced winners as well as losers; many companies which successfully weathered the crisis have emerged in stronger and often dominant positions compared to their weakened competitors.

Borrowings

Borrowings have been maintained at roughly the same level in absolute terms throughout the year and being geared into rising markets has benefited performance. The relative level of the borrowings, or gearing ratio, has fallen as the value of the assets has risen. Gearing is reviewed at all Board meetings and, provided the Company's risk profile remains commensurate with that which the Board has agreed with the Manager, borrowings may be increased should the expected returns from investment opportunities be deemed to outweigh the costs. At the financial year end, total assets were £2.2bn and borrowings were £315m.

Past performance is not a guide to future performance.

Earnings and Dividend

Earnings per share this year were 11.2p compared to 12.7p in the previous year, when the total included a non-recurring element of 1.5p derived from the substantial recovery of VAT from HMRC. Thus, underlying earnings were maintained year-on-year. In an environment where many companies have cut or even suspended their dividends, we regard this as a very satisfactory outcome for Scottish Mortgage's portfolio.

A final dividend of 5.8p per share is proposed which will give a total of 11.3p for the year. Last year's total dividend payment was 12.3p per share, or 10.8p if the non-recurring VAT element of 1.5p is excluded, so this represents an increase of 4.6% in the underlying rate and represents a real increase as RPI rose by 4.4% in the period. This is the 28th successive year that Scottish Mortgage has increased its dividend at a faster rate than inflation.

Forecasting future earnings is not a precise science as the portfolio changes throughout the year but at this stage the Managers expect to see an increase in earnings in 2010/11. Earnings are now derived predominantly from overseas holdings so currency fluctuations will have an impact. Your Board recognises that a growing dividend return is important to shareholders and intends, as far as possible, to build on its long record in this regard. Distributable revenue reserves currently stand at 22p per share and your Board is prepared to use these if the need arises.

Discount and share buybacks

While performance was strong this year, it is disappointing to report that the discount has widened, admittedly in line with many other large trusts and the sector as a whole. In an effort to contain the discount, we have tried to address the apparent imbalance between demand and supply for our shares. In total, 12.6m shares (4.6%) were bought back during the course of the year, compared to 1.9m shares in the previous year. One attraction of buying back shares at a discount is that net asset value per share for the continuing shareholders is enhanced, the effect of this uplift in 2009/10 being 8.7p per share. While the Board understands the attractions of buying back shares, a significant feature of Scottish Mortgage is its low running cost for shareholders. To maintain this advantage, it is important that the scale of the Company is maintained with costs spread across a large asset base; our total expense ratio of 0.52% is among the lowest in the industry and an important part of the overall investment proposition. To this end, seeking and sustaining demand for Scottish Mortgage shares is a priority for the Managers and great efforts are made to find new buyers to replace those who decide to exit.

The Board

My predecessor, Sir Donald MacKay, retired in December 2009. Sir Donald served as a Director from 1999 and as Chairman from 2003, overseeing considerable change notably to the way the investments are managed and in the significant increase in holdings in overseas stocks; Scottish Mortgage today offers a fundamentally different investment proposition as compared with only 10 years ago. I believe that we – Shareholders, the Managers and this Board – owe Sir Donald a considerable debt of gratitude for the effective way in which he has handled these changes.

Considerable thanks are also due to Geoff Ball who retired following the 2009 AGM having given over 25 years of valuable service to the Company, including several years as a most effective Senior Independent Director; that position is now fulfilled by Mike Gray. 2010 also saw the resignation of Lord Strathclyde who joined the Board in 2004 and who has stood down to fulfil extensive political commitments; his insights and advice will be missed.

AGM

At the AGM the Company is putting forward a resolution to change the Articles of Association to reflect the implementation of the last parts of the Companies Act 2006 which came into force on 1 October 2009. Further information on the resolution can be found on page 27 in the Directors' Report and details of the main changes proposed are set out in the Appendix to the Notice of Annual General Meeting on page 57.

The AGM will be held at 4.30pm on 28 June in the Edinburgh offices of Baillie Gifford & Co (see map on page 54). James Anderson, Chief Investment Officer of Baillie Gifford and who has responsibility for the investments, will give a presentation and answer shareholders' investment questions. The Board welcomes this opportunity to meet shareholders and refreshments will be served after the presentation.

Outlook

The shape of the world as defined by economic, corporate and also environmental considerations is shifting rapidly and the Scottish Mortgage portfolio is alive to these developments. Change of this scale can be unsettling and comes with risk and uncertainty but seismic shifts also provide rich seams of opportunity.

Overall, the Managers conclude that there is no current shortage of companies with exciting growth prospects. These are often, but not exclusively, those companies exposed to domestic growth in countries where wealth is increasing and being spread rapidly. Opportunities also lie amongst exporters of goods and services and with strong, well managed concerns in the developed world. In particular, one set of companies that the Managers seek to identify is young businesses at an early stage of possibly rapid growth. Within the Managers' Review there is a thought-provoking account of a recent trip to China written by Tom Slater, Scottish Mortgage's Deputy Manager. As ever there is considerable uncertainty about precisely how economies and trade patterns will develop, but your Board takes a positive long term view of the global outlook.

The experience of the past two years suggests that Scottish Mortgage shares will be volatile against the comparative index, sometimes considerably so in the short term; while the Board considers that it has an appropriate benchmark, it does not engage in slavish attempts to track any index but instead strives to deliver to shareholders long term absolute and relative returns that are well above average. I am delighted that Scottish Mortgage has done this so effectively in the past year.

JOHN SCOTT
17 May 2010

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

JPHS Scott

John Scott, the Chairman, is a former international investment banker who maintains a number of interests in the investment trust sector. John was appointed a Director in 2001 and became Chairman on 31 December 2009. 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, Miller Insurance Services, Schroder Japan Growth Fund plc and Alternative Asset Opportunities PCC Limited. In addition, he is chairman of Dunedin Income Growth Investment Trust PLC and deputy chairman of Endace Limited.

MM Gray

Michael Gray, the Senior Independent Director, 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.

Professor JA Kay

John Kay has a distinguished record as an economist, academic, author and commentator on business, government and economic issues. John was appointed a Director in 2008, 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 is chief executive of Scottish Friendly Assurance, a Glasgow based and mutually owned financial services group with over 500,000 policyholders. Fiona was appointed a Director in 2009. 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, he is a former finance director of the Bank of Scotland. 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.

John Scott

Michael Gray

John Kay

Fiona McBain

Gordon McQueen

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 £60 billion at 31 March 2010. Based in Edinburgh, it is one of the leading privately owned investment management firms in the UK, with 32 partners and a staff of over 600.

The Manager of Scottish Mortgage's portfolio is James Anderson, a partner of Baillie Gifford, the firm's Chief Investment Officer and Head of the Global Growth Team. The Deputy Manager is Tom Slater, also a member of Baillie Gifford's Global Growth Team.

The firm of Baillie Gifford & Co is 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 six months' notice.

Management Fee

Baillie Gifford & Co's annual remuneration is 0.32% of total assets less current liabilities (excluding short term borrowings for investment purposes), calculated and payable on a quarterly basis.

Managers' Review

The last 12 months have demonstrated the dangers of undue attention to annual performance data. Last year we seemed to be terrible investors. This year we appear brilliant. All this comes about with the same process, the same portfolio shape, overwhelmingly the same investments and the same people. We are not conscious that we have become any cleverer this year. Overall we are happy with the way that our companies have coped with the tough environment of the last two years (with sad but inevitable exceptions) but we think that much of their achievement was demonstrated at precisely the time that their share prices were under extreme pressure.

Frequently markets are simply absurd. The notion that we should judge ourselves by endlessly benchmarking ourselves against their erratic behavior is one that we completely reject. Our task is to build wealth for shareholders over long periods of time with indices simply as a background guide to our basic competence over the decades. Overall we think that we have done quite a reasonable job but this is for other shareholders to judge.

Our principal investment contentions

It may be worth repeating once more the three convictions that have dominated our strategy over the last five years. Despite the fragile economic times and the frenetic activity in markets these have remained solid signposts for us. They are that;

- The rise of China (and to a lesser extent other emerging economies) is transforming the global economic scene.
- Stock markets underestimate the power of technological change in exaggerated revulsion to the bubble of 1998–2000.
- The Western financial systems are dangerously flawed.

It is, of course, dangerously easy to be sucked into seeing evidence that confirms the ideas that one is advocating and it is almost equally challenging to spot the point at which concepts that are fundamentally valid have simply been pushed too far by overblown market sentiment. Nevertheless we see little reason to retreat from these three contentions. Indeed in each case we appear to have underestimated their importance.

China

It is on this topic that we feel most guilty of feebleness. We have grasped that the mean-reversion of China to a position of global economic leadership was probable. Yet we have underestimated both the awesome pace and scale of this development and the conclusions that this should have forced us towards in stock selection. Whilst we are generally more interested in economic exposures than in location of corporate headquarters we feel this is insufficient excuse for this time last year having less than 6% of our portfolio in Chinese companies. The total has now risen to close to 9% which still seems modest by any measure apart from that of commonly used indices.

This is not to say that we have any desire to simply buy exposure to corporate China in general but it is to point to the single most important mental shift that we have gone through in the last year. It is that we think that China is now home to an entrepreneurial fury that is leading to the creation of great individual businesses. In the years ahead we think it probable that individual private Chinese ventures will provide much of the innovation in the world. There has already been a marked structural shift in our portfolio from state owned behemoths such as China Mobile towards youthful and ambitious companies such as Baidu and Tencent within the same telecom and internet space. New Oriental Education (the leading English language school), Ctrip (online travel) and Belle (shoe retailing) are other examples of companies with open-ended growth opportunities, competitive strengths and focused strategies that would have appealed to us wherever in the world they could be found over the last 100 years.

We regularly review threats to continued Chinese progress. A year ago we thought the immediate challenge was preventing the anti-crisis stimulus from seeping into speculation. The domestic stock market has shown little sign of this but the coastal housing market has plainly become too buoyant. Fortunately, and in marked contrast to the West, the authorities are prepared both to call incipient bubbles and to counteract them so we are satisfied that common sense is likely to prevail. We do not believe that a consequent slowdown in the housing market would undermine the Chinese economy.

1 New Oriental Education & Technology
The Headquarters of this leading English language school and provider of private education.

2 Ctrip.com
Chinese travel operator that has successfully fended off international competition.

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Beyond this immediate concern the next stage of China's rise would be greatly assisted by the focus of growth shifting from the advanced Eastern provinces to encompass the interior as well as from exports to domestic demand. We spent a fascinating three weeks touring China in March to investigate such questions with a particular stress on provinces from Inner Mongolia to Sichuan that do not enjoy the historic coastal advantages and prejudices. We returned more optimistic than when we left. It appears to us that demand has shifted decisively to domestic demand whilst growth in the rural interior seems to be both stronger and sounder than we had feared. We see no sign as yet that the Chinese Communist Party is either unpopular or that it has made major policy mistakes that are likely to prompt serious discontent. Both are entirely plausible causes of friction in the future.

Emerging markets no more?

We have always felt that China is of an importance that puts it in a category of its own. We are wary of generalizing about China let alone of incorporating it in a category defined as 'emerging markets.' Indeed we now feel that the time has come to abandon this phrase. The consequent gain in accuracy and clarity has investment benefits. The phrase has come to be used to denote economic backwardness and high risk. This makes little current sense. We find it hard to see much of urban China as low in wealth (private or public). We think it unwise to think of China and Brazil as high risk when their balance sheets, trade positions and financial structures appear so much more solid than our own. It is a pleasing irony that one of the few countries in recent years to have been reclassified as 'developed' from emerging is Greece. Our own preference would be to assess individual companies, cities and regions at best and individual countries at most. If the investment world demands generalizations then we would suggest a line running from 'rising (super) powers' to 'declining empires' as the most helpful in our work. Where the USA proves to be on this continuum will be critical in the years ahead.

Technological innovation

Where America has remained a land of opportunity in recent years has been in technological innovation. Whilst the British corporate sector has created little of new shareholder or social value over the last 30 years this sad state of affairs is far from true of America. That this is so is principally to the credit of the technology sector and in geographical terms of a small portion of the North-West Coast. All the arrogance of Harvard and greed of Wall Street cannot completely obscure this extraordinary achievement.

On a more mundane but practical level it has also been critical to Scottish Mortgage. Two years ago we wrote that 'investing in technology companies involves a willingness to accept both volatility and diverse returns in the search for a select band of companies that will prove to be persistent winners... but the rewards for doing so can be dramatic.' Whilst we still need to be cautious in declaring that we have found persistent victors we have certainly had experiences of both diverse returns and apparent victories. It may be co-incidence but we have had more and greater victories when investing in (broadly defined) Silicon Valley and (so far) China than elsewhere in the world. Amazon has risen to be our largest holding after fine business and share-price performance. This is the first time since 1983 that a US stock has been our largest holding. Our admiration for Amazon lies partly in the scale of the business opportunity but still more in the attitudes inculcated by management. This is a company with contempt for the quarterly earnings game, a commitment to continuous innovation (however disruptive) and an intolerance of internal agendas and bureaucracies that makes future success more than normally likely.

One of the most challenging issues for us is that the success of Amazon, Apple, Google, Nintendo and Baidu has been such that these giants are increasingly clashing with each other as there are comparatively few other pools of profit left to destroy. We are wary of coming to definitive views as to the likely course and consequences of these internecine struggles as we have great respect for the abilities of all involved. The combination of the increasing pace and complexity of technological change, the almost instant geographical reach of innovation and the highly appealing returns that the winning companies earn mean that we are willing to accept such clashes as an inevitable drawback of businesses with great growth opportunities.

1 Garanti Bankasi
A leading retail bank in a country, Turkey, with exciting long term prospects.

2 America Latina Logistica
Brazilian railway operator which is improving efficiency and taking share from road traffic.

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As already noted we have seen our technology investments spread into China but we also believe that we need to widen our interest beyond traditional sector boundaries. We suspect that the combination of scientific progress, venture capital interest, demographic demands and financial imperatives mean that healthcare will be a prime focus of future technological innovation. We do not believe that that the traditional big pharmaceutical companies will lead this sweeping change. A good, if thus far rare, example of what we are looking for comes in our purchase of Intuitive Surgical which is the world leader in robotic surgery. It has thrived on scientific collaboration from Stanford, research support from the US armed forces, better clinical outcomes and a claim to reduce healthcare costs. It now has 90% of the world market for such systems. We hope that we will be able to report on more holdings of this type in future years.

Western finance: still rotten?

The machinations of the Western financial sector continue to trouble us. Last year we remarked that we saw no evidence of 'less complexity or reduced avarice.' Sadly this still appears to be the case in the investment banking world. What improvements there have been seem to be coming from outside pressures. Capital requirements are somewhat less indulgent than in the past, the intellectual mood does appear to have shifted against extreme market fundamentalism and governmental and legal activism is at least plausible. We regard it is inevitable that any process of re-regulation will have flaws but we still believe that this is a small price to pay if the systemic risks to the world economy posed by excessive gearing, ill-considered risk analysis and untrammelled greed in the financial sector can be brought under control. This is not populism. It is necessary for the proper functioning of our financial system. We will continue to have limited holdings in the Western financial system until this occurs and what we do have will be concentrated in those rare institutions (notably Banco Santander, Progressive Insurance and Berkshire Hathaway) in which we have faith in the ethics and seriousness of the management. We feel no need to be tempted by the morass of unreformed financial institutions.

Conclusion and Outlook

We are all aware of the shocks that the global economy has been prey to in recent years. We doubt, however, that there has been sufficient rethinking of the investment landscape as a consequence of what we have seen and should have learnt. Our attitudes to and understanding of risk needs to be rethought. This has transforming consequences. The idea that risk should be defined as volatility around an index and that it can be measured has always seemed exceedingly presumptuous. Nevertheless from heavily leveraged investment banks to the most staid of investment trusts this has generally been the default position of risk managers and hence asset allocation. This has led most equity portfolios to a concentration on large Western companies as the perceived safe default choice without much thought as to the underlying exposures of these entities (rather similar to the automatic trust in AAA rated mortgage debt that has so haunted the bond markets). We doubt that 'Western' or 'large' will prove synonyms for either 'safe' or 'wealth-creating' in the decades ahead. We are convinced though that the world offers a wealth of opportunities. We think that the global economy is more solidly based, indeed more exciting, and more capable of dragging untold millions out of poverty than at any stage in history. Naturally events and accidents can occur and stock markets will always be prone to vigorous oscillations but we tend to see such occurrences as distractions from a fundamentally optimistic picture. If this is right and if the Managers carry out their task competently then the prospects for Scottish Mortgage shareholders ought to be bright indeed.

JAMES ANDERSON
Manager of Scottish Mortgage
6 May 2010

1 Belle International
Operates over 6,000 shoe shops throughout China giving it a market share of around 20%.

2 PPR
PPR owns luxury brands with excellent potential in newer markets including Gucci and Bottega Veneta.

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China Trip Note

James and I recently returned from overlapping trips to China with our colleague, Wanyi Yao. We were trying to increase our understanding of the huge changes that are occurring in the region through meetings with companies, government officials, academics and entrepreneurs. We spent time in the megacities of Beijing and Shanghai as well as travelling to the western centres of Chongqing and Chengdu, the plains of Inner Mongolia and the provincial capitals of Anhui, Liaoning and Zhejiang.

There is a lot of concern in financial markets that the Chinese economy is experiencing an unsustainable boom at present. We do not share these misgivings. We believe the pace of fixed asset investment is not the result of a housing bubble but a necessary consequence of the process of urbanisation. In Beijing, for example, there is a requirement for huge further investment to ease congestion. Car ownership in Beijing is less than 20% of the level seen in the United States but it is quite clear to anyone who has spent a day there that the road network can barely support current usage. The subway system is to be expanded from the current six lines (which serve a municipal population of twenty two million people) to nineteen lines by 2020. This necessary investment in mass transit is mirrored in at least ten other major Chinese cities.

As we drove along the expressway from Shanghai to Hangzhou, we could see the pillars that are being erected for the new high speed rail link between the two cities. The scale of this infrastructure investment is astonishing, with concrete pillars standing fifteen meters tall supporting a concrete base for the track and stretching for thousands of kilometres. In fact, seventeen thousand kilometres of high speed rail links are currently under construction. Such investment projects underpin our confidence in prospective demand for many of our global industrial holdings such as iron ore producer, Vale or engineering company, Atlas Copco.

It is a popular misconception that the Chinese authorities are not concerned about climate change. It was quite clear from meetings with state controlled companies such as Shanghai Electric (which has been funding a rapidly growing wind turbine manufacturer) or Longyuan Power (China's largest windfarm operator) that the Chinese government is taking this issue seriously. The tariff structure and investment incentives are being put in place to support a huge construction programme in green energy generation. A visit to the University of Science and Technology in Hefei highlighted that funding is also flowing into research on the development of the electricity grid to cope with greater participation from renewable sources. Perhaps even more importantly, a trip to one of the country's fifty four high technology zones showed that there is a clear understanding within government that Chinese companies have to increase research and development spending and move into higher value sectors of the economy. Given the growth opportunity in their domestic market, they see green energy as an area in which they can be world leaders.

The desire to shift economic focus from commodity industries was articulated by many of the people we met. This was most noticeable in the financial sector where the pace of change seems to be accelerating. We were struck by the thoughtful and open manner of the government officials responsible for this. Perhaps one big difference from Western countries is that the brightest graduates are as likely to be attracted to a career in government as they are to private sector employment. Therefore those responsible for financial regulation may be better placed to identify and prevent industry excess. One of the lessons that the Chinese have taken from the recent crisis is that the financial sector has to serve the real economy and that the connection between the two must be maintained as they grow. Therefore they are happy to encourage the development of new financial products but only if they support the development of new and strategically important industries. Perhaps this is a lesson which we have not yet fully understood here in the UK.

Whilst consumption remains a relatively small part of the China's economy, there is little evidence that as Chinese society becomes wealthier, the propensity to spend will be lower than anywhere else. Because the overall population is large, even having a small proportion of people with meaningful disposable incomes already translates into huge spending power. We had an interesting meeting with Gucci China (a subsidiary of the fund's holding in Pinault-Printemps Redoute) and the development of their business illustrates this well. Gucci now generates 15% of global revenues in China having entered the market in 1997. One of the interesting facets of the market is that consumers appear to be much more loyal to individual brands and the corollary of this may well be that successful brands have a larger opportunity in China. The scale of demand for luxury products appears to be leading to higher prices than elsewhere in the world.

1 The view from the foot of Huangshan in Anhui Province, China.

2 James Anderson, Tom Slater and their colleague Wanyi Yao in China this year.

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Whilst in Beijing, we met the former leader of Google China, who left to start up an incubator fund focused on technology companies. In some areas, such as Internet gaming, the Chinese are the pioneers of new business models and this was an opportunity to see whether this reflects a growing culture of innovation and start-up investment in technology. It quickly became clear that there is no shortage of new ideas and the interest that this particular venture has generated suggests great potential enthusiasm. For example, the fund has had over one hundred thousand CVs over the few months since its formation, suggesting that many potential employees have been looking for a way into this industry. As the entrepreneurial ecosystem starts to build and capital becomes more readily available, we think the creativity that is unleashed will form the foundation of many exciting new businesses.

After visiting a local hospital and health bureau in north eastern China, we met the senior researcher of the State Council who drafted China's Healthcare Reform White Paper. Over the next three years, the government will invest the equivalent of £85bn in healthcare, aiming to provide basic health insurance to all (it was interesting to discover that healthcare insurance coverage is already over 90% in urban China). These headline figures are likely to understate the true level of investment as they do not capture the spending of local government. Whilst we have yet to find attractive potential investments in this area, a visit to an unlisted pharmaceutical company in Chengdu, which is seeing explosive volume growth in the drugs it sells, was illustrative of the opportunities which are being created. The huge commitment to healthcare and the associated increase in spending levels will be an important new driving force for the Chinese economy. The increase in healthcare infrastructure investment will directly promote economic growth and the implementation of reform will improve the health of citizens and social security, thereby stimulating consumption and sustaining economic growth in the long-run.

With questions about rural reform in mind, we travelled westwards to one of the largest and most populous agricultural provinces – Sichuan. Whilst rural development has been ongoing since the 1970s, this time the direction is quite different and the success (or otherwise) of the policy will have far-reaching consequences. State sponsored land privatisation in selected villages in Sichuan is underway which should create wealth for rural inhabitants as well as increasing agricultural productivity through a move to large-scale farming. One consequence of this may be an increase in the number of migrant workers relocating to urban areas, which has positive implications for productivity growth. Sichuan already exports over twenty million migrant workers to the coastal provinces of eastern China. However, as further urbanisation takes place, megacities are reaching saturation point and therefore the strategic development of smaller cities and towns is of increasing importance. From an investment point of view we are questioning whether large banks with existing rural networks are the best way to facilitate rural reform and benefit from these changes. There are implications for a wide range of businesses from the domestic real estate developers to our holding in John Deere, the farm machinery business.

In summary, we remain very enthusiastic about the prospects for growth in Chinese infrastructure investment and domestic consumption. A great deal of progress is being made in fields as disparate as renewable energy, financial services, healthcare, agricultural reform and early stage technology investment. We believe markets continue to underestimate the importance of the changes that are taking place and this is throwing up many exciting opportunities for us as long term investors.

TOM SLATER
Deputy Manager of Scottish Mortgage
6 May 2010

Thirty Largest Equity Holdings and Equity Performance as at 31 March 2010

Name	Business	Fair value 31 March 2010 £'000	% of total assets	Performance† Absolute %	Performance† Relative %	Contribution to absolute performance %	Fair value 31 March 2009 £'000
Amazon.com	Online retailer	120,009	5.6	75.4	18.2	3.6	62,512
Petrobras	Oil producer	108,260	5.0	56.2	5.3	4.7	87,056
Banco Santander	Banking	84,691	3.9	95.3	31.6	4.6	34,179
Atlas Copco	Engineering	83,831	3.9	104.5	37.8	5.7	60,044
Baidu.com	Online search engine	77,278	3.6	220.7	116.2	2.6	5,357
Nintendo	Games consoles and software	71,659	3.3	13.1	(23.8)	(0.1)	49,315
Vale (CVRD)	Iron ore and nickel mining	58,268	2.7	138.4	60.7	4.4	41,632
Google	Online search engine	47,770	2.2	54.0	3.8	2.1	44,751
PPR	Luxury goods producer and retailer	47,517	2.2	104.9	38.1	1.9	18,132
Deere	Farm machinery	47,030	2.2	74.2	17.4	1.8	27,478
Walgreen	Pharmacy chain	43,022	2.0	36.8	(7.8)	1.1	31,826
Standard Chartered	Banking	42,768	2.0	112.7	43.3	2.3	20,617
Taiwan Semiconductor Manufacturing	Semiconductor manufacturer	40,303	1.9	14.7	(22.7)	0.5	22,523
Berkshire Hathaway	Insurance	37,503	1.7	36.2	(8.2)	0.8	27,523
Progressive Insurance	Property and casualty insurance	37,106	1.7	35.3	(8.8)	0.8	27,640
KGHM	Copper mining	34,170	1.6	1.8 *	(9.7)*	0.1 *	–
New Oriental Education & Technology	Education and training	34,118	1.6	34.5 *	16.4 *	0.5 *	–
Tencent Holdings	Internet service portal	30,900	1.4	155.3	72.1	1.2	7,566
ABB	Electronic and electrical equipment	30,747	1.4	51.4	2.0	0.8	18,094
Meggitt	Aerospace equipment and systems	30,731	1.4	146.5	66.2	1.7	11,542
First Solar	Solar energy technology	30,640	1.4	(12.7)	(41.2)	(0.5)	25,693
Sandvik	Engineering	30,322	1.4	119.9	48.2	3.4	37,111
Rockwell Automation	Industrial automation providers	29,708	1.4	149.8	68.4	1.8	12,167
Brown-Forman	Wine and spirits producer	29,384	1.4	47.6	(0.5)	0.7	20,254
Schlumberger	Oil services	29,280	1.3	50.0	1.1	1.3	28,276
Apple	Computer technology	28,323	1.3	111.1	42.3	1.1	7,019
Australia and New Zealand Banking	Banking	27,916	1.3	30.4 *	16.3 *	0.2 *	–
Telekomunikacja Polska	Fixed and mobile telecoms	26,050	1.2	2.3 *	(9.2)*	– *	–
Wal Mart Stores	General retailer	25,658	1.2	12.5 *	(14.8)*	0.1 *	–
Richemont	Luxury goods	25,553	1.2	136.5	59.4	1.3	10,903
		1,390,515	**64.4**				**739,210**

† Absolute and relative performance has been calculated on a total return basis over the period 1 April 2009 to 31 March 2010. 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 2009 £'000	Net acquisitions/ (disposals) £'000	Appreciation/ (depreciation) £'000	Valuation at 31 March 2010 £'000
Equities*:				
United Kingdom	125,162	4,837	109,300	239,299
Continental Europe	329,367	(136,808)	216,905	409,464
North America	392,746	17,211	198,163	608,120
China	70,277	50,740	70,882	191,899
Asia Pacific	83,917	29,810	47,405	161,132
Emerging Markets	201,809	(30,758)	145,594	316,645
Japan	79,642	(12,494)	16,288	83,436
Total equities	1,282,920	(77,462)	804,537	2,009,995
Bonds:				
Sterling bonds	5,347	8,462	1,522	15,331
Euro bonds	1,886	236	1,205	3,327
US dollar bonds	404	(417)	13	–
Brazilian real bonds	71,430	–	30,406	101,836
Total bonds	79,067	8,281	33,146	120,494
Total investments	1,361,987	(69,181)	837,683	2,130,489
Net liquid assets	36,283	(10,679)	(1,508)	24,096
Total assets	**1,398,270**	**(79,860)**	**836,175**	**2,154,585**

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 2010 (2009)

Sectoral 2010 (2009)

Classification of Investments

Classification Equities*:	UK %	Continental Europe %	North America %	China %	Asia Pacific %	Emerging Markets %	Japan %	2010 Total %	2009 Total %
Oil and Gas	–	–	1.3		–	6.2	–	7.5	11.9
Oil and gas producers	–	–	–	–	–	6.2	–	6.2	9.9
Oil equipment, services and distribution	–	–	1.3	–	–	–	–	1.3	2.0
Basic Materials	–	1.0	0.5	–	–	4.3	–	5.8	6.0
Chemicals	–	1.0	0.5	–	–	–	–	1.5	2.2
Mining	–	–	–	–	–	4.3	–	4.3	3.8
Industrials	6.3	7.6	3.6	1.6	0.3	1.0	–	20.4	18.9
Aerospace and defence	2.5	–	–	–	–	–	–	2.5	1.7
General industrials	–	–	1.4	–	–	–	–	1.4	0.9
Electronic and electrical equipment	–	1.6	–	–	–	–	–	1.6	2.0
Industrial engineering	1.0	6.0	2.2	–	0.3	–	–	9.5	12.1
Support services	2.8	–	–	1.6	–	1.0	–	5.4	2.2
Consumer Goods	1.1	2.2	1.4	–	1.5	–	3.3	9.5	9.7
Automobiles and parts	–	1.0	–	–	1.5	–	–	2.5	3.3
Beverages	–	–	1.4	–	–	–	–	1.4	1.4
Leisure goods	–	–	–	–	–	–	3.3	3.3	3.5
Personal goods	–	1.2	–	–	–	–	–	1.2	0.8
Tobacco	1.1	–	–	–	–	–	–	1.1	0.7
Health Care	–	1.1	0.6	–	–	0.3	–	2.0	1.1
Pharmaceuticals and biotechnology	–	1.1	–	–	–	0.3	–	1.4	1.1
Health care equipment and services	–	–	0.6	–	–	–	–	0.6	–
Consumer Services	0.4	2.5	10.6	0.7	–	–	–	14.2	13.0
Food and drug retailers	–	0.3	2.8	–	–	–	–	3.1	4.2
General retailers	0.4	2.2	6.8	0.3	–	–	–	9.7	6.6
Media	–	–	1.0	–	–	–	–	1.0	2.2
Travel and leisure	–	–	–	0.4	–	–	–	0.4	–
Telecommunications	–	–	0.7	0.5	–	1.2	–	2.4	4.1
Mobile telecommunications	–	–	0.7	0.5	–	1.2	–	2.4	4.1
Financials	2.4	4.6	3.8	1.1	3.0	1.7	–	16.6	13.5
Banks	2.0	3.9	0.4	0.6	1.3	1.7	–	9.9	6.2
Nonlife insurance	–	–	3.4	–	–	–	–	3.4	4.4
Real estate	–	–	–	0.5	–	–	–	0.5	0.4
General financial	0.4	–	–	–	1.7	–	–	2.1	1.7
Open ended investment companies	–	0.7	–	–	–	–	–	0.7	0.8
Technology	0.9	–	5.7	5.0	2.7	–	0.6	14.9	13.6
Software and computer services	0.9	–	2.2	5.0	1.9	–	–	10.0	7.5
Technology hardware and equipment	–	–	3.5	–	0.8	–	0.6	4.9	6.1
Total Equities*	**11.1**	**19.0**	**28.2**	**8.9**	**7.5**	**14.7**	**3.9**	**93.3**	
Total Equities* – 2009	9.0	23.6	28.1	5.0	6.0	14.4	5.7		**91.8**
Bonds	0.7	0.2	–	–	–	4.7	–	5.6	5.6
Net Liquid Assets	0.9	–	–	–	–	0.1	0.1	1.1	2.6
Total Assets (before deduction of debentures, long and short term borrowings)	**12.7**	**19.2**	**28.2**	**8.9**	**7.5**	**19.5**	**4.0**	**100.0**	
Total Assets – 2009	9.5	25.9	28.1	5.0	6.1	19.5	5.9		**100.0**
Debentures, Long and Short Term Borrowings	(7.0)	(1.8)	(3.0)	–	–	–	(2.8)	(14.6)	(22.7)
Shareholders' Funds	**5.7**	**17.4**	**25.2**	**8.9**	**7.5**	**19.5**	**1.2**	**85.4**	
Shareholders' Funds – 2009	(1.3)	23.2	23.2	5	6.1	19.5	1.6		77.3
Number of equity investments*	**12**	**13**	**19**	**8**	**9**	**10**	**2**	**73**	**67**

* Including OEICs.

List of Investments as at 31 March 2010

Classification	Name	Business	Fair value £'000	% of total assets
United Kingdom				
Aerospace and defence	Meggitt	Aerospace equipment and systems	30,731	
	Rolls Royce Group	Aerospace equipment provider	23,820	
			54,551	2.5
Industrial engineering	Aggreko	Power equipment retail	13,625	
	Renishaw	Electronic equipment	9,426	
			23,051	1.0
Support services	Hays	Personnel and recruitment services	18,559	
	Intertek Group	Business support providers	21,336	
	Serco Group	Government outsourcing	19,384	
			59,279	2.8
Tobacco	British American Tobacco	Tobacco	24,694	1.1
General retailers	Inchcape	Motor distributor	7,357	0.4
Banks	Standard Chartered	Banking	42,768	2.0
General financial	Intermediate Capital Group	Mezzanine finance provider	7,739	0.4
Software and computer services	Autonomy Corporation	Enterprise software	19,860	0.9
Total United Kingdom Equities			**239,299**	**11.1**
Continental Europe				
Chemicals	BASF	Chemicals – Germany	21,891	1.0
Electronic and electrical equipment	ABB	Electronic and electrical equipment – Switzerland	30,747	
	Q-cells	Solar energy production – Germany	4,726	
			35,473	1.6
Industrial engineering	*Atlas Copco*	*Engineering* – Sweden	83,831	
	Sandvik	Engineering – Sweden	30,322	
	Vestas Windsystems	Wind power – Denmark	14,184	
			128,337	6.0
Automobiles and parts	Porsche	Automobiles – Germany	20,392	1.0
Personal goods	Richemont	Luxury goods – Switzerland	25,553	1.2
Pharmaceuticals and biotechnology	Novozymes	Enzyme manufacturer – Denmark	24,441	1.1
Food and drug retailers	Jeronimo Martins	Retailer – Portugal	6,774	0.3
General retailers	PPR	Luxury goods producer and retailer – France	47,517	2.2
Banks	Banco Santander	Banking – Spain	84,691	3.9
Open ended investment companies	Baillie Gifford European Smaller Companies Fund	Small company fund	14,395	0.7
Total Continental European Equities			**409,464**	**19.0**
North America				
Oil equipment, services and distribution	Schlumberger	Oil services	29,280	1.3
Chemicals	Monsanto	Seed and agricultural chemicals	10,820	0.5
General industrials	Rockwell Automation	Industrial automation providers	29,708	1.4
Industrial engineering	Deere	Farm machinery	47,030	2.2
Beverages	Brown-Forman	Wine and spirits producer	29,384	1.4
Health care equipment and services	Intuitive Surgical	Medical equipment	13,744	0.6
Food and drug retailers	Walgreen	Pharmacy chain	43,022	
	Whole Foods Market	General retailer	16,773	
			59,795	2.8
General retailers	Amazon.com	Online retailer	120,009	
	Wal Mart Stores	General retailer	25,658	
			145,667	6.8

Classification	Name	Business	Fair value £'000	% of total assets
North America (continued)				
Media	Omnicom	Advertising agency	21,398	1.0
Mobile telecommunications	Cisco Systems	Telecommunications equipment	15,272	0.7
Banks	Wells Fargo & Co	Banking	7,925	0.4
Nonlife insurance	Berkshire Hathaway	Insurance	37,503	
	Progressive Insurance	Property and casualty insurance	37,106	
			74,609	3.4
Software and computer services	Google	Online search engine	47,770	2.2
Technology hardware and equipment	First Solar	Solar energy technology	30,640	
	Linear Tech	Integrated circuits	16,755	
	Apple	Computer technology	28,323	
			75,718	3.5
Total North American Equities			**608,120**	**28.2**
China				
Support services	New Oriental Education & Technology	Education and training	34,118	1.6
General retailers	Belle International	Footwear	7,334	0.3
Travel and leisure	Ctrip.com	Travel agent	8,316	0.4
Mobile telecommunications	China Mobile	Mobile telecommunications	11,256	0.5
Banks	China Merchants Bank	Banking	12,577	0.6
Real estate	Shanghai Forte Land	Residential property	10,120	0.5
Software and computer services	Baidu.com	Online search engine	77,278	
	Tencent Holdings	Internet service portal	30,900	
			108,178	5.0
Total Chinese Equities			**191,899**	**8.9**
Asia Pacific				
Industrial engineering	Samsung Heavy Industries	Construction and holding company – Korea	5,851	0.3
Automobiles and parts	Hero Honda Motors	Motorcycle and scooter manufacturer – India	22,373	
	Astra International	Automotive conglomerate – Indonesia	10,356	
			32,729	1.5
Banks	Australia and New Zealand Banking	Banking – Australia	27,916	1.3
General financial	Hong Kong Exchanges and Clearing	Securities exchange owner/operator – Hong Kong	7,218	
	Housing Development Finance Corporation	Mortgage bank – India	11,248	
	Singapore Exchange	Securities exchange owner/operator – Singapore	19,111	
			37,577	1.7
Software and computer services	Taiwan Semiconductor Manufacturing	Semiconductor manufacturer – Taiwan	40,303	1.9
Technology hardware and equipment	Samsung Electronics	Electronics manufacturer – Korea	16,756	0.8
Total Asia Pacific Equities			**161,132**	**7.5**

Classification	Name	Business	Fair value £'000	% of total assets
Emerging Markets				
Oil and gas producers	Gazprom	Gas production and distribution – Russia	25,282	
	Petrobras	Oil producer – Brazil	108,260	
			133,542	6.2
Mining	KGHM	Copper mining – Poland	34,170	
	Vale (CVRD)	Iron ore and nickel mining – Brazil	58,268	
			92,438	4.3
Support services	America Latina Logistica	Railroads – Brazil	20,871	1.0
Pharmaceuticals and biotechnology	Teva Pharmacueticals	Generic pharmaceuticals – Israel	6,484	0.3
Mobile telecommunications	Telekomunikacja Polska	Fixed and mobile telecoms – Poland	26,050	1.2
Banks	Garanti Bankasi	Banking – Turkey	24,781	
	Standard Bank Group	Banking – South Africa	11,854	
			36,635	1.7
Real estate	Black Sea Property Fund	Bulgarian property trust	625	–
Total Emerging Markets Equities			**316,645**	**14.7**
Japan				
Leisure goods	Nintendo	Games consoles and software	71,659	3.3
Technology hardware and equipment	Canon	Printers, copiers and cameras	11,777	0.6
Total Japanese Equities			**83,436**	**3.9**
Total Equity Investments			**2,009,995**	**93.3**
Fixed Interest				
Sterling denominated	Business Mortgage Finance FRN 2037		668	
	Business Mortgage Finance FRN 2041		440	
	Business Mortgage Finance FRN 2045		1,062	
	Cairngorm Limited Class E FRN 2016		1,246	
	Pantheon International Participations Unsecured Subordinated Loan Note		2,285	
	Lloyd's of London 7.421% 2017 Perpetual		9,630	
			15,331	0.7
Euro denominated	Old Mutual 4.5% 2017		2,059	
	Semper Finance FRN 2006-1 Limited E FRN 2084		1,001	
	Skye CLO Income Notes 2019		267	
			3,327	0.2
Brazilian real denominated	Brazil CPI Linked 2045		101,836	4.7
Total Fixed Interest			**120,494**	**5.6**
Total Investments			**2,130,489**	**98.9**
Net Liquid Assets			**24,096**	**1.1**
Total Assets at Fair Value (before deduction of debentures, long and short term borrowings)			**2,154,585**	**100.0**

Capital

At 31 March	Total assets £'000	Debenture stocks, long and short term borrowings £'000	Shareholders' funds £'000	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) %
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
2010	**2,154,585**	**314,677**	**1,839,908**	**709.0**	**692.8**	**711.2**	**609.0**	**12.1**	**14.4**

* 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 49).
† 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 / Gearing Ratios

Year to 31 March	Gross revenue £'000	Available for ordinary shareholders £'000	Revenue earnings per ordinary share ‡ p	Dividend paid and proposed per ordinary share (net) p	Total expense ratio §§ %	Gearing Ratios: Actual gearing ¶	Gearing Ratios: Potential gearing ll
2000	44,100	27,807**	7.82**	5.65	0.50	105	114
2001	44,075	25,212	7.57	6.00	0.51	104	113
2002	36,377	24,213	7.56	6.25	0.47	109	116
2003	33,909	22,597	7.43	6.60	0.49	113	125
2004	35,829	23,931	8.05	7.00	0.60	111	120
2005	35,456	21,809	7.37	7.35	0.52	110	117
2006	41,456	25,738	8.82	8.50	0.52	108	113
2007	45,522	27,817	9.80	9.50	0.49	110	116
2008	49,575	27,043	9.79	10.30	0.51	118	124
2009	57,470	34,571	12.67^^	12.30^^	0.54	119	129
2010	**49,174**	**30,200**	**11.18**	**11.30**	**0.52**	**109**	**117**

‡ 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 39).
§§ 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.
ll 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 2000 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
2000	100	100	100	100	100	100	100	100	100
2001	78	79	86	87	76	77	97	106	102
2002	74	76	81	84	75	77	97	111	104
2003	50	53	55	59	48	50	95	117	107
2004	67	73	68	75	62	68	103	124	110
2005	74	80	74	84	67	75	94	130	113
2006	107	118	94	109	106	120	113	150	116
2007	111	124	98	116	110	127	125	168	121
2008	118	134	94	114	122	143	125	182	126
2009	70	81	73	91	72	87	162^^	218^^	125
2010	**125**	**149**	**105**	**135**	**123**	**153**	**143**	**200**	**131**
Compound annual returns									
5 year	11.0%	13.2%	7.2%	10.0%	12.8%	15.3%	8.7%	9.0%	3.0%
10 year	2.2%	4.1%	0.5%	3.0%	2.1%	4.3%	3.6%	7.2%	2.7%

‡‡ 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 2010.

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 2009, 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 12. A detailed analysis of the Company's investment portfolio is set out on pages 16 to 18.

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 12,570,000 shares, all of which are held in treasury, increasing net asset value per share by 1.4%. Between 1 April 2010 and the date of this report, the Company has bought back a further 1,450,000 shares, which are being held in treasury, increasing net asset value per share by 0.1%.

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 1, 2, 3 and 19.

In addition to the above, the Board considers performance against other companies within the AIC Global Growth Sector.

Results and Dividends
The net asset value per share (after deducting borrowing at fair value) increased by 80.5% during the year, compared to an increase in the benchmark of 44.5%; the discount was 12.1% at 31 March 2010.

The Board recommends a final dividend of 5.80p per ordinary share which, together with the interim of 5.50p already paid, makes a total of 11.30p for the year compared with 12.30p for the previous year. The dividend for the year to 31 March 2009 included 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 2010 to shareholders on the register at the close of business on 4 June 2010. The ex-dividend date is 2 June 2010.

The Company's Registrars offer a Dividend Reinvestment Plan (see page 50) and the final date for elections for this dividend is 10 June 2010.

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 42, 47 and 49. In addition, multi-currency loan facilities are in place which are also shown on page 42.

During the year a bank loan of US$99 million was renewed.

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

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 12 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 is contained in note 23 to the financial statements on pages 45 to 49.

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.

Discount Volatility
The discount at which the Company's shares trade can widen. The Board monitors the level of discount and the Company has authority to buy back its own shares.

Gearing Risk
The Company may borrow money for investment purposes 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.

Directors' Interests

Name	Nature of interest	Ordinary 25p shares held at 31 March 2010	31 March 2009
JPHS Scott	Beneficial	34,398	33,940
MM Gray	Beneficial	150,000	221,000
	Non-beneficial	12,500	12,500
Professor JA Kay	Beneficial	5,000	5,000
FC McBain	Beneficial	1,069	1,069
WG McQueen	Beneficial	1,500	1,500

The Directors at the year end, and their interests in the Company, were as shown above.
There have been no changes intimated in the Directors' interests up to 14 May 2010.

Employees

The Company has no employees.

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 25.

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 2008, (the 'Combined Code') were applied throughout the financial year.

Compliance

The Board confirms that the Company has complied throughout the year under review with the provisions set out in Section 1 of the Combined Code except that the Chairman of the Board is a member of the Audit Committee. The Board believes it is appropriate for Mr JPHS Scott to be a member of the Committee as he is considered to be independent and there are no conflicts of interest.

The Association of Investment Companies (AIC) has published its own Code of Corporate Governance which provides a framework of best practice for investment companies. The Board is of the opinion that the Company has complied with the recommendations 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, borrowings, gearing, treasury matters, dividend and corporate governance policy. A separate meeting devoted to strategy is held each year. The Board also reviews the financial statements, investment transactions, revenue budgets and performance. Full and timely information is provided to the Board to enable the Board to function effectively and to allow Directors to discharge their responsibilities.

The Board comprises five 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. Mr MM Gray is the Senior Independent Director.

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 25.

Independence of Directors

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

Mr WG McQueen, 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 opinion 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.

Directors' Attendance at Meetings

	Board	Audit Committee	Nomination Committee
Number of meetings	**6**	**2**	**1**
JPHS Scott	6	2	1
Sir Donald MacKay (retired 31 December 2009)	5	2	–
GA Ball (retired 25 June 2009)	2	1	–
MM Gray	5	2	1
Professor JA Kay	5	2	1
FC McBain	6	2	1
WG McQueen	6	2	1
Lord Strathclyde (retired 28 February 2010)	6	2	1

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

Meetings

There is an annual cycle of Board meetings which is designed to address, in a systematic way, overall strategy, review of investment policy, investment performance, marketing, revenue budgets, dividend policy and communication with shareholders. The Board considers that it meets sufficiently regularly to discharge its duties effectively. The table above shows the attendance record for the Board and Committee Meetings held during the year. 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**.

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 MM Gray.

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 28 and 29.

Internal Controls and Risk Management

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

The Board confirms that there is a 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.

Major Interests in the Company's Shares

Name	No. of ordinary 25p shares held	% of issue
D.C. Thomson & Company Limited (Direct)	13,400,000	5.2
Legal & General Group Plc (Direct)	10,847,845	4.2
BlackRock Inc (Indirect)	8,461,197	3.3

The above information has been intimated to the Company as at 14 May 2010.

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.

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.

Accountability and Audit

The respective responsibilities of the Directors and the Auditors in connection with the Financial Statements are set out on pages 30 and 31.

Going Concern

The Company's principal risks are market related and include market risk, liquidity risk and credit risk. An explanation of these risks and how they are managed is contained in note 23 to the financial statements.

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 US$99 million loan from The Bank of New York Mellon has been renewed for a futher year. Arrangements are in place to replace the £100 million multi-currency loan from ING Bank N.V. on its maturity. Accordingly, the financial statements have been prepared on the going concern basis as it is the Directors' opinion that the Company will continue in operational existence for the foreseeable future.

Audit Committee

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 Mr JPHS Scott is independent and that there are no conflicts of interest, the Board considers it appropriate for Mr JPHS Scott 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 any formal announcements relating to the Company's financial performance;
- reviewing standards of internal control and risk management;
- 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.

KPMG Audit Plc are engaged as the Company's Auditors. Having considered the experience and tenure of the audit partner and staff and the nature of services provided, the Committee remains satisfied with the Auditors' effectiveness. The audit partners responsible for the audit are rotated every 5 years and the current lead partner has been in place for 4 years. There are no contractual obligations restricting the Company's choice of external auditor. 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 2010 were £595 and related to the certification of financial information for the debenture trustees. The Committee does not believe that this has impaired the Auditors' independence.

Relations with Shareholders

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

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** subsequent to the meeting. 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

The Board as a whole fulfils the function of the Management Engagement Committee. 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. In line with best industry practice, and with the agreement of the Managers, the notice period for terminating the Management Agreement has been reduced from one year to six months with effect from 1 April 2010. 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 interests of all shareholders as lower costs mean 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 37.

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.

Directors

Mr JPHS Scott retires by rotation at the Annual General Meeting and offers himself for re-election. Mr WG McQueen having served for more than nine years offers himself for re-election annually.

Following formal performance evaluation, the performance of Mr JPHS Scott and Mr WG McQueen 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 retired from the Board at the conclusion of the Annual General Meeting in 2009, Sir Donald MacKay retired on 31 December 2009 and Lord Strathclyde resigned on 28 February 2010.

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 2010 consists of 284,346,176 ordinary shares of 25p each, of which 259,519,897 are allotted and fully paid and 24,826,279 are held in treasury. There are no restrictions concerning the holding or transfer of the Company's ordinary shares and there are no special rights attached to any of the shares.

Dividends

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

Capital Entitlement

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

Voting

Each ordinary shareholder present in person or by proxy is entitled to one vote on a show of hands and, on a poll, to one vote for every share held.

Information on the deadlines for proxy appointments can be found on pages 55 and 56.

Purchase of Shares

During the year to 31 March 2010 the Company bought back 12,570,000 ordinary shares (nominal value £3,142,500), on the London Stock Exchange, all of which are held in treasury. The total consideration for these shares was £69,684,000. Between 1 April 2010 and the date of this report the Company has bought back a further 1,450,000 shares, which are held in treasury, at a cost of £8,962,000. At 31 March 2010 the Company held 24,826,279 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 1.4%. 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 8, 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 2006 Act); or

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

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 2011. 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 (i) 5 per cent above the average closing price on the London Stock Exchange of an ordinary share over the five business days immediately preceding the date of purchase and (ii) the higher of the 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 8, 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 9, 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 £6,451,747 in aggregate (representing 10% of the issued ordinary share capital of the Company as at 14 May 2010) 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 2011.

The Directors consider that the power proposed to be granted by Resolution 9 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 14 May 2010 the Company held 26,276,279 treasury shares, representing 10.2% 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.

Articles of Association

It is proposed in Resolution 10 to adopt new Articles of Association (the 'New Articles') in order to update the Company's current Articles of Association (the 'Articles') to take account of the final implementation of the Companies Act 2006 (the '2006 Act') in respect of, amongst other things, the Company's authorised share capital, its Memorandum of Association and the ability of the Company to change its name. The Companies Act 1985 was, for all practical purposes repealed on 1 October 2009.

A copy of the New Articles will be available for inspection at Royal London House, 22–25 Finsbury Square, London EC2A 1DX and at the registered office of the Company during normal business hours on any week day (Saturdays, Sundays and public holidays excepted) from the date of the notice of the Annual General Meeting (the 'Notice') until the conclusion of the Annual General Meeting.

A summary of the material changes proposed to be brought about by the adoption of the New Articles is set out in the Appendix to the Notice of Annual General Meeting on page 57.

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 2010 or 2009.

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's 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.

JOHN SCOTT
Chairman
17 May 2010

Directors' Remuneration Report

The Board has prepared this report in accordance with the requirements of the Companies Act 2006. An ordinary resolution for the approval of this report will be put to the members at the forthcoming Annual General Meeting. The law requires the Company's 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 page 31.

Remuneration Committee

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

Policy on Directors' Fees

The Board's policy is that the remuneration of Directors should be set at a reasonable level that is commensurate with the duties and responsibilities of the role and consistent with the requirement to attract and retain Directors of the appropriate quality and experience. It should also reflect the experience of the Board as a whole, be fair and should take account of the level of fees paid by comparable investment trusts. This policy will continue for the year ending 31 March 2011 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 remain unchanged at £36,000 for the Chairman and £24,000 for each Director, with the additional fee for the Chairman of the Audit Committee being £3,000. The last increase was effective from 1 April 2008.

Directors' Remuneration for the Year (audited)

	2010 £	2009 £
Directors who served during the year:		
JPHS Scott (Chairman)	27,000	24,000
Sir Donald MacKay (retired 31 December 2009)	27,000	36,000
GA Ball (retired 25 June 2009)	5,644	24,000
MM Gray	24,000	24,000
Professor JA Kay	24,000	7,299
FC McBain	24,000	2,236
WG McQueen (Audit Committee Chairman)	27,000	27,000
Lord Strathclyde (retired 28 February 2010)	22,000	24,000
	180,644	**168,535**

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

Directors' Service Details

	Date of appointment	Due date for re-election
JPHS Scott	31 October 2001	AGM June 2010
MM Gray	26 February 2004	AGM 2011
Professor JA Kay	11 December 2008	AGM 2012
FC McBain	26 February 2009	AGM 2012
WG McQueen	15 February 2001	AGM June 2010

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 2005)

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 28 and 29 was approved by the Board of Directors and signed on its behalf on 17 May 2010.

JOHN SCOTT
Chairman

* 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, the Directors' Remuneration 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 applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors have delegated responsibility to the Managers for the maintenance and integrity of the Company's page of the Managers' website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the Directors, whose names and functions are listed within the Directors and Managers section, confirm that, to the best of their knowledge:

- the financial statements, which have been prepared in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), give a true and fair view of the assets, liabilities, financial position and net return of the Company; and
- the Directors' Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

By order of the Board
JOHN SCOTT
17 May 2010

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 period ended 31 March 2010 set out on pages 32 to 49. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' 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

As explained more fully in the Directors' Responsibilities Statement set out on page 30, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at **www.frc.org.uk/apb/scope/UKP**.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2010 and of its net return for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 24, in relation to going concern; and
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

Gareth Horner
Senior Statutory Auditor
for and on behalf of
KPMG Audit Plc
Chartered Accountants
Edinburgh
17 May 2010

Income Statement

	Notes	For the year ended 31 March 2010 Revenue £'000	Capital £'000	**Total £'000**	For the year ended 31 March 2009 Revenue £'000	Capital £'000	**Total £'000**
Gains/(losses) on investments	10	–	837,604	**837,604**	–	(691,354)	**(691,354)**
Currency gains/(losses)	15	–	1,593	**1,593**	–	(50,819)	**(50,819)**
Income	2	49,174	–	**49,174**	57,470	–	**57,470**
Investment management fee	3	(3,027)	(3,027)	**(6,054)**	(2,821)	(2,821)	**(5,642)**
Recovered VAT	4	–	–	**–**	3,850	1,816	**5,666**
Other administrative expenses	5	(2,289)	–	**(2,289)**	(1,885)	–	**(1,885)**
Net return before finance costs and taxation		43,858	836,170	**880,028**	56,614	(743,178)	**(686,564)**
Finance costs of borrowings	6	(8,414)	(8,414)	**(16,828)**	(10,786)	(11,548)	**(22,334)**
Net return on ordinary activities before taxation		35,444	827,756	**863,200**	45,828	(754,726)	**(708,898)**
Tax on ordinary activities	7	(5,244)	1,143	**(4,101)**	(11,257)	7,860	**(3,397)**
Net return on ordinary activities after taxation		**30,200**	**828,899**	**859,099**	**34,571**	**(746,866)**	**(712,295)**
Net return per ordinary share	8	**11.18p**	**306.88p**	**318.06p**	**12.67p**	**(273.74p)**	**(261.07p)**

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

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

A Statement of Total Recognised Gains and Losses is not required as all gains and losses of the Company have been reflected in the above statement.

The accompanying notes on pages 36 to 49 are an integral part of the financial statements.

Balance Sheet

	Notes	At 31 March 2010 £'000	At 31 March 2010 £'000	At 31 March 2009 £'000	At 31 March 2009 £'000
Fixed assets					
Investments held at fair value through profit or loss	10		2,130,489		1,361,987
Current assets					
Debtors	11	9,824		9,073	
Cash and short term deposits		18,898		35,774	
		28,722		44,847	
Creditors					
Amounts falling due within one year	12	(167,751)		(77,631)	
Net current liabilities			(139,029)		(32,784)
Total assets less current liabilities			1,991,460		1,329,203
Creditors					
Amounts falling due after more than one year	13		(151,552)		(248,866)
			1,839,908		**1,080,337**
Capital and reserves					
Called-up share capital	14		71,086		71,086
Capital redemption reserve	15		19,094		19,094
Capital reserve	15		1,677,917		918,702
Revenue reserve	15		71,811		71,455
Shareholders' funds	16		**1,839,908**		**1,080,337**
Net asset value per ordinary share (after deducting borrowings at fair value)	23		**692.8p**		**383.8p**
Net asset value per ordinary share (after deducting borrowings at par)	17		**711.2p**		**399.3p**

The Financial Statements of Scottish Mortgage Investment Trust PLC (Company registration No. 7058) were approved and authorised for issue by the Board and signed on 17 May 2010.

JOHN SCOTT
Chairman

The accompanying notes on pages 36 to 49 are an integral part of the financial statements.

Reconciliation of Movements in Shareholders' Funds

For the year ended 31 March 2010

	Notes	Share capital £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	**Shareholders' funds £'000**
Shareholders' funds at 1 April 2009		71,086	19,094	918,702	71,455	**1,080,337**
Net return on ordinary activities after taxation	15	–	–	828,899	30,200	**859,099**
Shares bought back	14	–	–	(69,684)	–	**(69,684)**
Dividends paid during the year	9	–	–	–	(29,844)	**(29,844)**
Shareholders' funds at 31 March 2010		**71,086**	**19,094**	**1,677,917**	**71,811**	**1,839,908**

For the year ended 31 March 2009

	Notes	Share capital £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	**Shareholders' funds £'000**
Shareholders' funds at 1 April 2008		68,497	21,683	1,676,329	69,935	**1,836,444**
Adjustment to reserves*		2,589	(2,589)	–	–	–
Net return on ordinary activities after taxation		–	–	(746,866)	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**	**918,702**	**71,455**	**1,080,337**

* The adjustment to the share 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.

The accompanying notes on pages 36 to 49 are an integral part of the financial statements.

Cash Flow Statement

	Notes	For the year ended 31 March 2010 £'000	For the year ended 31 March 2010 £'000	For the year ended 31 March 2009 £'000	For the year ended 31 March 2009 £'000
Net cash inflow from operating activities	18		40,740		56,685
Servicing of finance					
Interest paid		(18,968)		(21,862)	
Net cash outflow from servicing of finance			(18,968)		(21,862)
Taxation					
Income tax paid		(13)		(20)	
Overseas tax incurred		(4,080)		(3,381)	
Total tax paid			(4,093)		(3,401)
Financial investment					
Acquisitions of investments		(460,680)		(387,778)	
Disposals of investments		527,163		595,292	
Realised currency (loss)/profit		(1,508)		5,132	
Net cash inflow from financial investment			64,975		212,646
Equity dividends paid	9		(29,844)		(33,051)
Net cash inflow before financing			52,810		211,017
Financing					
Shares bought back	14	(69,684)		(10,761)	
Bank loans repaid		(66,874)		(227,492)	
Bank loans drawn down		66,872		49,980	
Net cash outflow from financing			(69,686)		(188,273)
(Decrease)/increase in cash	19		**(16,876)**		**22,744**
Reconciliation of net cash flow to movement in net debt	19				
(Decrease)/increase in cash in the period			(16,876)		22,744
Decrease in bank loans			2		177,512
Exchange movement on bank loans			3,101		(55,951)
Other non-cash changes			153		133
Movement in net debt in the year			(13,620)		144,438
Net debt at 1 April			(282,159)		(426,597)
Net debt at 31 March			**(295,779)**		**(282,159)**

The accompanying notes on pages 36 to 49 are an integral part of the financial statements.

1 Principal Accounting Policies

The financial statements for the year to 31 March 2010 have been prepared on the basis of the accounting policies set out below, which 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 The Companies Act 2006, applicable UK Accounting Standards and with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies' (issued in January 2009).

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 valued at fair value through profit or loss upon initial recognition. The fair value of listed securities 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 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 Reserve

Gains and losses on disposal of investments, changes in fair value of investments held, exchange differences of a capital nature and the amount by which other assets and liabilities valued at fair value differ from their book cost are dealt with in this reserve. Purchases of the Company's own shares are also funded from this reserve. 50% of management fees and finance costs are allocated to the capital reserve in accordance with the Company's objective of combining capital and income growth.

2 Income

	2010 £'000	2009 £'000
Income from investments		
Franked investment income	5,367	5,624
UK unfranked investment income†	1,634	2,017
Overseas dividends	35,483	41,316
Overseas interest	6,077	5,406
	48,561	**54,363**
Other income		
Deposit interest	20	617
Interest on VAT recovered (see note 4)	–	1,910
Underwriting commission and commitment fees	593	580
	613	**3,107**
Total income	**49,174**	**57,470**
Total income comprises:		
Dividends from financial assets designated at fair value through profit or loss	41,298	47,287
Interest from financial assets designated at fair value through profit or loss	7,263	7,076
Deposit interest from financial assets not at fair value through profit or loss	20	2,527
Other income not from financial assets	593	580
	49,174	**57,470**
Income from investments		
Listed UK	6,004	5,624
Listed overseas	42,485	48,705
Unlisted	72	34
	48,561	**54,363**

†Includes OEIC income.

3 Investment Management Fee

	2010 Revenue £'000	2010 Capital £'000	2010 Total £'000	2009 Revenue £'000	2009 Capital £'000	2009 Total £'000
Investment management fee	3,027	3,027	**6,054**	2,821	2,821	**5,642**

Baillie Gifford & Co are employed by the Company as Managers and Secretaries under a management agreement which is terminable on not less than six 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 year to 31 March 2009, in respect of the periods 1990 to 1996 and 2000 to 2007 the Company received a reimbursement of £5,666,000 which was 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

	2010 £'000	2009 £'000
General administrative expenses	2,086	1,695
Directors' fees (see Directors' Remuneration Report page 28)	181	169
Auditors' remuneration for audit services	21	20
Auditors' remuneration for other services – certification of results for the debenture trustees	1	1
	2,289	**1,885**

6 Finance Costs of Borrowings

		2010			2009	
	Revenue £'000	Capital £'000	**Total £'000**	Revenue £'000	Capital £'000	**Total £'000**
Financial liabilities not at fair value through profit or loss						
Bank loans and overdrafts repayable within five years	1,497	1,497	**2,994**	3,859	4,621	**8,480**
Debentures repayable wholly or partly in more than five years	6,917	6,917	**13,834**	6,927	6,927	**13,854**
	8,414	**8,414**	**16,828**	**10,786**	**11,548**	**22,334**

7 Tax on Ordinary Activities

		2010			2009	
	Revenue £'000	Capital £'000	**Total £'000**	Revenue £'000	Capital £'000	**Total £'000**
UK corporation tax	3,496	(1,143)	**2,353**	11,257	(7,860)	**3,397**
Overseas taxation	4,101	–	**4,101**	3,397	–	**3,397**
Double taxation relief	(2,353)	–	**(2,353)**	(3,397)	–	**(3,397)**
Total current tax	**5,244**	**(1,143)**	**4,101**	**11,257**	**(7,860)**	**3,397**

	2010 £'000	2009 £'000
The tax charge for the year is lower than the standard rate of corporation tax in the UK of 28% (2009 – 28%)		
The differences are explained below:		
Net return on ordinary activities before taxation	863,200	(708,898)
Net return on ordinary activities before taxation multiplied by the standard rate of corporation tax in the UK of 28% (2009 – 28%)	241,696	(198,491)
Capital returns not taxable	(234,975)	207,808
Income not taxable (franked investment income)	(1,503)	(1,575)
Income not taxable (overseas dividends)	(4,925)	–
Losses from previous periods utilised	(309)	(4,357)
Overseas withholding tax	4,101	3,397
Double taxation relief	–	(3,397)
Adjustment to income received from OEICs for tax purposes	16	12
Current tax charge for the year	**4,101**	**3,397**

At 31 March 2010 the Company had surplus management expenses and losses on non-trading loan relationships of £46 million (2009 – £42 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

	2010 Revenue	2010 Capital	2010 Total	2009 Revenue	2009 Capital	2009 Total
	11.18p	**306.88p**	**318.06p**	**12.67p**	**(273.74p)**	**(261.07p)**

Revenue return per ordinary share is based on the net revenue on ordinary activities after taxation of £30,200,000 (2009 – £34,571,000), and on 270,102,144 (2009 – 272,833,733) ordinary shares, being the weighted average number of ordinary shares during the year.

Capital return per ordinary share is based on the net capital gain for the financial year of £828,899,000 (2009 – net capital loss of £746,866,000), and on 270,102,144 (2009 – 272,833,733) ordinary shares, being the weighted average number of ordinary shares during the year.

There are no dilutive or potentially dilutive shares in issue.

9 Ordinary Dividends

	2010	2009	2010 £'000	2009 £'000
Amounts recognised as distributions in the year:				
Previous year's final (paid 1 July 2009)	5.50p	5.30p	14,955	14,521
Interim (paid 13 November 2009)†	5.50p	6.80p	14,889	18,530
	11.00p	**12.10p**	**29,844**	**33,051**

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 £30,200,000 (2009 – £34,571,000).

	2010	2009	2010 £'000	2009 £'000
Dividends paid and payable in respect of the year:				
Interim dividend per ordinary share (paid 13 November 2009)†	5.50p	6.80p	14,889	18,530
Proposed final dividend per ordinary share (payable 1 July 2010)	5.80p	5.50p	15,052	14,965
Adjustment to previous year's final dividend re shares bought back			(10)	–
	11.30p	**12.30p**	**29,931**	**33,495**

†The interim dividend for the year ended 31 March 2009 included a non-recurring 1.5p per share.

10 Fixed Assets – Investments

As at 31 March 2010	Level 1 £'000	Level 2 £'000	Level 3 £'000	**Total £'000**
Listed equities	2,009,995	–	–	**2,009,995**
Listed debt securities	113,525	–	4,684	**118,209**
Unlisted debt securities	–	–	2,285	**2,285**
Total financial asset investments	**2,123,520**	**–**	**6,969**	**2,130,489**

10 Fixed Assets – Investments (continued)

As at 31 March 2009	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Listed equities	1,282,920	–	–	**1,282,920**
Listed debt securities	72,774	–	2,993	**75,767**
Unlisted debt securities	–	–	3,300	**3,300**
Total financial asset investments	**1,355,694**	**–**	**6,293**	**1,361,987**

Investments in securities are financial assets designated at fair value through profit or loss on initial recognition. In accordance with Financial Reporting Standard 29 'Financial Instruments: Disclosures', the preceding tables provide an analysis of these investments based on the fair value hierarchy described below, which reflects the reliability and significance of the information used to measure their fair value.

Fair Value Hierarchy

The fair value hierarchy used to analyse the fair values of financial assets is described below. The levels are determined by the lowest (that is the least reliable or least independently observable) level of input that is significant to the fair value measurement for the individual investment in its entirety as follows:

Level 1 – investments with quoted prices in an active market;

Level 2 – investments whose fair value is based directly on observable current market prices or is indirectly being derived from market prices; and

Level 3 – investments whose fair value is determined using a valuation technique based on assumptions that are not supported by observable current market prices or are not based on observable market data.

	Listed equities £'000	Listed debt £'000	Unlisted £'000	Total £'000
Cost of investments at 1 April 2009	1,457,711	71,556	3,300	**1,532,567**
Investment holding (losses)/gains at 1 April 2009	(174,791)	4,211	–	**(170,580)**
Value of investments at 1 April 2009	1,282,920	75,767	3,300	**1,361,987**
Movements in year:				
Purchases at cost	450,253	9,207	–	**459,460**
Sales – proceeds	(527,716)	(925)	–	**(528,641)**
– gains/(losses) on sales	47,150	(2,756)	–	**44,394**
Amortisation of fixed income book cost	–	79	–	**79**
Changes in investment holding gains/(losses)	757,388	36,837	(1,015)	**793,210**
Value of investments at 31 March 2010	**2,009,995**	**118,209**	**2,285**	**2,130,489**
Cost of investments at 31 March 2010	1,427,398	77,161	3,300	**1,507,859**
Investment holding gains/(losses) at 31 March 2010	582,597	41,048	(1,015)	**622,630**
Value of investments at 31 March 2010	**2,009,995**	**118,209**	**2,285**	**2,130,489**

The purchases and sales proceeds figures above include transaction costs of £829,000 (2009 – £596,000) and £576,000 (2009 – £811,000) respectively.

Of the gains on sales during the year of £44,394,000 (2009 – loss of £65,056,000) a net loss of £91,740,000 (2009 – loss of £17,951,000) was included in the investment holding gains/(losses) at the previous year end.

10 Fixed Assets – Investments (continued)

The following table shows a reconciliation from the opening balances to the closing balances for fair value measurements in Level 3 of the fair value hierarchy.

	Value at 1 April 2009 £'000	Purchases/ amortisation £'000	Sales proceeds £'000	Gains on sales £'000	Holding gains £'000	**Value at 31 March 2010 £'000**
Listed debt securities	2,993	–	–	–	1,691	**4,684**
Unlisted debt securities	3,300	–	–	–	(1,015)	**2,285**
	6,293	**–**	**–**	**–**	**676**	**6,969**

The gains and losses included in the above table have all been recognised in the Income Statement on page 32. The Company believes that other reasonably possible alternative valuations for its Level 3 holdings would not be significantly different from those included in the financial statements.

	2010 £'000	2009 £'000
Net gains/(losses) on investments designated at fair value through profit or loss on initial recognition		
Gains/(losses) on sales	44,394	(65,056)
Changes in investment holding gains/(losses)	793,210	(626,298)
	837,604	**(691,354)**

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	2010 Value £'000	% of fund held	C income shares held	2009 Value £'000	% of fund held
Baillie Gifford European Smaller Companies Fund	4,286,705	14,935	36.9	5,767,177	11,794	26.6

11 Debtors

	2010 £'000	2009 £'000
Amounts falling due within one year:		
Income accrued	7,894	8,185
Sales for subsequent settlement	1,478	–
UK taxation recoverable	80	67
Other debtors and prepayments	372	821
	9,824	**9,073**

None of the above debtors are financial assets designated at fair value through profit or loss. The carrying amount of debtors is a reasonable approximation of fair value.

12 Creditors – Amounts falling due within one year

	2010 £'000	2009 £'000
Lloyds TSB Scotland plc multi-currency loan	–	69,067
ING Bank N.V. multi-currency loan	97,860	–
The Bank of New York Mellon multi-currency loan	65,265	–
Purchases for subsequent settlement	–	1,220
Other creditors and accruals	4,626	7,344
	167,751	**77,631**

Included in other creditors is £974,000 (2009 – £369,000) in respect of the investment management fee.

Borrowing facilities

A 1 year US$99 million multi-currency loan facility, at the time of draw down, has been arranged with The Bank of New York Mellon.
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 2010 drawings were as follows:

The Bank of New York Mellon	US$99 million at an interest rate of 1.22% per annum.
ING Bank N.V.	¥8,500 million at an interest rate of 1.63% per annum and CHF60.5 million at an interest rate of 3.45% per annum.

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	2010 £'000	2009 £'000
Debenture stocks:				
£20 million 8–14% stepped interest debenture stock 2020	14.0%	12.3%	21,961	22,052
£75 million 6.875% debenture stock 2023	6.875%	6.9%	74,525	74,488
£50 million 6–12% stepped interest debenture stock 2026	12.0%	10.8%	54,391	54,490
4½% irredeemable debenture stock			675	675
Bank loans:				
ING Bank N.V. multi-currency loan			–	97,161
			151,552	**248,866**

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 £5,877,000 (2009 – £6,030,000) over nominal value. The debenture stocks are secured by a floating charge over the assets of the Company.

14 Called-up Share Capital

	2010 Number	2010 £'000	2009 Number	2009 £'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	**259,519,897**	**64,880**	**272,089,897**	**68,022**
Treasury shares of 25p each	**24,826,279**	**6,206**	**12,256,279**	**3,064**
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 2010, a total of 12,570,000 (2009 – 1,900,000) ordinary shares with a nominal value of £3,142,500 (2009 – £475,000) were bought back at a total cost of £69,684,000 (2009 – £10,761,000) and held in treasury. At 31 March 2010 the Company had authority to buy back a further 28,365,043 ordinary shares.

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

15 Capital and Reserves

	Share capital £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	**Shareholders' funds £'000**
At 1 April 2009	71,086	19,094	918,702	71,455	**1,080,337**
Gains on sales	–	–	44,394	–	**44,394**
Changes in investment holding gains	–	–	793,210	–	**793,210**
Exchange differences	–	–	(1,508)	–	**(1,508)**
Exchange differences on multi-currency loans	–	–	3,101	–	**3,101**
Shares bought back	–	–	(69,684)	–	**(69,684)**
Investment management fee charged to capital	–	–	(3,027)	–	**(3,027)**
Finance costs of borrowings charged to capital	–	–	(8,414)	–	**(8,414)**
Tax relief on management fee and finance costs	–	–	1,143	–	**1,143**
Dividends paid in year	–	–	–	(29,844)	**(29,844)**
Revenue return on ordinary activities after taxation	–	–	–	30,200	**30,200**
At 31 March 2010	**71,086**	**19,094**	**1,677,917**	**71,811**	**1,839,908**

The capital reserve includes investment holding gains of £622,630,000 (2009 – losses of £170,580,000) as disclosed in note 10.

16 Shareholders' Funds

	2010 £'000	2009 £'000
Total shareholders' funds are attributable as follows:		
Equity shares	**1,839,908**	**1,080,337**

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:

	2010	2009
Shareholders' funds attributable to ordinary shares (as above)	1,839,908,000	1,080,337,000
Number of ordinary shares in issue at the year end*	259,519,897	272,089,897
Shareholders' funds per ordinary share	709.0p	397.1p
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	**711.2p**	**399.3p**

*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:

	2010	2009	2010 £'000	2009 £'000
Ordinary shares	**711.2p**	**399.3p**	**1,845,785**	**1,086,367**

	2010 £'000	2009 £'000
The movements during the year of the assets attributable to the ordinary shares were as follows:		
Total net assets at 1 April	1,086,367	1,842,607
Total recognised gains and losses for the year	859,099	(712,295)
Dividends appropriated in the year	(29,844)	(33,051)
Adjustment to debentures	(153)	(133)
Shares bought back	(69,684)	(10,761)
Total net assets at 31 March	**1,845,785**	**1,086,367**

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 259,519,897 (2009 – 272,089,897) 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 calculated 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

	2010 £'000	2009 £'000
Net return on ordinary activities before finance costs and taxation	880,028	(686,564)
(Gains)/losses on investments – securities	(837,604)	691,354
Currency (gains)/losses	(1,593)	50,819
Amortisation of fixed income book cost	(79)	(103)
Decrease in accrued income	270	1,058
Decrease/(increase) in debtors	449	(491)
(Decrease)/increase in creditors	(731)	612
Net cash inflow from operating activities	**40,740**	**56,685**

19 Analysis of Change in Net Debt

	At 1 April 2009 £'000	Cash flows £'000	Other non-cash changes £'000	Exchange movement £'000	At 31 March 2010 £'000
Cash at bank and in hand	35,774	(16,876)	–	–	18,898
Loans due within one year	(69,067)	2	(97,161)	3,101	(163,125)
Loans due in two to five years	(97,161)	–	97,161	–	–
Debenture stocks	(151,705)	–	153	–	(151,552)
	(282,159)	**(16,874)**	**153**	**3,101**	**(295,779)**

20 Related Party Transactions

The Directors' fees for the year are detailed in the Directors' Remuneration Report on page 28. 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 2010 is disclosed in note 12.

21 Contingencies, Guarantees and Financial Commitments

At the year end the Company had a contingent liability amounting to £6,700,000 (2009 – £6,700,000) in respect of a subscription agreement, relating to participating unsecured loan notes in Pantheon International Participations plc ('PIP'), which expires on 31 December 2010. The PIP loan notes of par value £3,300,000 held by the Company were valued at £2,285,000 at 31 March 2010 (2009 – £3,300,000).

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.

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 and pages 15 to 18.

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.

23 Financial Instruments (continued)

Currency Risk (continued)

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

At 31 March 2010	Investments £'000	Cash and deposits £'000	Loans and debentures £'000	Other debtors and creditors * £'000	**Net exposure £'000**
US dollar	966,429	77	(65,265)	1,290	**902,531**
Euro	189,318	–	–	227	**189,545**
Brazilian real	122,707	–	–	2,280	**124,987**
Swedish krona	114,153	–	–	–	**114,153**
Japanese yen	83,436	–	(59,969)	1,161	**24,628**
Swiss franc	56,300	–	(37,891)	(375)	**18,034**
Other overseas currencies	328,496	–	–	309	**328,805**
Total exposure to currency risk	**1,860,839**	**77**	**(163,125)**	**4,892**	**1,702,683**
Sterling	269,650	18,821	(151,552)	306	**137,225**
	2,130,489	**18,898**	**(314,677)**	**5,198**	**1,839,908**

* Includes net non-monetary assets of £52,000.

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**
Brazilian real	71,430	–	–	1,797	**73,227**
Swedish krona	97,155	–	–	–	**97,155**
Japanese yen	79,642	–	(60,040)	895	**20,497**
Swiss franc	44,399	28,935	(37,121)	(18)	**36,195**
Other overseas currencies	203,332	–	–	638	**203,970**
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.

Currency Risk Sensitivity

At 31 March 2010, 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 2009.

	2010 £'000	2009 £'000
US dollar	45,127	26,189
Euro	9,477	7,451
Brazilian real	6,249	3,661
Swedish krona	5,708	4,857
Japanese yen	1,231	1,025
Swiss franc	902	1,810
Other overseas currencies	16,440	10,199
	85,134	**55,192**

23 Financial Instruments (continued)

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	Fair value £'000	2010 Weighted average interest rate	Weighted average period until maturity *	Fair value £'000	2009 Weighted average interest rate	Weighted average period until maturity *
Fixed rate:						
Sterling bonds (perpetual)	9,630	7.6%	N/A	416	8.2%	N/A
Euro bonds	2,326	3.1%	7 years	771	3.1%	8 years
US bonds (perpetual)	–	–	–	404	8.0%	N/A
Floating rate:						
Sterling bonds (interest rate linked to sterling LIBOR)	5,701	3.7%	14 years	4,931	4.7%	10 years
Euro bonds (interest rate linked to euro LIBOR)	1,001	4.5%	75 years	1,115	6.3%	76 years
Brazilian bonds (index linked)	101,836	11.0%	35 years	71,430	10.5%	36 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.

Financial Liabilities	2010 £'000	2009 £'000
The interest rate risk profile of the Company's financial liabilities at 31 March was:		
Floating rate – US$ denominated	65,265	69,067
Fixed rate – Sterling denominated	151,552	151,705
– Yen denominated	59,969	60,040
– Swiss franc denominated	37,891	37,121
	314,677	**317,933**

	2010 £'000	2009 £'000
The maturity profile of the Company's financial liabilities at 31 March was:		
In one year or less, or on demand	163,125	69,067
In two to five years	–	97,161
In more than five years (weighted average period fixed 14 years)	150,877	151,030
No fixed date for repayment	675	675
	314,677	**317,933**

23 Financial Instruments (continued)

Interest Rate Risk Sensitivity

An increase of 100 basis points in bond yields as at 31 March 2010 would have decreased total net assets and total return on ordinary activities by £14,624,000 (2009 – £9,221,000). 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 2010 would have increased the net asset value per share (with borrowings at fair value) by 0.58p (2009 – 2.44p). 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 16 to 18. 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.

109.24% of the Company's net assets are invested in equities. A 3% increase in quoted equity valuations at 31 March 2010 would have increased total assets and total return on ordinary activities by £60,300,000 (2009 – £38,488,000). 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 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.
- 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.

23 Financial Instruments (continued)

Credit Risk Exposure

The maximum exposure to credit risk at 31 March was:

	2010 £'000	2009 £'000
Fixed interest investments	120,494	79,067
Cash and short term deposits	18,898	35,774
Debtors and prepayments	9,824	9,073
	149,216	**123,914**

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:

	2010 Par/nominal £'000	2010 Book £'000	2010 Fair £'000	2009 Par/nominal £'000	2009 Book £'000	2009 Fair £'000
8–14% stepped interest debenture stock 2020	20,000	21,961	31,890	20,000	22,052	31,721
6.875% debenture stock 2023	75,000	74,525	82,313	75,000	74,488	77,282
6–12% stepped interest debenture stock 2026	50,000	54,391	78,800	50,000	54,490	76,249
4½% irredeemable debenture stock	675	675	525	675	675	540
Total debentures	**145,675**	**151,552**	**193,528**	**145,675**	**151,705**	**185,792**
Fixed rate loans		–	–		97,161	99,100
Total long term borrowings		**151,552**	**193,528**		**248,866**	**284,892**

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 711.2p to 692.8p. Taking the market price of the ordinary shares at 31 March 2010 of 609.0p, this would have given a discount to net asset value of 12.1% as against 14.4% on a debt at par basis. At 31 March 2009 the effect would have been to reduce the net asset value 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 debt at par 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 page 20. Shares may be issued and/or repurchased as explained on pages 26 and 27.

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 52). You can also find specific details about investing in Scottish Mortgage at **www.scottishmortgageit.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 Annual General Meeting 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.

By quoting the reference number on your share certificate you can check your holding on the Registrar's website at **www-uk.computershare.com/investor**.

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;
- use online dealing services; and
- pay dividends directly into your overseas bank account in your chosen local currency.

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

Electronic Communications and Proxy Voting

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

- **Electronic Communications** If you would like to take advantage of this service, please visit our Registrar's website at **www-uk.computershare.com/investor** and register. You will need your shareholder reference number (which is on your share certificate and tax voucher) to hand. If you then agree to the terms and conditions, in future, on the day that documents are sent to shareholders by post, you will receive an e-mail providing the website address link to the documents. After you register, paper documents will be available on request.
- **Electronic Proxy Voting** You can also return proxies electronically at **www.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.

If you have any questions about this service please contact Computershare on 0870 707 1300.

Analysis of Shareholders

	At 31 March 2010 Number of shares held	%	At 31 March 2009 Number of shares held	%
Institutions	89,086,412	34.3	106,515,744	39.2
Intermediaries	118,097,256	45.5	110,037,280	40.4
Individuals	27,453,422	10.6	30,286,931	11.1
Baillie Gifford Share Plans/ISA	22,550,879	8.7	20,926,116	7.7
Marketmakers	2,331,928	0.9	4,323,826	1.6
	259,519,897	**100.0**	**272,089,897**	**100.0**

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; and
- 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.

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

Press advertisement for Scottish Mortgage.

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

Baillie Gifford Savings Management Limited offers a number of plans that enable you to buy and hold shares of Scottish Mortgage 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 £10,200 each tax 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

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 at **www.bailliegifford.com**. OMS enables you to apply for, open and administer a Baillie Gifford Investment Trust Share Plan or Investment Trust ISA online. As well as being able to view the details of your plan online, the service also allows you to:

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

Risks

- Past performance is not a guide to future performance.
- Scottish Mortgage is listed on the stock market. As a result, the value of its 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 has borrowed money to make further investments (sometimes known as 'gearing'). The risk is that when this money is repaid by the Company, the value of these investments may not be enough to cover the borrowing and interest costs, and the Company will make a loss. If the Company'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 Company 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 favourable tax treatment of ISAs may change.
- Details of other risks that apply to investment in the plans shown on this page are contained in the product brochures.
- Scottish Mortgage Investment Trust PLC is a UK public listed company and as such complies with the requirements of the UK Listing Authority. It is not authorised and regulated by the Financial Services Authority.
- 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 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.
- 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.

Communicating with Shareholders

'Trust' magazine

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

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 page 52 in order to bring the merits of Scottish Mortgage to as wide an audience as possible.

Trust Magazine

Trust is the Baillie Gifford investment trust magazine which is published three times 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 (see contact details opposite).

An online version of *Trust* can be found at **www.bgtrustonline.com**.

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

Guides to Investment Trusts

Baillie Gifford has produced three educational guides on investment trusts. The first 'Understanding Investment Trusts' is designed to explain how investment trusts work on a general level. There is also a guide on 'Investing for Children' which explains, among other things, how investment trusts can be used to invest on behalf of a child. A new guide about investing in Emerging Markets is now also available. If you would like copies of these guides, please contact the Baillie Gifford Client Relations Team (see contact details opposite).

Scottish Mortgage on the Web

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

You can also find a 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 on the Buying Shares section of Scottish Mortgage's website **www.scottishmortgageit.com**.

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 (see contact details below) 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 on page 52.

Literature in Alternative Formats

It is possible to provide copies of literature in alternative formats, such as large print or on audio tape. Please contact the Baillie Gifford Client Relations Team for more information.

Further Information

If you would like more information on any of the plans described opposite please contact the Baillie Gifford Client Relations Team below.

Client Relations Team Contact Details

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

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

Website: www.scottishmortgageit.com

Your call may be recorded.

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

E-mail: scottishmortgage@bailliegifford.com

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.

The Annual General Meeting of the Company will be held at the offices of Baillie Gifford & Co, Calton Square, 1 Greenside Row, Edinburgh, EH1 3AN on Monday, 28 June 2010 at 4.30pm.

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 and first Annual General Meeting of Scottish Mortgage Investment Trust PLC will be held within the offices of Baillie Gifford & Co, Calton Square, 1 Greenside Row, Edinburgh, EH1 3AN on Monday, 28 June 2010 at 4.30pm 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 Financial Statements of the Company for the year to 31 March 2010 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 2010.
3. To declare a final dividend.
4. To re-elect Mr JPHS Scott as a Director.
5. To re-elect Mr WG McQueen as a Director.
6. To reappoint KPMG Audit Plc as Independent Auditors of the Company to hold office until the conclusion of the next Annual General Meeting at which the financial statements are laid before the Company.
7. To authorise the Directors to determine the remuneration of the Independent Auditors of the Company.

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

8. That, in substitution for any existing authority, but without prejudice to the exercise of any such authority prior to the date hereof, the Company be and is hereby generally and unconditionally authorised, in accordance with Section 701 of the Companies Act 2006 (the'Act'), to make market purchases (within the meaning of Section 693(4) of the Act) of fully paid ordinary shares of 25 pence each in the capital of the Company ('ordinary shares') (either for retention as treasury shares for future reissue, resale, transfer or for cancellation), provided that:
   (a) the maximum aggregate number of ordinary shares hereby authorised to be purchased is 38,684,677 being approximately 14.99% of the issued ordinary share capital of the Company on the date on which this resolution is passed;
   (b) the minimum price (excluding expenses) which may be paid for each ordinary share is 25 pence;
   (c) the maximum price (excluding expenses) which may be paid for each ordinary share shall not be more than the higher of;
      (i) 5 per cent above the average closing price on the London Stock Exchange of an ordinary share over the five business days immediately preceding the date of purchase; and
      (ii) the higher of the price of the last independent trade and the highest current independent bid on the London Stock Exchange; 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 Company's Annual General Meeting to be held in respect of the financial year ending 31 March 2011, save that the Company may, prior to the expiry of such authority, enter into a contract or contracts to purchase ordinary 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 ordinary shares pursuant to any such contract or contracts.
9. That, the Directors of the Company be and they are hereby generally empowered pursuant to section 573 of the Companies Act 2006 (the 'Act') to sell equity securities (as defined in sections 560(1) and 560(2) 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 724(3) of the Act) ('treasury shares') for cash consideration (as defined in section 727(2) of the Act) as if subsection (1) of section 561 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 25 pence 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 £6,451,747 being 10% of the Company's issued Share capital as at 14 May 2010;

and shall expire at the conclusion of the next Annual General Meeting of the Company to be held in 2011, save that the Company may, before such expiry, make any offer or enter into an agreement which would or might require treasury shares to be sold after the expiry of such power, and the Directors of the Company may sell treasury shares in pursuance of such offer or agreement as if the power conferred hereby had not expired.

Special Business

To consider and, if thought fit, to pass the following resolution as a Special Resolution:

10. That with effect from the passing of this resolution:

i. the articles of association of the Company be amended by deleting all of the provisions of the Company's Memorandum of Association which, by virtue of section 28 of the Companies Act 2006, are to be treated as part of the Company's articles of association;

ii. the articles of association of the Company be amended by deleting all the provisions referred to in paragraph 42 of schedule 2 of the Companies Act 2006 (Commencement No 8, Transitional Provisions and Savings) Order 2008 (Statutory Instrument 2008 No. 2860); and

iii. the draft regulations produced to the meeting and, for the purposes of identification, initialled by the Chairman of the meeting be adopted as the articles of association of the Company in substitution for, and to the entire exclusion of, the existing articles of association of the Company.

By order of the Board Baillie Gifford & Co.
Baillie Gifford & Co
Managers and Secretaries
25 May 2010

Notes

1 As a member you are entitled to appoint a proxy or proxies to exercise all or any of your rights to attend, speak and vote at the AGM. A proxy need not be a member of the Company but must attend the AGM to represent you. You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You can only appoint a proxy using the procedure set out in these notes and the notes to the proxy form. You may not use any electronic address provided either in this notice or any related documents (including the circular and proxy form) to communicate with the Company for any purpose other than those expressly stated.

2. To be valid any proxy form or other instrument appointing a proxy, together with any power of attorney or other authority under which it is signed or a certified copy thereof, must be received by post or (during normal business hours only) by hand at the Registrars of the Company at Computershare Investor Services PLC, PO Box 82, The Pavilions, Bridgwater Road, Bristol, BS99 6ZY or **www.eproxyappointment.com** no later than 48 hours before the time of the meeting or any adjourned meeting.

3. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual and/ or by logging on to the website **www.euroclear.com/CREST**. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

4. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications, and must contain the information required for such instruction, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the Company's registrar (ID 3RA50) no later than 48 hours before the time of the meeting or any adjournment. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Application Host) from which the Company's registrar is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

5. CREST members and, where applicable, their CREST sponsors, or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

6. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

7. The return of a completed proxy form or other instrument of proxy will not prevent you attending the AGM and voting in person if you wish.

8. 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.

9. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001 and Section 311 of the Companies Act 2006 the Company specifies that to be entitled to attend and vote at the Annual General Meeting (and for the purpose of the determination by the Company of the votes they may cast), shareholders must be registered in the Register of Members of the Company no later than 48 hours prior to the commencement of the AGM or any adjourned meeting. Changes to the Register of Members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting.

10. Any person to whom this notice is sent who is a person nominated under Section 146 of the Companies Act 2006 to enjoy information rights (a 'Nominated Person') may, under an agreement between him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the Annual General Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.

11. The statement of the rights of shareholders in relation to the appointment of proxies in Notes 1 and 2 above does not apply to Nominated Persons. The rights described in those Notes can only be exercised by shareholders of the Company.

12. The members of the Company may require the Company to publish, on its website, (without payment) a statement (which is also passed to the auditors) setting out any matter relating to the audit of the Company's accounts, including the auditors' report and the conduct of the audit. The Company will be required to do so once it has received such requests from either members representing at least 5% of the total voting rights of the Company or at least 100 members who have a relevant right to vote and hold shares in the Company on which there has been paid up an average sum per member of at least £100. Such requests must be made in writing and must state your full name and address and be sent to the Company at Calton Square, 1 Greenside Row, Edinburgh, EH1 3AN.

13. Information regarding the Annual General Meeting, including information required by Section 311A of the Companies Act 2006, is available from the Company's page of the Managers' website at **www.scottishmortgageit.com**.

14. Members have the right to ask questions at the meeting in accordance with Section 319A of the Companies Act 2006.

15. As at 14 May 2010 (being the latest practicable date prior to the publication of this notice) the Company's issued share capital consisted of 258,069,897 ordinary shares (excluding treasury shares), carrying one vote each. Therefore, the total voting rights in the Company as at 14 May 2010 were 258,069,897 votes.

16. Any person holding 3% or more of the total voting rights of the Company who appoints a person other than the Chairman of the meeting as his proxy will need to ensure that both he and his proxy complies with their respective disclosure obligations under the UK Disclosure and Transparency Rules.

17. A copy of the proposed new Articles of Association of the Company will be available at Royal London House, 22–25 Finsbury Square, London EC2A 1DX and at the registered office of the Company, Calton Square, 1 Greenside Row, Edinburgh EH1 3AN, during normal business hours on any week day (Saturdays, Sundays and public holidays excepted) from the date of this notice of the AGM until the conclusion of the AGM.

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

Appendix to the Notice of Annual General Meeting

The principal changes which would arise from the adoption of the New Articles are set out below.

The Company's memorandum of association (the 'Memorandum')

The provisions regulating the operations of the Company are currently set out in the Company's memorandum and articles of association. The Memorandum contains, among other things, the objects clause which sets out certain limits on the types of investments the Company may enter into and the scope of the activities the Company is authorised to undertake.

The Companies Act 2006 (the '2006 Act') significantly reduces the constitutional significance of a company's memorandum. The 2006 Act provides that a memorandum will record only the names of subscribers and the number of shares each subscriber has agreed to take in the company. Under the 2006 Act, the objects clause and all other provisions which are currently contained in a company's memorandum, for existing companies at 1 October 2009, will be deemed to be contained in a company's articles but a company can remove these provisions by special resolution.

In addition, the 2006 Act states that unless a company's articles provide otherwise, a company's objects are unrestricted. This abolishes the need for companies to have objects clauses. For this reason, the Company is proposing to remove its objects clause together with all other provisions of its Memorandum which, by virtue of the 2006 Act, would otherwise be treated as forming part of the Company's articles of association. The Company would therefore be unrestricted in respect of the types of investments it may enter into provided that it was in accordance with the Company's investment policy and the guidelines set by the Board from time to time.

Change of name

Prior to 1 October 2009, a company could only change its name by special resolution. Under the 2006 Act, a company will be able to change its name by other means provided for by its articles of association. To take advantage of this provision, the New Articles enable the Directors to pass a resolution to change the Company's name.

Authorised share capital and unissued shares

The 2006 Act abolishes the requirement for a company to have an authorised share capital. The Company is proposing changes to its Memorandum and articles of association to reflect this. The Directors will still be limited as to the number of shares they can at any time allot because allotment authority continues to be required under the 2006 Act.

Issue of redeemable shares

The New Articles will explicitly confer authority on the Board to determine the terms, conditions and manner of redemption of any issued redeemable shares in accordance with the 2006 Act, although this amendment would only have practical effect if the Company issues redeemable shares in the future.

Form of resolutions and convening meetings

The existing Articles contain provisions referring to 'extraordinary' resolutions and 'extraordinary' general meetings. These concepts have been abolished under the 2006 Act. Meetings of shareholders other than annual general meetings are referred to simply as general meetings. Any resolution requiring a 75 per cent majority will be a 'special' resolution.

The provisions of the existing Articles dealing with the convening of general meetings and annual general meetings, the content of the notice and the length of notice required to convene such meetings are amended in the New Articles to conform to the new provisions of the 2006 Act.

Proxies

Under the 2006 Act, proxies are entitled to vote on a show of hands, whereas under the existing Articles proxies are only entitled to vote on a poll. The time limits for the appointment of proxies have also been altered by the 2006 Act so weekends and bank holidays can be excluded for the purposes of the timing for delivery of proxies. Multiple proxies may be appointed provided that each proxy is appointed to exercise the rights attached to different shares held by the shareholder. The New Articles reflect these changes.

The New Articles also reflect the Uncertificated Securities Regulations 2001 and the 2006 Act provisions by permitting shareholders holding uncertificated shares to appoint, instruct, amend and revoke proxy appointments using the CREST system.

Chairman's casting vote

The casting vote of the Chairman at shareholders' meetings has been removed as this is not permitted by the 2006 Act.

Periodic retirement of Directors

The Combined Code on Corporate Governance recommends that a director must submit himself/herself for election by shareholders at the first annual general meeting after his/her appointment and to re-election thereafter at intervals of not more than three years. The New Articles follow this recommendation.

Suspension of registration of share transfers

The Articles also permit the Board to suspend the registration of share transfers. Under the 2006 Act share transfers must be registered as soon as practicable. The power in the Company's Articles to suspend the registration of transfers is inconsistent with this requirement.

Articles that duplicate statutory provisions

Certain other provisions in the current Articles which replicate provisions contained in companies legislation are amended to bring them into line with the 2006 Act.

Directors

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Professor JA Kay FBA, FRSE
FC McBain MA Hons ACA
WG McQueen BSc CA FCIBS

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