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Scottish Mortgage Investment Trust PLC

Your low cost choice for global investment

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Annual Report and Financial Statements 31 March 2011

BAILLIE GIFFORD

Contents

Scottish Mortgage Investment Trust PLC is a low cost investment trust that aims to maximise total return over the long term from a focused and actively managed portfolio. 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 adviser authorised under the Financial Services and Markets Act 2000 if you are in the United Kingdom or, if not, from another appropriately authorised financial adviser.

If you have sold or otherwise transferred all of your ordinary shares in Scottish Mortgage Investment Trust PLC, please forward this document, together with any accompanying documents, 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

Scottish Mortgage has had a good year in absolute and relative terms performing well ahead of the benchmark index; our discount has narrowed and the five year figures, which are important, are also strong. A 6.2% increase in the total dividend is proposed making it the 29th successive increase greater than the prevailing rate of UK inflation.

While not every year will be as impressive as this one, it is pleasing to report that Scottish Mortgage was the top performing trust in the Global Growth Sector over five years in NAV terms as shown by the Association of Investment Companies' rankings.

Performance is, and will be, driven by the success of the choice of individual companies as investments.

Meanwhile, expenses have again been controlled and represent a highly competitive 0.51% of shareholders' funds.

Financial Highlights – Year to 31 March 2011

Share Price +21.8%

NAV +17.9%

Benchmark* +5.7%

Share Price (pence)

NAV and Benchmark
(rebased to 100 at 31 March 2010)

Discount

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

One Year Summary

	31 March 2011	31 March 2010	% change
Total assets (before deduction of debentures, long and short term borrowings)	£2,502.3m	£2,154.6m	
Loans and debentures	£370.0m	£314.7m	
Shareholders' funds	£2,132.3m	£1,839.9m	
Net asset value per ordinary share (after deducting borrowings at fair value)*	816.5p	692.8p	17.9
Share price	742.0p	609.0p	21.8
FTSE All World Index (in sterling terms)	209.4	198.1	5.7
Dividends paid and proposed per ordinary share	12.00p	11.30p	6.2
Revenue earnings per ordinary share	13.32p	11.18p	19.1
Total expense ratio	0.51%	0.52%	
Discount (after deducting borrowings at fair value)	9.1%	12.1%	

Year to 31 March	2011	2011	2010	2010
Year's high and low	High	Low	High	Low
Share price	742.5p	533.0p	611.0p	350.0p
Net asset value per ordinary share (after deducting borrowings at fair value)†	816.5p	604.1p	702.0p	383.8p
(Discount)/premium (after deducting borrowings at fair value)†	(6.5%)	(15.0%)	(8.0%)	(15.7%)
Average sector discount (AIC Global Growth Sector)	(10.3%)	(13.0%)	(7.2%)	(13.0%)

	31 March 2011	31 March 2010
Net return per ordinary share		
Revenue return	13.32p	11.18p
Capital return	119.40p	306.88p
Total return	**132.72p**	**318.06p**

* Borrowings are deducted at fair value (the estimate of market worth).

† Cum-income.

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 2011.

5 Year Total Return Performance
(figures rebased to 100 at 31 March 2006)

Dividend and RPI Growth
(cumulative from 31 March 2006)
(figures rebased to 100 at 31 March 2006)

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

Investment Performance

The past year has again been a good one for Scottish Mortgage: net asset value (NAV) per share rose by 18% and the share price by 22%, both well ahead of the 6% increase in our benchmark (the FTSE All World Index in sterling terms). Closing at 742 pence, the share price set a new record for the year end. Despite the reverses seen in the wake of the 2008 Lehman-precipitated financial crisis our five year figures, too, are excellent. These in many ways are more important to shareholders and at 31 March 2011 the five year total return (capital and dividends) was 58% in share price terms (53% in NAV) while the benchmark total return was 35%. While shareholders should remember that not every year will be as good as the period just ended, it is pleasing to report that Scottish Mortgage was the top performing trust in the Global Growth Sector over five years in NAV terms as shown by the Association of Investment Companies' rankings at 31 March 2011.

Investment Philosophy

The Managers' investment philosophy has not changed and remains one to which the Directors fully subscribe. Companies are analysed by the Managers using a process which includes appraisal of: the strength of management, competitive position, the customer perspective, the prospects for sales and margins and the current and potential valuation. Also of particular importance to the Managers' view is establishing how their assessment differs from the market and trying to answer the question "what will happen after five years?". The approach and perspective is neither short term nor market led. Instead considerable effort is made to identify major changes in trends that might take place within intervals of decades rather than individual years. The Managers' Review that follows gives an original view of the investment perspective and provides insight into Baillie Gifford's modus operandi and investment process, both of which are central to what this Trust offers its owners.

The Managers also fully support the Board's desire to maintain Scottish Mortgage's low cost advantage. At 0.51%, the total expense ratio is amongst the lowest of similar international funds. Low costs significantly boost cumulative long term returns.

As pointed out in previous years, Scottish Mortgage does not attempt to track any index and as we have seen its performance is therefore likely to diverge from the benchmark we have adopted as most suitable for a global growth fund. There will be some years when relative returns are negative as well as years when returns are positive but when the index does better than the Company. That is the characteristic of Scottish Mortgage's investment proposition and, in the Directors' view, the shares are an investment for those who can tolerate this volatility and who consequently are likely to be long term holders.

World View

The past twelve months have been marked by continued recovery in equity markets as, notwithstanding earthquakes, well explosions and revolutions, confidence has largely been maintained. Companies generally have performed well, the financial system has been relatively stable as banks strengthen their balance sheets and, in the public sector in some countries (notably the UK), attention has turned to cutting government expenditure and debt. Interest rates in the US and Europe have stayed low, many economies have been subject to continued stimulus through quantitative easing and other measures while inflation, though present, has not generally proved problematic.

The strength of the German economy has been particularly impressive while those who feared a double dip recession in the US and other parts of the developed world have been spared such disappointment. Peripheral parts of Europe have struggled considerably and are likely to require support from the centre for some time yet. However bleak the current financial outlook for several troubled Eurozone states, for now the indications from (particularly) Germany are that the bail-outs required by Greece, Ireland and Portugal are a price that has to be paid to defend the integrity of the Euro and to protect the balance sheets of those banks whose lending to other Eurozone countries has perhaps verged on the imprudent.

Past performance is not a guide to future performance.

That great engine of growth, the Chinese economy, has been restrained somewhat by central policy tightening, a welcome necessity given earlier fears of overheating. Nonetheless, in 2010 Chinese growth was still a remarkable 10.3% and the year will be remembered as the one when China overtook Japan to become the world's second largest economy. Many developing nations continue to enjoy good growth rates and have increasingly stable financial, social and political systems as well as a rapidly expanding class of consumers.

Gearing

We continue to believe in the use of gearing as a tool to enhance shareholder returns, particularly when we are able to access borrowings at low cost, assisted by the Company's Aaa long term credit rating. Throughout the period Scottish Mortgage's gearing ratios have been maintained at a broadly constant level. As asset prices rose, this entailed additional borrowings and a further €61million was taken out during the year. At the year end gross assets totalled £2,500 million and borrowings of £370 million represented 15% of that total. If the value of our cash deposits and bond portfolio is taken into account, net gearing was approximately 10%.

Earnings and Dividend

Earnings at 13.3p per share were buoyant, increasing 19% on the previous year and a final dividend of 6.2p (2010 – 5.8p) is proposed. This will give a total for the year of 12p, a 6.2% increase on last year's 11.3p and an increase over the past five years of 41%. If approved by shareholders, this provides a doubling of the dividend in ten years and will represent for the 29th successive year a dividend increase greater than the prevailing rate of UK inflation.

Discount and Buybacks

The discount has narrowed during the year; while the Board finds this gratifying, we often wonder, given the remarkable changes which this Company has seen in the past decade and the performance record achieved, why our shares trade at a discount at all. The Managers continue to focus their marketing efforts on maintaining a good flow of relevant information to existing shareholders and potential shareholders. Attracting new generations of long term owners is important for our future and Scottish Mortgage continues to invest in this project.

As in previous years, when supply exceeded immediate demand shares were bought back. Over the year 3 million shares were re-purchased (considerably fewer than the 12.6 million re-purchased in the preceding year) and were transferred into treasury, thus enhancing NAV per share by 1.1p.

AGM

The Annual General Meeting will be held in Edinburgh at Baillie Gifford's offices at 4.30pm on 30th June (there is a map contained within the Notice of the Meeting towards the end of the Report).

One resolution to be put to the Meeting is a request to increase the limit on Directors' fees. Although the current level remains within the allowed ceiling authorised by the Company's Articles, the Resolution seeks to replace specific limits with an aggregate limit for all Directors which will provide flexibility in future years.

At the Meeting, James Anderson, your Manager, and his Deputy, Tom Slater, will make short presentations on the investments. The Directors very much hope that we will meet you then.

Outlook

We are living in times of extraordinary economic change and any coherent investment strategy needs to take account of the growing importance of China and the rapid economic development of countries such as Brazil and India; and at the same time the relative stagnation of so many economies in what used to be called the developed world. In the past 20 years, the Chinese economy has grown over sixfold far outstripping the US and Japan.

The Managers remain enthusiastic about the long term outlook and currently find an abundance of interesting long term investment propositions. Two familiar and important contentions suggest that this is a good time to take a long term view of markets. First, many countries are growing rapidly and developing a large, mainly urban and consumption driven, middle class. Secondly, we appear to be in a phase of accelerating technological discovery, the impact of which is likely to be felt beyond the traditionally defined technology sector including, amongst others, in the fields of healthcare, biotech, robotics, artificial intelligence, agriculture and alternative energy. These themes are developed in the Managers' Review that follows.

Concurrent with these economic changes, the interested investor has a dazzling array of schemes and opportunities to have money managed in ever more exotic, ostensibly scientific – and often expensive – manners. Yet it is far from clear that any of these approaches has, on a reasonably consistent basis, outperformed the entirely straight forward approach that Scottish Mortgage pursues. Indeed, once high and often multiple levels of management fees are taken into account in these more complex approaches, it is rarely the investor who comes out in front.

So, this is a good moment to reflect on what Scottish Mortgage is seeking to offer its shareholders: 99% of our equity exposure is achieved by holding the shares of companies individually selected by our Managers, as distinct from investing in other funds or derivatives. Our aim is to provide a long term transparent, low cost and tradeable investment vehicle which captures exposure to a diversified portfolio of companies around the world, capable of delivering returns that exceed both inflation and the market average. By any measure, our Managers have succeeded in recent years and I know that shareholders will join me in congratulating them on their continuing success.

JOHN SCOTT
Chairman
12 May 2011

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 Financial Mutuals.

WG McQueen

Gordon McQueen, the Chairman of the Audit Committee, brings to the Board first class financial and banking expertise, as 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 £74 billion at 31 March 2011. Based in Edinburgh, it is one of the leading privately owned investment management firms in the UK, with 35 partners and a staff of over 670.

The Manager of Scottish Mortgage's portfolio is James Anderson, a partner of Baillie Gifford, Head of Global Growth and a former Chief Investment Officer. 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 global economy has seldom been stronger. The pace of economic change has never been greater. We suspect that this will only accelerate over the next decade. This has profound implications for investors. Preoccupation with unpredictable short term oscillations in economies and markets has opened up a deep gulf between the crucial determinants of economic progress and speculative behaviour. It seems most unlikely that the future of the global economy and of intelligent stock selection lies in an ability to pontificate about Greek, Irish and Portuguese debt. One of the virtues of a global investment trust with access to long term capital ought to be its ability to transcend such fashions.

What happened in the year under review?

Once again the inexorable development of China is our starting-point. It seems to us that the transition from a low-cost exporting behemoth to a consumer of first resort and a crucible for innovative corporate models was the key story of last year. Whilst we suggested last year that this might eventually happen we are surprised by just how fast the change appears to be occurring. In the course of 2010 China became the home of the world's fastest computer, the world's fastest train and the world's largest genome sequencing institute. Most importantly of all the startling results obtained by the Shanghai region in the OECD backed PISA educational survey revealed just how quickly China is upgrading its human capital. This demands that our mental models of the Chinese economy need constant revision. This is directly relevant for our portfolio. After a year of extraordinary share price performance our largest holding is now the Chinese internet search company Baidu. It and our sixth largest equity position in Tencent are representative of the dynamism, scale and national characteristics of the Chinese internet. Such companies are offering challenges to the US business models that have been so dominant in the innovation of the last century.

Whilst the continuing ascent of the Chinese economy has been the dominant feature of the last year the greatest surprise has been the extraordinary revival of the German economy. This has received remarkably little attention amidst the travails of far smaller and far less sophisticated economies. For years it has been popular to belittle the virtues of the sober German approach in contrast to the glitz, leverage and inequalities so beloved of Anglo-American finance capitalism. We do not think this is merely a moment of simple cyclical optimism. Fortified by a recent visit to Berlin we consider it likely that Germany can enjoy growth rates above 3% for several years to come as the recovery broadens into increased capital expenditure and even consumption. We think that German industry has patiently priced itself back into international competitiveness, re-oriented its trade towards rising nations and established enviable brand leadership in key sectors. Meanwhile governments of both left and right have maintained national fiscal order whilst the populace has resisted the lure of property inflation. That many German banks have failed to operate with similar sense is a persistent failure but one that is unlikely to undermine overall prosperity. It seems to us that much of this follows the model of the revival of Scandinavian economies in the last 10 years after tough struggles against debt and competitiveness problems. These economies are now thriving. This too appears sustainable. As yet we have been more successful in identifying individual corporate successes in Sweden (Atlas Copco once again) and Denmark (Novozymes) than in Germany itself.

The decade ahead

Thus far we have described the world in traditional national terms. Whilst the current prospects of China and Germany justify this approach we suspect that the next decade will require a gradual retreat from such convenient labels. Scottish Mortgage has spent much of the last decade shifting from an indulgent home-market bias. As late as 2005 our four largest holdings were all UK listed companies (none of which we now own nor regret selling).
We have succeeded in moving to a genuinely global perspective but the comparative simplicities of this beneficial change are now showing signs of fraying. At one level there has always been a potential weakness: the fund management industry has a tendency to link national economic circumstances and corporate performance more tightly than underlying reality permits. Such institutional biases are containable but the future seems likely to hold more serious challenges to our current investment methodology.

1 Baidu
Pre-eminent Chinese internet search company.

2 Atlas Copco
Swedish engineering equipment.

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Dominant cities

Corporate prospects are simultaneously becoming more local and more global. This statement requires explanation. We are finding that an increasing percentage of our investment ideas and holdings are concentrated in a smaller and smaller number of cities (or at most regions). Dramatic corporate success seems to be much more frequently achieved in a limited number of locations combining openness to innovation, educational prowess, social liberalism and access to supportive finance. If we can understand the way this process seems to work and identify the 20–30 cities that are the key exemplars then we stand a better chance of investing successfully. This does not mean that we will ignore other locations but it does require us to comprehend the cultures of these cities rather than seeking refuge in outmoded generalizations such as 'emerging markets.' In specific terms it is why we are in the process of opening a Shanghai research office. It is also why if this experiment proves successful we would be more likely to look to replicate it in San Francisco rather than in a more immediately obvious candidate city like Rio de Janeiro.

The all-important pace of change

Whilst the origins of corporate wealth may well be dominated by a comparatively small number of cities the speed and power of technological change is likely to overwhelm such considerations. If the current rates of exponential change continue (or even accelerate) in fields as diverse as genetics, robotics, data availability, nanotechnology and synthetic biology then the importance of geography may be subsumed in greater challenges. Companies, societies and indeed humanity will be intensely strained by the pace of change. Geographic boundaries may become relatively meaningless. Machines are not concerned by geography. It will almost certainly be another blow to believers in conventional risk metrics. It will eventually defy belief that largeness and safety were once closely equated. Tragically BP and Tokyo Electric Power should have given pause for thought amongst proponents of this notion in 2010–11 but there is little sign of such open-mindedness.

Our emphasis on the ferocious pace of change may well appear abstruse and abstract but we are already finding that the most critical characteristic to search for in our investment process is a management mentality and business model flexibility that can thrive amidst rapidly changing conditions. From Jeff Bezos and his conscious policy of intense low cost experimentation to exploit technological improvements at Amazon to the re-thinking of sourcing policies that has so aided the dramatic international expansion of Inditex (Zara) we think that such attitudes are the key to building competitive advantage over the years ahead. Relying on leadership inertia will fail.

Cloud computing

The combination of managerial excellence with accelerating technological progress has taken us in some new directions in recent months. We have come to the view that cloud computing now has the ability both to cut costs and improve service levels across the corporate and government sectors as expanded upon in the Trip Note that follows this Review. This development is very likely to be at the cost of traditional hardware and software giants but presents very substantial opportunities for new entrants. We have gradually been building a holding in salesforce.com. It seems to us to be the single company with the breadth of product and ambition that might make it the dominant company in the industry over the next decade. We think that the market preoccupation with a high immediate multiple of earnings is very myopic. We also admire the efforts of Rackspace to make itself the highest service option within cloud outsourcing. It has done this principally by thoughtful motivation of employees including by share options that are spread much more broadly than is commonly the case.

New directions in healthcare

A year ago we argued that healthcare was ripe for sweeping change. We also expressed frustration that we had made limited progress in identifying companies that could lead this transformation. We continue to view the historic pharmaceutical and medical supply companies as likely to be casualties rather than beneficiaries of this development. With healthcare providers finally proving less generous, with research budgets ever more squeezed to maintain earnings and with many of the supposed clinical advances of the last decade looking increasingly questionable we think problems abound. Internally these companies are victims of their own immense bureaucracies. We own none of them.

1 Intuitive Surgical
Surgeon console used for robotic surgery.

1

2 Illumina
A global leader in gene sequencing systems.

2

To our relief we are now starting to find attractions in a different group of healthcare companies. We have continued to add to our holding in Intuitive Surgical (the robot surgery leader). It may make the human surgeons seem quaint and redundant as the years go by. We have recently started buying Illumina which is the dominant supplier of tools for the genomics industry. This is a field where progress in science and price is so rapid that we think it is mistaken to worry that thus far it has not delivered significant clinical benefits. Again these are both companies that are convinced of the need for continuing innovation and prepared to spend boldly in pursuit of continued leadership.

Conclusion

As should have become apparent we are increasingly disillusioned by the dominant preoccupations and methodologies of the financial services industry. We do not believe that following the endless twists and turns of macroeconomic gyrations, quarterly earnings or market sentiment offers good odds of success. This is speculation not investment. It surprises us how little the chaos of recent years has deterred others from such highly competitive pursuits. We are delighted if others think that they can play these games more successfully than history suggests. Instead we base our investment inclinations on the comparatively predictable forces of technological change and the re-emergence of great civilizations. Since we believe still more strongly in the increasing power of these twin forces than last year we once again suggest that the probability is that if the Managers prove reasonably competent then the long term prospects should be bright.

JAMES ANDERSON
Manager of Scottish Mortgage
12 May 2011

California/Arizona Trip Note

The most complex order management system that exists today, operating a vast supply chain and distribution infrastructure, can be used with great ease. If you have ever shopped on Amazon.com then you have already done it. Interacting with computer software through a web browser is a model that has application well beyond retailing consumer goods and is paving the way for a sea change in the IT world. The longstanding idea of delivering IT services remotely (known as Cloud Computing) is finally turning in to reality and in the process is creating some exciting investment opportunities.

With these changes in mind I went to Arizona and California to develop our thinking as to who the beneficiaries could be. The trip also provided an opportunity to meet a number of people from other holdings on the west coast of the United States, a part of the world that boasts some of the most innovative companies we can invest in.

Salesforce.com is based in downtown San Francisco with offices looking out onto the Bay Bridge and cable car station. It was founded in 1999 by its larger-than-life CEO Marc Benioff, a serial entrepreneur, author and philanthropist. Benioff set out to attack the behemoths of the enterprise software market such as SAP, Microsoft and his former employer, Oracle. His approach has been to use the Internet to deliver a service, as opposed to the traditional approach of selling software and an expensive implementation package. The benefit for consumers is that they can dramatically reduce their computer hardware requirements and the associated in-house management expertise. Eleven years later, salesforce.com's model has attracted 83,000 customers. The computer power required to support this customer base is around 3% of what would be required using a traditional hardware/software approach. We cannot predict how much enterprise technology spending could one day find its way onto salesforce.com's platform but recent developments have seen the company expanding well beyond its original sales management remit and the opportunity exists to become many times larger than it is today.

1 salesforce.com
Pioneer in developing cloud computing.

2 Inditex
Zara's, via del Corso, Rome flagship store.

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Whilst the cost savings from this technology change represent a major opportunity to increase efficiency in the corporate sector, it is the potential for unleashing creativity on a much wider scale that seems most exciting. When a company interacts with its customers through the Internet and the supporting IT infrastructure can be outsourced, small businesses with a good idea can achieve astonishing scale in a very short time. I met a number of young businesses which are not yet listed but may, in the future, make it into Scottish Mortgage's portfolio. Their achievements are quite different from what we have seen before. Take Groupon, which is a local advertising and group shopping business. It had four hundred subscribers in November 2008. It now has over 65 million. This growth would not have been possible without the rapid spread of an idea through the Internet combined with the ability to outsource all the infrastructure required to support such a huge subscriber base to another company (in this case, Amazon.com's web services operation).

One striking aspect of the move to cloud computing is the way users are taking matters into their own hands. It is no longer necessary to commission a colleague in the IT department to buy in hardware and software and configure it before one can start experimenting. Instead, users with limited technological knowledge can immediately deploy powerful software. The subscription nature of these services means limited upfront spending and the cost of experimentation is vastly reduced. This should provide a boost to productivity and it also prompts us to change our mental model of how competition in technology works. We had previously believed that high switching costs for customers would mean incumbent IT providers had an enduring competitive advantage. This now seems much less clear and was, in part, behind the decision to sell our holdings in SAP and Cisco.

We think that in cloud computing, as in many areas, we can learn from watching the actions of those corporate leaders whose opinions we respect. It came as no surprise that Jeff Bezos, CEO of Amazon, was one of the first to identify this idea and the opportunities it presented. To understand how Amazon's web services business works, it is necessary to step back and think about the infrastructure underlying the cloud computing model. Businesses shut down their computer servers and run their applications on pooled equipment in remote locations. Nicholas Carr in his book "The Big Switch" draws out the many parallels with the period one hundred years ago when companies stopped producing their own power and plugged into the newly built electric grid. The economies of scale and efficiency that this process produced have direct relevance to the changes in computing we are seeing today. The centralised power plants of the electric grid have an equivalent in the vast data centres that are required to supply the computing power for cloud-based applications. Amazon has already developed the software and services to run such facilities based on more than a decade of work for its own website. It is able to deliver performance, reliability and security on a very large scale which is what cloud-based infrastructure requires. We are seeing a trend for young businesses with no legacy IT systems, such as games producer Zynga and movie distributor Netflix, choosing to use Amazon's services rather than investing time and energy in building their own IT departments.

The other big player in the provision of cloud infrastructure is also held within Scottish Mortgage's portfolio. Rackspace has taken a different approach from Amazon. Where Amazon provides the nuts and bolts for a customer to build their own system, Rackspace has focused on providing a high level of service. Some companies will embrace this new model and be comfortable using online tools to build their services, but others will find it more challenging and require assistance. It is this second group of business which Rackspace is targeting. Excellent customer service has been something of a rarity in the IT business: even Apple's inspirational leader, Steve Jobs, suggested we were holding our telephones wrongly, rather than admitting there were problems with his product. If Rackspace is able to deliver consistently in this area then its addressable market should be substantial.

1 First Solar
Ground mounted solar panels at Toledo Zoo, Ohio.

2 Novozymes
Novozymes' enzyme production in Kalundborg, Denmark. Bioreactors transform waste streams into fertiliser which is then used by nearby farms.

1

2

Whilst the principal focus of the trip was on cloud computing, this was also an opportunity to follow up on outstanding questions at some of our other holdings. Google's headquarters (also known as the Googleplex) is a leafy 60 acre complex in Mountain View looking out over San Francisco bay. The quirky campus with its free bicycles, solar panels and life size replica of SpaceShipOne houses one of the most innovative engineering businesses we have seen in recent years. We think Google's growth potential remains significant as the migration of advertising dollars towards online formats continues and there remains a large gap between consumption of online media and the associated advertising spend. Its culture seems very unusual in the corporate world in that it is prepared to experiment with new technologies and businesses without fear of failure, even when that failure is very public. Amongst the company's experiments has been the development of an operating system for mobile phones and this has turned out to be prescient. Google's market share in smartphones has surged from a negligible level two years ago to around 1/3rd of the US market today. As the Internet moves increasingly away from desktop computers to mobile devices, Google looks very well placed to build a new and complementary stream of profits.

The application of technology-driven productivity gains to industries that have historically seen a slower pace of evolution is throwing up some very interesting opportunities. One such area is renewable energy. We have found it challenging to identify renewable energy businesses that posses sustainable competitive advantages but think one such is First Solar. As befits a solar panel manufacturer, First Solar is located in the Sonoran Desert, Arizona. Since 2004, the company has reduced the cost of solar energy generation by over 20% per annum. The compounding effect of this is powerful, with a cumulative cost reduction over that period of 75%. With this kind of progress, you do not have to look very far into the future to see an end to subsidies for this technology and, with it, a tipping point in usage. The solar industry is also achieving far greater acceptance with mainstream utilities, as illustrated by the imminent construction project at Gila Bend, Arizona. This will be the largest solar plant to date with an output of 280MW, enough to power 77,000 homes. However, this may well be dwarfed by First Solar's planned installation in Ordos, China, with a memorandum of understanding signed for a 2GW plant, equivalent in output to a large coal or nuclear generation facility.

We think the shift to cloud computing will become one of the more important trends in technology over the coming years. This should create significant opportunities for a number of companies, many of which are located in the San Francisco bay area. Innovation continues to increase the addressable market for many technology businesses and we think this is a fertile area for identifying attractive growing businesses.

TOM SLATER
Deputy Manager of Scottish Mortgage
12 May 2011

Thirty Largest Equity Holdings and Equity Performance at 31 March 2011

Name	Business	Fair value 31 March 2011 £'000	% of total assets	Absolute * performance %	Relative * performance %	Contribution to absolute performance %	Fair value 31 March 2010 £'000
Baidu	Online search engine	172,596	6.9	118.2	101.4	5.3	77,278
Amazon.com	Online retailer	167,061	6.7	25.5	15.8	2.1	120,009
PPR	Luxury goods producer and retailer	104,138	4.2	11.7	3.1	0.5	47,517
Atlas Copco	Engineering	101,279	4.0	65.3	52.5	2.6	83,831
Banco Santander	Banking	84,357	3.4	(12.1)	(18.9)	(0.4)	84,691
Tencent Holdings	Internet service portal	83,026	3.3	14.7	5.8	0.5	30,900
Deere	Farm machinery	72,557	2.9	56.4	44.3	1.5	47,030
First Solar	Solar energy technology	63,624	2.5	24.0	14.4	0.5	30,640
Vale (CVRD)	Iron ore and nickel mining	58,576	2.4	2.7	(5.3)	0.1	58,268
Google	Online search engine	49,369	2.0	(2.2)	(9.8)	(0.2)	47,770
Schlumberger	Oil services	40,716	1.6	40.9	30.0	0.6	29,280
Telekomunikacja Polska	Fixed and mobile telecoms	39,726	1.6	13.7	4.9	0.5	26,050
Intuitive Surgical	Medical equipment	38,235	1.5	(8.5)	(15.6)	(0.2)	13,744
New Oriental Education & Technology	Education and training	37,832	1.5	10.7	2.2	0.2	34,118
Berkshire Hathaway	Insurance	36,542	1.5	(2.6)	(10.2)	–	37,503
Garanti Bankasi	Banking	35,449	1.4	(4.1)	(11.5)	–	24,781
Meggitt	Aerospace equipment and systems	34,450	1.4	15.4	6.5	0.3	30,731
Nintendo	Games consoles and software	34,334	1.4	(21.6)	(27.7)	(1.2)	71,659
Progressive Insurance	Property and casualty insurance	33,629	1.3	10.7	2.1	0.2	37,106
Walgreen	Pharmacy chain	32,561	1.3	4.3	(3.8)	(0.1)	43,022
ABB	Electronic and electrical equipment	32,095	1.3	7.0	(1.3)	0.1	30,747
Novozymes	Enzyme manufacturer	32,088	1.3	32.0	21.8	0.5	24,441
Brown-Forman	Wine and spirits producer	31,988	1.3	11.9	3.3	0.2	29,384
Intertek Group	Business support providers	29,751	1.2	41.9	31.0	0.6	21,336
Whole Foods Market	General retailer	28,929	1.1	72.8	59.4	0.6	16,773
Australia and New Zealand Banking Group	Banking	27,922	1.1	5.4	(2.7)	0.1	27,916
British American Tobacco	Tobacco	27,200	1.1	15.5	6.6	0.3	24,694
KGHM	Copper mining	26,560	1.1	65.1	52.3	0.4	34,170
Petrobras	Oil producer	25,660	1.0	(11.9)	(18.7)	(1.1)	108,260
Omnicom	Advertising agency	25,614	1.0	21.6	12.2	0.2	21,398
		1,607,864	**64.3**				**1,315,047**

* Absolute and relative performance has been calculated on a total return basis over the period 1 April 2010 to 31 March 2011. Absolute performance is in sterling terms; relative performance is against the benchmark: FTSE All World Index (in sterling terms).

Source: Baillie Gifford & Co/StatPro.

Past performance is not a guide to future performance.

Investment Changes

	Valuation at 31 March 2010 £'000	Net acquisitions/ (disposals) £'000	Appreciation/ (depreciation) £'000	Valuation at 31 March 2011 £'000
Equities*:				
North America	608,120	106,336	125,004	839,460
South America	187,399	(63,449)	(21,870)	102,080
Europe				
United Kingdom	239,299	(31,334)	31,553	239,518
Eurozone	185,991	90,899	(1,220)	275,670
Developed Europe (non euro)	209,078	(67,705)	52,592	193,965
Rest of Europe	131,787	7,876	12,881	152,544
Africa and the Middle East	11,854	–	(798)	11,056
Asia				
China	191,899	35,300	112,887	340,086
India	33,621	416	(1,139)	32,898
Japan	83,436	(25,077)	(18,113)	40,246
Rest of Asia	99,595	(24,080)	15,113	90,628
Australasia	27,916	-	6	27,922
Total equities	**2,009,995**	**29,182**	**306,896**	**2,346,073**
Sterling bonds	15,331	3,406	1,721	20,458
Euro bonds	3,327	(2,019)	1,105	2,413
Brazilian bonds	101,836	-	15,471	117,307
Total bonds	**120,494**	**1,387**	**18,297**	**140,178**
Total investments	2,130,489	30,569	325,193	2,486,251
Net liquid assets	24,096	(9,168)	1,099	16,027
Total assets	**2,154,585**	**21,401**	**326,292**	**2,502,278**

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 2011 (2010)

Sectoral 2011 (2010)

Classification of Investments

Classification Equities*:	North America %	South America %	Europe %	Africa and Middle East %	Asia %	Australasia %	2011 Total %	2010 Total %
Oil and Gas	1.6	1.0	0.6	–	–	–	3.2	7.5
Oil and gas producers	–	1.0	0.6	–	–	–	1.6	6.2
Oil equipment, services and distribution	1.6	–	–	–	–	–	1.6	1.3
Basic Materials	0.8	2.4	1.7	–	–	–	4.9	5.8
Chemicals	0.8	–	0.6	–	–	–	1.4	1.5
Mining	–	2.4	1.1	–	–	–	3.5	4.3
Industrials	5.7	0.7	12.6	–	1.5	–	20.5	20.4
Aerospace and defence	–	–	2.4	–	–	–	2.4	2.5
General industrials	1.0	–	–	–	–	–	1.0	1.4
Electronic and electrical equipment	1.8	–	1.5	–	–	–	3.3	1.6
Industrial engineering	2.9	–	6.8	–	–	–	9.7	9.5
Support services	–	0.7	1.9	–	1.5	–	4.1	5.4
Consumer Goods	1.3	–	2.0	–	2.5	–	5.8	9.5
Automobiles and parts	–	–	0.9	–	1.1	–	2.0	2.5
Beverages	1.3	–	–	–	–	–	1.3	1.4
Leisure goods	–	–	–	–	1.4	–	1.4	3.3
Personal goods	–	–	–	–	–	–	–	1.2
Tobacco	–	–	1.1	–	–	–	1.1	1.1
Health Care	1.7	–	1.5	–	–	–	3.2	2.0
Health care equipment and services	1.5	–	–	–	–	–	1.5	0.6
Pharmaceuticals and biotechnology	0.2	–	1.5	–	–	–	1.7	1.4
Consumer Services	12.1	–	6.0	–	1.2	–	19.3	14.2
Food and drug retailers	2.5	–	0.5	–	–	–	3.0	3.1
General retailers	8.6	–	5.5	–	0.6	–	14.7	9.7
Media	1.0	–	–	–	–	–	1.0	1.0
Travel and leisure	–	–	–	–	0.6	–	0.6	0.4
Telecommunications	–	–	2.2	–	–	–	2.2	2.4
Mobile telecommunications	–	–	2.2	–	–	–	2.2	2.4
Financials	2.8	–	6.9	0.4	2.6	1.1	13.8	16.6
Banks	–	–	5.8	0.4	0.5	1.1	7.8	9.9
Nonlife insurance	2.8	–	–	–	–	–	2.8	3.4
Real estate	–	–	–	–	–	–	–	0.5
Financial services	–	–	0.6	–	2.1	–	2.7	2.1
Open ended investment companies	–	–	0.5	–	–	–	0.5	0.7
Technology	7.6	–	1.0	–	12.3	–	20.9	14.9
Software and computer services	3.0	–	0.7	–	11.6	–	15.3	10.0
Technology hardware and equipment	4.6	–	0.3	–	0.7	–	5.6	4.9
Total Equities*	**33.6**	**4.1**	**34.5**	**0.4**	**20.1**	**1.1**	**93.8**	
Total Equities* – 2010	28.2	8.7	35.6	0.5	19.0	1.3		**93.3**
Bonds	–	4.7	0.9	–	–	–	5.6	5.6
Net Liquid Assets	0.6	0.1	(0.2)	–	0.1	–	0.6	1.1
Total Assets (before deduction of debentures, long and short term borrowings)	**34.2**	**8.9**	**35.2**	**0.4**	**20.2**	**1.1**	**100.0**	
Total Assets – 2010	28.2	13.5	37.4	0.5	19.1	1.3		**100.0**
Debentures, Long and Short Term Borrowings	(4.5)	–	(10.3)	–	–	–	(14.8)	(14.6)
Shareholders' Funds	**29.7**	**8.9**	**24.9**	**0.4**	**20.2**	**1.1**	**85.2**	
Shareholders' Funds – 2010	25.2	13.5	28.6	0.5	16.3	1.3		**85.4**
Number of equity investments*	**27**	**3**	**34**	**1**	**17**	**1**	**83**	**73**

*Including OEICs.

List of Investments as at 31 March 2011

Classification	Name	Business	Fair value £'000	% of total assets
North America				
Oil equipment, services and distribution	Schlumberger	Oil services	40,716	1.6
Chemicals	Monsanto	Seed and agricultural chemicals	20,727	0.8
General industrials	Rockwell Automation	Industrial automation providers	25,097	1.0
Electronic and electrical equipment	Danaher	Electronic and electrical equipment	21,999	
	Flir Systems	Infrared sensors	21,932	
			43,931	1.8
Industrial engineering	Deere	Farm machinery	72,557	2.9
Beverages	Brown-Forman	Wine and spirits producer	31,988	1.3
Health care equipment and services	Intuitive Surgical	Medical equipment	38,235	1.5
Pharmaceuticals and biotechnology	Illumina	Biotechnology equipment	5,170	0.2
Food and drug retailers	Walgreen	Pharmacy chain	32,561	
	Whole Foods Market	General retailer	28,929	
			61,490	2.5
General retailers	Amazon.com	Online retailer	167,061	
	eBay	Internet trading company	5,193	
	Home Depot	Home improvement retailer	25,431	
	Opentable	Electronic restaurant reservations	17,250	
			214,935	8.6
Media	Omnicom	Advertising agency	25,614	1.0
Nonlife insurance	Berkshire Hathaway	Insurance	36,542	
	Progressive Insurance	Property and casualty insurance	33,629	
			70,171	2.8
Financial services	WI Harper Fund*	Venture capital	1,248	–
Software and computer services	Google	Online search engine	49,369	
	Rackspace Hosting	Cloud computing and hosting	11,850	
	salesforce.com	Software	12,405	
			73,624	3.0
Technology hardware and equipment	Apple	Computer technology	22,585	
	F5 Networks	Networking equipment	4,152	
	First Solar	Solar energy technology	63,624	
	Linear Tech	Integrated circuits	18,876	
	Riverbed Technology	Telecommunications equipment	4,720	
			113,957	4.6
Total North American Equities			**839,460**	**33.6**
South America				
Oil and gas producers	Petrobras	Oil producer	25,660	1.0
Mining	Vale (CVRD)	Iron ore and nickel mining	58,576	2.4
Support services	America Latina Logistica	Railway operator	17,844	0.7
Total South American Equities			**102,080**	**4.1**
Europe				
Oil and gas producers	Gazprom	Gas production and distribution – Russia	15,825	0.6
Chemicals	BASF	Chemicals – Germany	15,265	0.6
Mining	KGHM	Copper mining – Poland	26,560	1.1
Aerospace and defence	Meggitt	Aerospace equipment and systems – UK	34,450	
	Rolls Royce Group	Aerospace equipment provider – UK	24,760	
			59,210	2.4

*Denotes unlisted security.

Classification	Name	Business	Fair value £'000	% of total assets
Europe (continued)				
Electronic and electrical equipment	ABB	Electronic and electrical equipment – Switzerland	32,095	
	Q-cells	Solar energy production – Germany	4,959	
			37,054	1.5
Industrial engineering	Aggreko	Power equipment retail – UK	18,014	
	Atlas Copco	Engineering – Sweden	101,279	
	Renishaw	Electronic equipment – UK	21,865	
	Sandvik	Engineering – Sweden	17,791	
	Vestas Windsystems	Wind power – Denmark	10,712	
			169,661	6.8
Support services	Intertek Group	Business support providers – UK	29,751	
	Serco Group	Government outsourcing – UK	17,996	
			47,747	1.9
Automobiles and parts	Porsche	Automobiles – Germany	23,452	0.9
Tobacco	British American Tobacco	Tobacco – UK	27,200	1.1
Pharmaceuticals and biotechnology	Novozymes	Enzyme manufacturer – Denmark	32,088	
	Teva Pharmaceuticals	Generic pharmaceuticals – Israel	4,878	
			36,966	1.5
Food and drug retailers	Jeronimo Martins	Retailer – Portugal	11,588	0.5
General retailers	Inchcape	Motor distributor – UK	8,645	
	Inditex	Apparel retailer – Spain	24,320	
	PPR	Luxury goods producer and retailer – France	104,138	
			137,103	5.5
Mobile telecommunications	Telekomunikacja Polska	Fixed and mobile telecoms – Poland	39,726	
	Telfonica O2 Czech Republic	Fixed and mobile telecoms – Czech Republic	15,886	
			55,612	2.2
Banks	Banco Santander	Banking – Spain	84,357	
	Garanti Bankasi	Banking – Turkey	35,449	
	NBNK†	Banking – UK	3,344	
	Standard Chartered	Banking – UK	21,425	
			144,575	5.8
Real estate	Black Sea Property Fund	Bulgarian property trust	250	–
Financial services	Intermediate Capital Group	Mezzanine finance provider – UK	9,319	
	Level E Maya Fund	Artificial intelligence based algorithmic trading – UK	5,429	
			14,748	0.6
Open ended investment companies	Baillie Gifford European Smaller Companies Fund	Small company fund	13,970	0.5
Software and computer services	Autonomy Corp	Enterprise software – UK	17,320	0.7
Technology hardware and equipment	Aixtron	LED manufacturing equipment – Germany	7,591	0.3
Total European Equities			**861,697**	**34.5**
Africa and Middle East				
Banks	Standard Bank Group	Banking	11,056	0.4
Total African and Middle East Equities			**11,056**	**0.4**
Asia				
Support services	New Oriental Education & Technology	Education and training – China	37,832	1.5
Automobiles and parts	Astra International	Automotive conglomerate – Indonesia	13,907	
	Hero Honda Motors	Motorcycle and scooter manufacturer – India	14,208	
			28,115	1.1

†Includes a holding in warrants.

Classification	Name	Business	Fair value £'000	% of total assets
Asia (continued)				
Leisure goods	Nintendo	Games consoles and software – Japan	34,334	1.4
General retailers	Belle International	Footwear – China	9,509	
	Rakuten	Online retailer – Japan	5,912	
			15,421	0.6
Travel and leisure	Ctrip.com	Travel agent – China	15,032	0.6
Banks	China Merchants Bank	Banking – China	12,137	0.5
Financial services	Hong Kong Exchanges and Clearing	Securities exchange owner/operator – Hong Kong	8,876	
	Housing Development Finance Corporation	Mortgage bank – India	18,690	
	Innovation Works Development Fund*	Investment company – China	1,219	
	Singapore Exchange	Securities exchange owner/operator – Singapore	23,922	
			52,707	2.1
Software and computer services	Baidu	Online search engine – China	172,596	
	Taiwan Semiconductor Manufacturing	Semiconductor manufacturer – Taiwan	25,266	
	Tencent Holdings	Internet service portal – China	83,026	
	Vanceinfo Technologies	Computer services – China	8,735	
			289,623	11.6
Technology hardware and equipment	Samsung Electronics	Electronics manufacturer – Korea	18,657	0.7
Total Asian Equities			**503,858**	**20.1**
Australasia				
Banks	Australia and New Zealand Banking Group	Banking	27,922	1.1
Total Australasian Equities			**27,922**	**1.1**
Total Equity Investments			**2,346,073**	**93.8**
Fixed Interest				
Sterling denominated	Business Mortgage Finance FRN 2037		1,464	
	Business Mortgage Finance FRN 2041		640	
	Business Mortgage Finance FRN 2045		1,792	
	Cairngorm Limited Class E FRN 2016		2,214	
	Lloyd's of London 7.421% 2017 Perp		9,761	
	Pantheon International Participations Unsecured Subordinated Loan Note*		4,587	
			20,458	0.8
Euro denominated	Semper Finance FRN 2006-1		1,971	
	Skye CLO Income Notes 2019		442	
			2,413	0.1
Brazilian real denominated	Brazil CPI Linked 2045		117,307	4.7
Total Fixed Interest			**140,178**	**5.6**
Total Investments			**2,486,251**	**99.4**
Net Liquid Assets			**16,027**	**0.6**
Total Assets at Fair Value (before deduction of debentures, long and short term borrowings)			**2,502,278**	**100.0**

*Denotes unlisted security.

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) %
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
2011	**2,502,278**	**369,984**	**2,132,294**	**831.2**	**816.5**	**833.5**	**742.0**	**9.1**	**11.0**

* Net asset value per ordinary share has been calculated after deducting long term borrowings at either par value or fair value (see note 22, 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

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 ¶ p
2001	44,075	25,212	7.57	6.00	0.51
2002	36,377	24,213	7.56	6.25	0.47
2003	33,909	22,597	7.43	6.60	0.49
2004	35,829	23,931	8.05	7.00	0.60
2005	35,456	21,809	7.37	7.35	0.52
2006	41,456	25,738	8.82	8.50	0.52
2007	45,522	27,817	9.80	9.50	0.49
2008	49,575	27,043	9.79	10.30	0.51
2009	57,470	34,571	12.67 ††	12.30 ††	0.54
2010	49,174	30,200	11.18	11.30	0.52
2011	**53,703**	**34,374**	**13.32**	**12.00**	**0.51**

Gearing Ratios

Year to 31 March	Actual gearing §	Potential gearing ^
2001	104	113
2002	109	116
2003	113	125
2004	111	120
2005	110	117
2006	108	113
2007	110	116
2008	118	124
2009	119	129
2010	109	117
2011	**110**	**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 (excluding treasury shares) (see note 7, 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.
^ Total assets (including all debt used for investment purposes) divided by shareholders' funds.
†† Includes a non-recurring 1.5p per share from the reimbursement of previous years' VAT and associated interest thereon.

Cumulative Performance (taking 2001 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
2001	100	100	100	100	100	100	100	100	100
2002	95	97	95	97	98	100	100	104	102
2003	64	66	64	67	62	65	98	110	105
2004	85	92	80	86	81	88	106	117	108
2005	94	101	87	96	88	97	97	123	111
2006	137	149	110	124	138	155	117	142	114
2007	141	156	114	133	144	164	129	158	119
2008	150	170	110	131	159	185	129	172	124
2009	89	102	85	104	94	112	167	205	123
2010	159	188	122	155	162	197	148	188	129
2011	**186**	**224**	**129**	**168**	**197**	**245**	**176**	**200**	**134**
Compound annual returns									
5 year	6.4%	8.5%	3.2%	6.3%	7.3%	9.6%	8.6%	7.1%	3.3%
10 year	6.4%	8.4%	2.6%	5.3%	7.0%	9.4%	5.8%	7.2%	3.0%

^^ Source: Thomson Reuters 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 2011.

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 1158 of the Corporation Tax Act 2010 for the year ended 31 March 2010, 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 such approval.

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 individually 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 formal 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 3,000,000 shares, all of which are held in treasury, increasing net asset value per share by 0.14%. Between 1 April 2011 and the date of this report no further shares have been bought back.

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, five and ten 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 17.9% during the year, compared to an increase in the benchmark of 5.7%; the discount was 9.1% at 31 March 2011.

The Board recommends a final dividend of 6.20p per ordinary share which, together with the interim of 5.80p already paid, makes a total of 12.00p for the year compared with 11.30p for the previous year.

If approved, the recommended final dividend on the ordinary shares will be paid on 4 July 2011 to shareholders on the register at the close of business on 3 June 2011. The ex-dividend date is 1 June 2011.

The Company's Registrars offer a Dividend Reinvestment Plan (see page 50) and the final date for elections for this dividend is 13 June 2011.

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

During the year bank loans of US$99 million and £100 million were renewed and a new two year €61 million facility entered into.

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 22 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 1158 of the Corporation Tax Act 2010, (formerly section 842 ICTA 1988) could lead to the Company being subject to tax on capital gains. The Managers monitor investment movements and the level of forecast income and expenditure to ensure the provisions of section 1158 are not breached. 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.

Major regulatory change could impose unnecessary compliance burdens on the Company or threaten the viability of the investment company structure. In such circumstances representation is made to ensure that the special circumstances of investment trusts are recognised.

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 Manager has a comprehensive business continuity plan which facilitates continued operation of the business in the event of a service disruption or major disaster. 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. If the investments fall in value, any borrowings will magnify the extent of this loss. If borrowing facilities are not renewed, the Company may have to sell investments to repay borrowings.

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

Employees
The Company has no employees.

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 can be found under Corporate Governance and Stewardship on page 24.

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') and the AIC Code of Corporate Governance (the 'AIC Code') were applied throughout the financial year.

Compliance
The Board confirms that the Company has complied throughout the year under review with the relevant provisions 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 AIC Code provides a framework of best practice for investment companies. The Board is of the opinion that the Company has complied with the principles of the AIC Code.

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
The terms and conditions of Directors' appointments are set out in formal letters of appointment. 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.

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 JPHS Scott and Mr WG McQueen, who have served on the Board for more than nine years, offer themselves for re-election annually.

The Directors recognise the value of progressive refreshing of, and succession planning for, company boards and the Board's composition is reviewed annually. However, the Board is of the view that length of service will not necessarily compromise the independence or contribution of directors of an investment trust company, where continuity and experience can be a benefit to the board. The Board concurs with the view expressed in the AIC Code that long-serving Directors should not be prevented from being considered as independent.

Following formal performance evaluation, the Board has concluded that, notwithstanding their length of service, Mr JPHS Scott and Mr WG McQueen continue to demonstrate independence of character and judgement and their 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 below 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.

Directors' Attendance at Meetings

	Board	Audit Committee	Nomination Committee
Number of meetings	**6**	**2**	**2**
JPHS Scott	6	2	2
MM Gray	6	2	2
Professor JA Kay	5	2	2
FC McBain	5	1	2
WG McQueen	6	2	2

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. Prior to the meeting each Director completed an evaluation form which they discussed individually with the Chairman. 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, the overall competency and effectiveness of the Board and its Committees and the continuing professional development undertaken by Directors during the year. 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, 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. No significant weaknesses were identified in the year under review.

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 practical measures in relation to the design, implementation and maintenance of control policies and procedures to safeguard the assets of the Company and to manage its affairs properly, including the maintenance of effective operational and compliance controls and risk management have also been delegated to Baillie Gifford & Co. The Board acknowledges its responsibilities to supervise and control the discharge by the Managers and Secretaries of their obligations.

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 auditor 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 Auditor in connection with the Financial Statements are set out on pages 30 and 31.

Going Concern

In accordance with the Financial Reporting Council's guidance on going concern and liquidity risk, the Directors have undertaken a rigorous review of the Company's ability to continue as a 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 22 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 further year, the £100 million multi-currency loan from ING N.V. was replaced with a one year £100 million multi-currency loan facility from Lloyds TSB Bank plc and a two year €61 million facility was arranged with The Royal Bank of Scotland plc. 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 auditor and approving the remuneration and terms of their engagement;
- developing and implementing policy on the engagement of the external auditor to supply non-audit services;
- reviewing and monitoring the independence, objectivity and effectiveness of the external auditor;
- 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 Auditor. Having considered the experience and tenure of the audit partner and staff and the nature of services provided, the Committee remains satisfied with the Auditor's effectiveness. The audit partners responsible for the audit are rotated every 5 years and the current lead partner has been in place for 5 years. Accordingly, a new lead audit partner has been appointed for next year. There are no contractual obligations restricting the Company's choice of external auditor.

The Committee receives confirmation from the auditor that they have complied with the relevant UK professional and regulatory requirements on independence. Non-audit fees for the year to 31 March 2011 were £620 and related to the certification of financial information for the debenture trustees. The Committee does not believe that this has impaired the Auditor's 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**.

Corporate Governance and Stewardship

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 ('ESG') 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 ESG factors but adopt a positive engagement approach whereby matters are discussed with management with the aim of improving the relevant policies and management systems and enabling the Managers to consider how ESG factors could impact long term investment returns. The Managers' Statement of Compliance with the UK Stewardship Code can be found on the Managers' website at **www.bailligifford.com**. 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. The notice period for terminating the Management Agreement is six months. 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 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' Interests

Name	Nature of interest	Ordinary 25p shares held at 31 March 2011	Ordinary 25p shares held at 31 March 2010
JPHS Scott	Beneficial	37,322	34,398
MM Gray	Beneficial	150,000	150,000
	Non-beneficial	12,500	12,500
Professor JA Kay	Beneficial	5,000	5,000
FC McBain	Beneficial	1,115	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 11 May 2011.

Directors

Mr JPHS Scott and Mr WG McQueen having served for more than nine years offer themselves for re-election annually. Mr MM Gray, having served three years since he was last elected to the Board will be retiring and offering himself for re-election at the Annual General Meeting.

Following formal performance evaluation, the Board considers that the performance of Mr JPHS Scott, Mr WG McQueen and Mr MM Gray 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.

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.

Major Interests in the Company's Shares

Name	No. of ordinary 25p shares held	% of issue *
BlackRock Inc (Indirect)	21,396,981	8.3
D.C. Thomson & Company Limited (Direct)	13,400,000	5.2
Legal & General Group Plc (Direct)	10,847,845	4.2

The above information has been intimated to the Company as at 11 May 2011.

*Ordinary shares in issue excluding treasury shares.

Share Capital

Capital Structure

The Company's capital structure as at 31 March 2011 consists of 284,346,176 ordinary shares of 25p each, of which 256,519,897 are allotted and fully paid and 27,826,279 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 2011 the Company bought back 3,000,000 ordinary shares (nominal value £750,000), on the London Stock Exchange, all of which are held in treasury. The total consideration for these shares was £20,215,000. Between 1 April 2011 and the date of this report no further shares have been bought back. At 31 March 2011 the Company held 27,826,279 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 0.14%. The current authority of the Company to make market purchases of up to 14.99% of the issued ordinary shares (excluding treasury shares) expires at the end of the Annual General Meeting.

Resolution 9, which is being proposed as a special resolution, seeks to renew the Company's authority to make market purchases of its own ordinary shares for cancellation or to be held in treasury. The Company may hold bought back shares in treasury and then:

(a) sell such shares (or any of them) for cash (or its equivalent under the 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 (excluding treasury shares) 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 2012. 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 9, in the Notice of Annual General Meeting.

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

Authority to Allot Shares and Disapply Pre-emption Rights

Resolution 10, which is being proposed as a special resolution, seeks to give the Directors power to sell ordinary shares held in treasury (see above) for cash up to a maximum of £6,412,997 in aggregate (representing 10% of the issued ordinary share capital (excluding treasury shares) of the Company as at 11 May 2011) 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 2012.

The Directors consider that the power proposed to be granted by Resolution 10 is advantageous should the shares trade at a premium to net asset value and natural liquidity is unable to meet demand. The Directors do not intend to use this power to sell shares on a non pre-emptive basis at a discount to net asset value.

At 11 May 2011 the Company held 27,826,279 treasury shares, representing 10.8% 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

Article 108 of the Company's Articles of Association provides that the fees paid to, and benefits in kind received by, the Chairman for his services in such office and the fees paid to, and benefits in kind received by, a Director for his services in such office should not exceed in aggregate £45,000 and in aggregate £30,000 per annum respectively or such higher amounts as the Company may from time to time by ordinary resolution determine. The Chairman's current fee is £36,000 and each Director's fee is currently £24,000 with an additional £3,000 for the Chairman of the Audit Committee. The Board has concluded that following a review of the level of Directors' fees during the year, fees should be increased to £40,000 for the Chairman and £27,000 for each Director with the additional fee of £3,000 for the Chairman of the Audit Committee. It is also proposed that the Articles be amended to replace the maximum amount per annum that the Directors may be paid individually with the provision that in aggregate the maximum level of Directors' fees are not to exceed £300,000 per annum, or such higher amount as the Company may by ordinary resolution determine. Accordingly, Resolution 11, is being proposed in the Notice of Annual General Meeting.

A copy of the proposed new Articles of Association of the Company will be available for inspection at the offices of Dickson Minto W.S., Broadgate Tower, 20 Primrose Street, London EC2A 2EW and at the registered office of the Company, Calton Square, I Greenside Row, Edinburgh EH1 3AN 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.

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 2011 or 2010.

Disclosure of Information to the Auditor

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 Auditor is 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 Auditor is aware of that information.

Independent Auditor

The Auditor, KPMG Audit Plc, is 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
12 May 2011

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 auditor to audit certain of the disclosures provided. Where disclosures have been audited, they are indicated as such. The Auditor's 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 2012 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. Shareholders' approval to amend Article 108 in order that in aggregate the maximum level of Directors' fees are not to exceed £300,000 per annum or such larger amount as the Company may by ordinary resolution determine is being sought at the forthcoming Annual General Meeting (see Resolution 11 on page 55). Non-executive Directors are not eligible for any other remuneration apart from the reimbursement of allowable expenses.

The Board carried out a review of the level of Directors' fees during the year, and concluded that the fees should be increased from £36,000 to £40,000 for the Chairman and from £24,000 to £27,000 for each Director, with the additional fee for the Chairman of the Audit Committee being held at £3,000. The increase to be effective from 1 April 2011.

Directors' Remuneration for the Year (audited)

Name	2011 £	2010 £
JPHS Scott (Chairman)	36,000	27,000
Sir Donald MacKay (retired 31 December 2009)	–	27,000
GA Ball (retired 25 June 2009)	–	5,644
MM Gray	24,000	24,000
Professor JA Kay	24,000	24,000
FC McBain	24,000	24,000
WG McQueen (Audit Committee Chairman)	27,000	27,000
Lord Strathclyde (retired 28 February 2010)	–	22,000
	135,000	**180,644**

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

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.

Directors' Service Details

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

Performance Graph

Scottish Mortgage's Share Price, FTSE All-Share Index and Benchmark* (figures have been rebased to 100 at 31 March 2006)

*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.

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 12 May 2011.

JOHN SCOTT
Chairman

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 respectively; 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 on 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
12 May 2011

Independent Auditor's 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 2011 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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditor

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/private.cfm**.

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 2011 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.

Opinion on other matters prescribed by 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;
- 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; and
- certain elements of the Directors' Remuneration Report.

Gareth Horner
Senior Statutory Auditor
for and on behalf of
KPMG Audit Plc
Chartered Accountants
Edinburgh
12 May 2011

Income Statement

For the year ended 31 March

	Notes	2011 Revenue £'000	2011 Capital £'000	**2011 Total £'000**	2010 Revenue £'000	2010 Capital £'000	**2010 Total £'000**
Gains on investments	9	–	325,193	**325,193**	–	837,604	**837,604**
Currency (losses)/gains	14	–	(4,578)	**(4,578)**	–	1,593	**1,593**
Income	2	53,703	–	**53,703**	49,174	–	**49,174**
Investment management fee	3	(3,638)	(3,638)	**(7,276)**	(3,027)	(3,027)	**(6,054)**
Other administrative expenses	4	(2,438)	–	**(2,438)**	(2,289)	–	**(2,289)**
Net return before finance costs and taxation		47,627	316,977	**364,604**	43,858	836,170	**880,028**
Finance costs of borrowings	5	(8,814)	(8,814)	**(17,628)**	(8,414)	(8,414)	**(16,828)**
Net return on ordinary activities before taxation		38,813	308,163	**346,976**	35,444	827,756	**863,200**
Tax on ordinary activities	6	(4,439)	–	**(4,439)**	(5,244)	1,143	**(4,101)**
Net return on ordinary activities after taxation		**34,374**	**308,163**	**342,537**	**30,200**	**828,899**	**859,099**
Net return per ordinary share	7	**13.32p**	**119.40p**	**132.72p**	**11.18p**	**306.88p**	**318.06p**

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

At 31 March

	Notes	2011 £'000	2011 £'000	2010 £'000	2010 £'000
Fixed assets					
Investments held at fair value through profit or loss	9		2,486,251		2,130,489
Current assets					
Debtors	10	15,468		9,824	
Cash and short term deposits		14,699		18,898	
		30,167		28,722	
Creditors					
Amounts falling due within one year	11	(178,745)		(167,751)	
Net current liabilities			(148,578)		(139,029)
Total assets less current liabilities			2,337,673		1,991,460
Creditors					
Amounts falling due after more than one year	12		(205,379)		(151,552)
			2,132,294		**1,839,908**
Capital and reserves					
Called-up share capital	13		71,086		71,086
Capital redemption reserve	14		19,094		19,094
Capital reserve	14		1,965,865		1,677,917
Revenue reserve	14		76,249		71,811
Shareholders' funds	15		**2,132,294**		**1,839,908**
Net asset value per ordinary share (after deducting borrowings at fair value)	22		**816.5p**		**692.8p**
Net asset value per ordinary share (after deducting borrowings at par)	16		**833.5p**		**711.2p**

The Financial Statements of Scottish Mortgage Investment Trust PLC (Company registration No. SC7058) were approved and authorised for issue by the Board and signed on 12 May 2011.

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 2011

	Notes	Share capital £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	**Shareholders' funds £'000**
Shareholders' funds at 1 April 2010		71,086	19,094	1,677,917	71,811	**1,839,908**
Net return on ordinary activities after taxation	14	–	–	308,163	34,374	**342,537**
Shares bought back	13	–	–	(20,215)	–	**(20,215)**
Dividends paid during the year	8	–	–	–	(29,936)	**(29,936)**
Shareholders' funds at 31 March 2011		**71,086**	**19,094**	**1,965,865**	**76,249**	**2,132,294**

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		–	–	828,899	30,200	**859,099**
Shares bought back	13	–	–	(69,684)	–	**(69,684)**
Dividends paid during the year	8	–	–	–	(29,844)	**(29,844)**
Shareholders' funds at 31 March 2010		**71,086**	**19,094**	**1,677,917**	**71,811**	**1,839,908**

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

Cash Flow Statement

For the year ended 31 March

	Notes	2011 £'000	2011 £'000	2010 £'000	2010 £'000
Net cash inflow from operating activities	17		49,530		40,740
Servicing of finance					
Interest paid		(18,323)		(18,968)	
Net cash outflow from servicing of finance			(18,323)		(18,968)
Taxation					
Income tax refunded/(paid)		21		(13)	
Overseas tax incurred		(4,488)		(4,080)	
Total tax paid			(4,467)		(4,093)
Financial investment					
Acquisitions of investments		(446,404)		(460,680)	
Disposals of investments		414,713		527,163	
Realised currency profit/(loss)		1,099		(1,508)	
Net cash (outflow)/inflow from financial investment			(30,592)		64,975
Equity dividends paid	8		(29,936)		(29,844)
Net cash (outflow)/inflow before financing			(33,788)		52,810
Financing					
Shares bought back	13	(20,215)		(69,684)	
Bank loans repaid		(151,049)		(66,874)	
Bank loans drawn down		200,853		66,872	
Net cash inflow/(outflow) from financing			29,589		(69,686)
Decrease in cash	18		**(4,199)**		**(16,876)**

	Notes	2011 £'000	2010 £'000
Reconciliation of net cash flow to movement in net debt	18		
Decrease in cash in the period		(4,199)	(16,876)
(Increase)/decrease in bank loans		(49,804)	2
Exchange movement on bank loans		(5,677)	3,101
Other non-cash changes		174	153
Movement in net debt in the year		(59,506)	(13,620)
Net debt at 1 April		(295,779)	(282,159)
Net debt at 31 March		**(355,285)**	**(295,779)**

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 2011 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 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

	2011 £'000	2010 £'000
Income from investments		
Franked investment income*	5,970	5,367
UK unfranked investment income*	1,680	1,634
Overseas dividends	38,993	35,483
Overseas interest	6,710	6,077
	53,353	**48,561**
Other income		
Deposit interest	26	20
Underwriting commission and commitment fees	324	593
	350	**613**
Total income	**53,703**	**49,174**
Total income comprises:		
Dividends from financial assets designated at fair value through profit or loss	45,108	41,298
Interest from financial assets designated at fair value through profit or loss	8,245	7,263
Deposit interest from financial assets not at fair value through profit or loss	26	20
Other income not from financial assets	324	593
	53,703	**49,174**

*Includes OEIC income.

3 Investment Management Fee

	2011 Revenue £'000	2011 Capital £'000	**2011 Total £'000**	2010 Revenue £'000	2010 Capital £'000	**2010 Total £'000**
Investment management fee	3,638	3,638	**7,276**	3,027	3,027	**6,054**

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

	2011 £'000	2010 £'000
General administrative expenses	2,280	2,086
Directors' fees (see Directors' Remuneration Report page 28)	135	181
Auditor's remuneration for audit services	22	21
Auditor's remuneration for other services – certification of results for the debenture trustees	1	1
	2,438	**2,289**

5 Finance Costs of Borrowings

	2011 Revenue £'000	2011 Capital £'000	**2011 Total £'000**	2010 Revenue £'000	2010 Capital £'000	**2010 Total £'000**
Financial liabilities not at fair value through profit or loss						
Bank loans and overdrafts repayable within five years	1,908	1,908	**3,816**	1,497	1,497	**2,994**
Debentures repayable wholly or partly in more than five years	6,906	6,906	**13,812**	6,917	6,917	**13,834**
	8,814	**8,814**	**17,628**	**8,414**	**8,414**	**16,828**

6 Tax on Ordinary Activities

	2011 Revenue £'000	2011 Capital £'000	**2011 Total £'000**	2010 Revenue £'000	2010 Capital £'000	**2010 Total £'000**
UK corporation tax	–	–	**–**	3,496	(1,143)	**2,353**
Overseas taxation	4,439	–	**4,439**	4,101	–	**4,101**
Double taxation relief	–	–	**–**	(2,353)	–	**(2,353)**
Total current tax	**4,439**	**–**	**4,439**	**5,244**	**(1,143)**	**4,101**

	2011 £'000	2010 £'000
The tax charge for the year is lower than the standard rate of corporation tax in the UK of 28% (2010 – 28%)		
The differences are explained below:		
Net return on ordinary activities before taxation	346,976	863,200
Net return on ordinary activities before taxation multiplied by the standard rate of corporation tax in the UK of 28% (2010 – 28%)	97,153	241,696
Capital returns not taxable	(89,772)	(234,975)
Income not taxable (franked investment income)	(1,672)	(1,503)
Income not taxable (overseas dividends)	(9,586)	(4,925)
Adjustment to income received from OEICs for tax purposes	5	16
Taxable expenses in the year not utilised/(utilised)	3,872	(309)
Overseas withholding tax	4,439	4,101
Current tax charge for the year	**4,439**	**4,101**

At 31 March 2011 the Company had surplus management expenses and losses on non-trading loan relationships of £59 million (2010 – £46 million) which have not been recognised as a deferred tax asset. This is because the Company is not expected to generate taxable income in a future period in excess of the deductible expenses of that future period and, accordingly, it is unlikely that the Company will be able to reduce future tax liabilities through the use of existing surplus expenses.

7 Net Return per Ordinary Share

	2011 Revenue	2011 Capital	**2011 Total**	2010 Revenue	2010 Capital	**2010 Total**
	13.32p	**119.40p**	**132.72p**	**11.18p**	**306.88p**	**318.06p**

Revenue return per ordinary share is based on the net revenue on ordinary activities after taxation of £34,374,000 (2010 – £30,200,000), and on 258,103,596 (2010 – 270,102,144) ordinary shares, being the weighted average number of ordinary shares (excluding treasury shares) during the year.

Capital return per ordinary share is based on the net capital gain for the financial year of £308,163,000 (2010 – net capital gain of £828,899,000), and on 258,103,596 (2010 – 270,102,144) ordinary shares, being the weighted average number of ordinary shares (excluding treasury shares) during the year.

There are no dilutive or potentially dilutive shares in issue.

8 Ordinary Dividends

	2011	2010	2011 £'000	2010 £'000
Amounts recognised as distributions in the year:				
Previous year's final (paid 1 July 2010)	5.80p	5.50p	14,968	14,955
Interim (paid 3 December 2010)	5.80p	5.50p	14,968	14,889
	11.60p	**11.00p**	**29,936**	**29,844**

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 1158 of the Corporation Tax Act 2010 are considered. The revenue available for distribution by way of dividend for the year is £34,374,000 (2010 – £30,200,000).

	2011	2010	2011 £'000	2010 £'000
Dividends paid and payable in respect of the year:				
Interim dividend per ordinary share (paid 3 December 2010)	5.80p	5.50p	14,968	14,889
Proposed final dividend per ordinary share (payable 4 July 2011)	6.20p	5.80p	15,904	15,052
Adjustment to previous year's final dividend re shares bought back			(84)	(10)
	12.00p	**11.30p**	**30,788**	**29,931**

9 Fixed Assets – Investments

As at 31 March 2011	Level 1 £'000	Level 2 £'000	Level 3 £'000	**Total £'000**
Listed equities	2,338,177	5,429	–	**2,343,606**
Listed debt securities	9,761	117,307	8,523	**135,591**
Unlisted equities	–	–	2,467	**2,467**
Unlisted debt securities	–	–	4,587	**4,587**
Total financial asset investments	**2,347,938**	**122,736**	**15,577**	**2,486,251**

9 Fixed Assets – Investments (continued)

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	11,689	101,836	4,684	**118,209**
Unlisted debt securities	–	–	2,285	**2,285**
Total financial asset investments	**2,021,684**	**101,836**	**6,969**	**2,130,489**

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 2010	1,427,398	77,161	3,300	**1,507,859**
Investment holding gains/(losses) at 1 April 2010	582,597	41,048	(1,015)	**622,630**
Value of investments at 1 April 2010	2,009,995	118,209	2,285	**2,130,489**
Movements in year:				
Purchases at cost	445,252	–	6,265	**451,517**
Sales – proceeds	(418,934)	(2,060)	–	**(420,994)**
– gains/(losses) on sales	108,270	1,225	–	**109,495**
Amortisation of fixed income book cost	–	46	–	**46**
Changes in investment holding gains/(losses)	199,023	18,171	(1,496)	**215,698**
Value of investments at 31 March 2011	**2,343,606**	**135,591**	**7,054**	**2,486,251**
Cost of investments at 31 March 2011	1,561,986	76,372	9,565	**1,647,923**
Investment holding gains/(losses) at 31 March 2011	781,620	59,219	(2,511)	**838,328**
Value of investments at 31 March 2011	**2,343,606**	**135,591**	**7,054**	**2,486,251**

The purchases and sales proceeds figures above include transaction costs of £483,000 (2010 – £829,000) and £455,000 (2010 – £576,000) respectively.

Of the gains on sales during the year of £109,495,000 (2010 – gains of £44,394,000) a net gain of £60,000 (2010 – loss of £91,740,000) was included in the investment holding gains/(losses) at the previous year end.

9 Fixed Assets – Investments (continued)

The following tables show reconciliations from the opening balances to the closing balances for fair value measurements in Level 3 of the fair value hierarchy.

	Value at 1 April 2010 £'000	Purchases/ amortisation £'000	Sales proceeds £'000	Gains on sales £'000	Holding gains £'000	**Value at 31 March 2011 £'000**
Listed debt securities	4,684	–	–	–	3,839	**8,523**
Unlisted equities	–	2,865	–	–	(398)	**2,467**
Unlisted debt securities	2,285	3,400	–	–	(1,098)	**4,587**
	6,969	**6,265**	**–**	**–**	**2,343**	**15,577**

	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 tables 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 differ significantly from those included in the financial statements.

	2011 £'000	2010 £'000
Net gains on investments designated at fair value through profit or loss on initial recognition		
Gains on sales	109,495	44,394
Changes in investment holding gains/(losses)	215,698	793,210
	325,193	**837,604**

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:

	2011 C income shares held	2011 Value £'000	2011 % of fund held	2010 C income shares held	2010 Value £'000	2010 % of fund held
Baillie Gifford European Smaller Companies Fund	3,466,398	13,970	43.5	4,286,705	14,935	36.9

10 Debtors

	2011 £'000	2010 £'000
Amounts falling due within one year:		
Income accrued	6,916	7,894
Sales for subsequent settlement	7,759	1,478
UK taxation recoverable	59	80
Other debtors and prepayments	734	372
	15,468	**9,824**

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.

11 Creditors – Amounts falling due within one year

	2011 £'000	2010 £'000
Lloyds TSB Bank plc multi-currency loan	102,846	–
ING Bank N.V. multi-currency loan	–	97,860
The Bank of New York Mellon multi-currency loan	61,759	65,265
Purchases for subsequent settlement	5,113	–
Other creditors and accruals	9,027	4,626
	178,745	**167,751**

Included in other creditors is £1,252,000 (2010 – £974,000) 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 1 year £100 million multi-currency loan facility, at the time of draw down, has been arranged with Lloyds TSB Bank plc.
A 2 year €61 million loan facility, at the time of draw down, has been arranged with The Royal Bank of Scotland plc.

At 31 March 2011 drawings were as follows:

The Bank of New York Mellon	US$99 million at an interest rate of 1.41% per annum
Lloyds TSB Bank	US$80 million at an interest rate of 1.46% per annum
	€59.8 million at an interest rate of 2.13% per annum and
The Royal Bank of Scotland	€61 million at an interest rate of 2.72% 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.

12 Creditors – Amounts falling due after more than one year

	Nominal rate	Effective rate	2011 £'000	2010 £'000
Debenture stocks:				
£20 million 8–14% stepped interest debenture stock 2020	14.0%	12.3%	21,860	21,961
£75 million 6.875% debenture stock 2023	6.875%	6.9%	74,562	74,525
£50 million 6–12% stepped interest debenture stock 2026	12.0%	10.8%	54,281	54,391
4½% irredeemable debenture stock			675	675
Bank loans:				
The Royal Bank of Scotland plc Euro loan			54,001	–
			205,379	**151,552**

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 £5,703,000 (2010 – £5,877,000) over nominal value. The debenture stocks are secured by a floating charge over the assets of the Company.

13 Called-up Share Capital

	2011 Number	2011 £'000	2010 Number	2010 £'000
Allotted, called-up and fully paid ordinary shares of 25p each	**256,519,897**	**64,130**	**259,519,897**	**64,880**
Treasury shares of 25p each	**27,826,279**	**6,956**	**24,826,279**	**6,206**
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 2011, a total of 3,000,000 (2010 – 12,570,000) ordinary shares with a nominal value of £750,000 (2010 – £3,142,500) were bought back at a total cost of £20,215,000 (2010 – £69,684,000) and held in treasury. At 31 March 2011 the Company had authority to buy back a further 37,134,677 ordinary shares.

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

14 Capital and Reserves

	Share capital £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	**Shareholders' funds £'000**
At 1 April 2010	71,086	19,094	1,677,917	71,811	**1,839,908**
Gains on sales	–	–	109,495	–	**109,495**
Changes in investment holding gains	–	–	215,698	–	**215,698**
Exchange differences	–	–	1,099	–	**1,099**
Exchange differences on multi-currency loans	–	–	(5,677)	–	**(5,677)**
Shares bought back	–	–	(20,215)	–	**(20,215)**
Investment management fee charged to capital	–	–	(3,638)	–	**(3,638)**
Finance costs of borrowings charged to capital	–	–	(8,814)	–	**(8,814)**
Dividends paid in year	–	–	–	(29,936)	**(29,936)**
Revenue return on ordinary activities after taxation	–	–	–	34,374	**34,374**
At 31 March 2011	**71,086**	**19,094**	**1,965,865**	**76,249**	**2,132,294**

The capital reserve includes investment holding gains of £838,328,000 (2010 – gains of £622,630,000) as disclosed in note 9.

15 Shareholders' Funds

	2011 £'000	2010 £'000
Total shareholders' funds are attributable as follows:		
Equity shares	**2,132,294**	**1,839,908**

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

Shareholders' funds attributable to ordinary shares (as above)	£2,132,294,000	£1,839,908,000
Number of ordinary shares in issue at the year end*	256,519,897	259,519,897
Shareholders' funds per ordinary share	831.2p	709.0p
Additions/(deductions)		
– expenses of debenture issue	(0.6p)	(0.7p)
– allocation of interest on borrowings	2.9p	2.9p
Net asset value per ordinary share	**833.5p**	**711.2p**

*Excluding shares held in treasury.

16 Net Asset Value per Ordinary Share

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

	2011	2010	2011 £'000	2010 £'000
Ordinary shares	**833.5p**	**711.2p**	**2,137,997**	**1,845,785**

	2011 £'000	2010 £'000
The movements during the year of the assets attributable to the ordinary shares were as follows:		
Total net assets at the start of the year	1,845,785	1,086,367
Total recognised gains and losses for the year	342,537	859,099
Dividends appropriated in the year	(29,936)	(29,844)
Adjustment to debentures	(174)	(153)
Shares bought back	(20,215)	(69,684)
Total net assets at 31 March	**2,137,997**	**1,845,785**

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 22)) and on 256,519,897 (2010 – 259,519,897) 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 15.

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

	2011 £'000	2010 £'000
Net return on ordinary activities before finance costs and taxation	364,604	880,028
Gains on investments – securities	(325,193)	(837,604)
Currency losses/(gains)	4,578	(1,593)
Amortisation of fixed income book cost	(46)	(79)
Decrease in accrued income	1,028	270
(Increase)/decrease in debtors	(362)	449
Increase/(decrease) in creditors	4,921	(731)
Net cash inflow from operating activities	**49,530**	**40,740**

18 Analysis of Change in Net Debt

	At 1 April 2010 £'000	Cash flows £'000	Other non-cash changes £'000	Exchange movement £'000	At 31 March 2011 £'000
Cash at bank and in hand	18,898	(4,199)	–	–	14,699
Loans due within one year	(163,125)	204	–	(1,684)	(164,605)
Loans due in two to five years	–	(50,008)	–	(3,993)	(54,001)
Debenture stocks	(151,552)	–	174	–	(151,378)
	(295,779)	**(54,003)**	**174**	**(5,677)**	**(355,285)**

19 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 section 412 of the Companies Act 2006. The details of the management fee are set out in note 3, and the management fee due to Baillie Gifford as at 31 March 2011 is disclosed in note 11.

20 Contingencies, Guarantees and Financial Commitments

At the year end the Company had a contingent liability amounting to £3,300,000 (2010 – £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 2011. The PIP loan notes of par value £6,700,000 held by the Company were valued at £4,587,000 at 31 March 2011 (2010 – par value of £3,300,000, valued at £2,285,000).

During the year two further subscription agreements were entered into, Innovation Works Development Fund, L.P. with a total commitment of US$15 million which expires on 21 May 2020 and WI Harper Fund VII Management with a total commitment of US$10 million which expires on 3 March 2019. At 31 March 2011 US$2.25 million and US$2 million has been drawn down on each of these agreements respectively.

21 Summary of Main Investment Restrictions

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

Holding size

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

A maximum of 40% of total assets may be invested in holdings individually 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.

The maximum permitted investment in other UK listed investment companies in aggregate is 15% of gross assets.

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.

22 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 9 and on 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 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.

22 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.

As at 31 March 2011	Investments £'000	Cash and deposits £'000	Loans and debentures £'000	Other debtors and creditors * £'000	Net exposure £'000
US dollar	1,205,079	14,490	(111,666)	1,975	**1,109,878**
Euro	278,083	–	(106,940)	292	**171,435**
Brazilian real	135,151	–	–	2,524	**137,675**
Swedish krona	119,070	–	–	–	**119,070**
Hong Kong dollar	113,548	–	–	–	**113,548**
Polish zloti	66,286	–	–	–	**66,286**
Danish krone	42,800	–	–	40	**42,840**
Japanese yen	40,246	–	–	583	**40,829**
Swiss franc	32,095	–	–	96	**32,191**
Other overseas currencies	179,697	–	–	1,895	**181,592**
Total exposure to currency risk	**2,212,055**	**14,490**	**(218,606)**	**7,405**	**2,015,344**
Sterling	274,196	209	(151,378)	(6,077)	**116,950**
	2,486,251	**14,699**	**(369,984)**	**1,328**	**2,132,294**

*Includes net non-monetary assets of £51,000

As 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**
Hong Kong dollar	79,405	–	–	–	**79,405**
Polish zloti	60,221	–	–	–	**60,221**
Danish krone	38,625	–	–	30	**38,655**
Japanese yen	83,436	–	(59,969)	1,161	**24,628**
Swiss franc	56,300	–	(37,891)	(375)	**18,034**
Other overseas currencies	150,245	–	–	279	**150,524**
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.

22 Financial Instruments (continued)

Currency Risk Sensitivity

At 31 March 2011, 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 2010.

	2011 £'000	2010 £'000
US dollar	55,494	45,127
Euro	8,572	9,477
Brazilian real	6,884	6,249
Swedish krona	5,953	5,708
Hong Kong dollar	5,677	3,970
Polish zloti	3,314	3,011
Danish krone	2,142	1,933
Japanese yen	2,041	1,231
Swiss franc	1,610	902
Other overseas currencies	9,080	7,526
	100,767	**85,134**

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	2011 Fair value £'000	2011 Weighted average interest rate	2011 Weighted average period until maturity *	2010 Fair value £'000	2010 Weighted average interest rate	2010 Weighted average period until maturity *
Fixed rate:						
Sterling bonds (perpetual)	9,761	7.5%	n/a	9,630	7.6%	n/a
Euro bonds	442	–	8 years	2,326	3.1%	7 years
Floating rate:						
Sterling bonds (interest rate linked to sterling LIBOR)	10,697	3.7%	13 years	5,701	3.7%	14 years
Euro bonds (interest rate linked to euro LIBOR)	1,971	2.1%	74 years	1,001	4.5%	75 years
Brazilian bonds (index linked)	117,307	11.5%	34 years	101,836	11.0%	35 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.

22 Financial Instruments (continued)

Financial Liabilities		2011 £'000	2010 £'000
The interest rate risk profile of the Company's financial liabilities at 31 March was:			
Floating rate	– US$ denominated	111,666	65,265
	– Euro denominated	52,939	–
Fixed rate	– Sterling denominated	151,378	151,552
	– Euro denominated	54,001	–
	– Yen denominated	–	59,969
	– Swiss franc denominated	–	37,891
		369,984	**314,677**

	2011 £'000	2010 £'000
The maturity profile of the Company's financial liabilities at 31 March was:		
In one year or less, or on demand	164,605	163,125
In two to five years	54,001	–
In more than five years (weighted average period fixed 13 years)	150,703	150,877
No fixed date for repayment	675	675
	369,984	**314,677**

Interest Rate Risk Sensitivity

An increase of 100 basis points in bond yields as at 31 March 2011 would have decreased total net assets and total return on ordinary activities by £16,972,000 (2010 – £14,624,000). 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 2011 would have decreased the net asset value per share (with borrowings at fair value) by 0.75p (2010 – increased by 0.58p). 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.

110.0% of the Company's net assets are invested in quoted equities. A 3% increase in quoted equity valuations at 31 March 2011 would have increased total assets and total return on ordinary activities by £70,308,000 (2010 – £60,300,000). 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.

22 Financial Instruments (continued)

Credit Risk

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

This risk is managed as follows:

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

Credit Risk Exposure

The maximum exposure to credit risk at 31 March was:	2011 £'000	2010 £'000
Fixed interest investments	140,178	120,494
Cash and short term deposits	14,699	18,898
Debtors and prepayments	15,468	9,824
	170,345	**149,216**

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:

	2011 Par/nominal £'000	2011 Book £'000	2011 Fair £'000	2010 Par/nominal £'000	2010 Book £'000	2010 Fair £'000
8–14% stepped interest debenture stock 2020	20,000	21,860	29,240	20,000	21,961	31,890
6.875% debenture stock 2023	75,000	74,562	76,445	75,000	74,525	82,313
6–12% stepped interest debenture stock 2026	50,000	54,281	83,303	50,000	54,391	78,800
4½% irredeemable debenture stock	675	675	531	675	675	525
Total debentures	**145,675**	**151,378**	**189,519**	**145,675**	**151,552**	**193,528**
Fixed rate loans		54,001	53,737		–	–
Total long term borrowings		**205,379**	**243,256**		**151,552**	**193,528**

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 833.5p to 816.5p. Taking the market price of the ordinary shares at 31 March 2011 of 742.0p, this would have given a discount to net asset value of 9.1% as against 11.0% on a debt at par basis. At 31 March 2010 the effect would have been to reduce the net asset value 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.

Capital Management

The Company does not have any externally imposed capital requirements. The capital of the Company is the ordinary share capital (see note 13) 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 25 and 26.

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 holds 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 self-service 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;
- register to receive communications from the Company, including the Annual Report and Financial Statements, in electronic format;
- 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.

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.

Analysis of Shareholders at 31 March

	2011 Number of shares held	2011 %	2010 Number of shares held	2010 %
Institutions	84,958,204	33.1	89,086,412	34.3
Intermediaries	116,604,803	45.5	118,097,256	45.5
Individuals	29,756,823	11.6	27,453,422	10.6
Baillie Gifford Share Plans/ISA	23,271,501	9.1	22,550,879	8.7
Marketmakers	1,928,566	0.7	2,331,928	0.9
	256,519,897	**100.0**	**259,519,897**	**100.0**

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 £10,680 each year
- Save monthly from £100
- A withdrawal charge of just £22

ISA Transfers

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

The Baillie Gifford Children's Savings Plan

- An excellent way for parents, grandparents or other adults to invest for a child
- No initial charge
- No annual wrapper charge
- The option of a designated account or a bare trust in favour of the child
- Flexible investment options: lump sum from £100 or monthly saving from just £25
- A withdrawal charge of just £22

Online Management Service

You can also open and manage your Share Plan/Children's Savings 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**. 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.

*Please note that a bare trust cannot be opened via OMS. A bare trust application form must be completed.

Risks

- Past performance is not a guide to future performance.
- Scottish Mortgage is listed on the London Stock Exchange. 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.
- 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 invests in emerging markets where difficulties in dealing, settlement and custody could arise, resulting in a negative impact on the value of your investment.
- 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 its own shares. The risks from borrowing, referred to above, are increased when a Company buys back its shares.
- Market values for securities which have become difficult to trade may not be readily available and there can be no assurance that any value assigned to such securities will accurately reflect the price the Company might receive upon their sale.
- 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.
- You should note that tax rates and reliefs may change at any time and their value depends on your circumstances.
- 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 a number of educational guides on investment trusts. These are designed to explain how Investment Trusts work and to explain the various ways you can invest in them. If you would like copies of any of the 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 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 welcome. Please 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 that 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.

Client Relations Team Contact Details

You can contact the Baillie Gifford Client Relations Team by telephone, email, fax or post:

Telephone: 0800 027 0133
Your call may be recorded.

E-mail: trustenquiries@bailliegifford.com
Website: www.bailliegifford.com
Fax: 0131 275 3955

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

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

Website: www.scottishmortgageit.com

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 Thursday, 30 June 2011 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-hundred and second 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 Thursday, 30 June 2011 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 2011 with the Reports of the Directors and of the Independent Auditor thereon.
2. To approve the Directors' Remuneration Report for the year to 31 March 2011.
3. To declare a final dividend.
4. To re-elect Mr MM Gray as a Director.
5. To re-elect Mr JPHS Scott as a Director.
6. To re-elect Mr WG McQueen as a Director.
7. To reappoint KPMG Audit Plc as Independent Auditor 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.
8. To authorise the Directors to determine the remuneration of the Independent Auditor of the Company.

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

9. 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 38,452,332 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 2012, 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.

10. 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 £6,412,997 being 10% of the Company's issued Share capital as at 11 May 2011;

and shall expire at the conclusion of the next Annual General Meeting of the Company to be held in 2012, 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:

11. That the Articles of Association of the Company be and hereby are amended by the deletion of Article 108 and the insertion of the following article as Article 108 in substitution therefore:

"Directors' fees

The directors shall be paid, out of the funds of the Company by way of fees for their services as directors, such sums (if any) as the Board may from time to time determine (not exceeding in the aggregate £300,000 per annum or such larger amount as the Company may by ordinary resolution determine) and such remuneration shall be divided between the directors as the Board shall agree or, failing agreement, equally. Such remuneration shall be deemed to accrue from day to day. The provisions of this Article shall not apply to the remuneration of any director who is appointed to any executive office (whether part time or full time) which remuneration shall be established pursuant to the provisions of Article 107."

By order of the Board
Baillie Gifford & Co
Managers and Secretaries
23 May 2011

Baillie Gifford & Co.

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, The Pavilions, Bridgwater Road, Bristol, BS99 6ZY or **www.eproxyappointment.com** no later than 48 hours (excluding non-working days) 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 (excluding non-working days) 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 (excluding non-working days) 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 auditor) setting out any matter relating to the audit of the Company's accounts, including the auditor's 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 11 May 2011 (being the latest practicable date prior to the publication of this notice) the Company's issued share capital consisted of 256,519,897 ordinary shares (excluding treasury shares), carrying one vote each. Therefore, the total voting rights in the Company as at 11 May 2011 were 256,519,897 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 for inspection at the offices of Dickson Minto W.S., Broadgate Tower, 20 Primrose Street, London EC2A 2EW 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.

Directors

Chairman:
JPHS Scott FCII FCSI

Dr MM Gray OBE DL
Professor JA Kay FBA FRSE
FC McBain ACA
WG McQueen CA, FCIBS

Registrar

Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol BS13 8AE
Tel: 0870 707 1300

Banker

The Bank of New York Mellon

Company Broker

Cenkos Securities plc
6.7.8 Tokenhouse Yard
London
EC2R 7AS

Independent Auditor

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

www.scottishmortgageit.com
Company registration No. SC7058

Managers, Secretaries and Registered Office

Baillie Gifford & Co
Calton Square
1 Greenside Row
Edinburgh
EH1 3AN
Tel: 0131 275 2000
Website: www.bailliegifford.com