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Scottish Mortgage Investment Trust PLC

Your low cost choice for global investment

Annual Report and Financial Statements 31 March 2012

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

In a volatile period for stockmarkets, Scottish Mortgage's shares staged a significant recovery in the second half of its financial year. The share price closed at 708p having fluctuated in the period between a high of 781p and a low of 565p. Over the year to 31 March 2012 net asset value (NAV) per share fell by 5.8%, the share price by 4.6% and the benchmark (the FTSE All-World Index in sterling terms) by 2.9%.

Performance is primarily assessed over the long term in line with the nature of the investment approach. Over five years, the NAV has increased by 39%, the share price by 45% and the benchmark by 26% in total return terms (including capital and income); over ten years the figures are 125% (NAV), 139% (share price) and 73% (benchmark).

The careful selection of individual companies and their subsequent performance remains the most important influence on future long term returns. The Managers still see considerable investment opportunities. There is excitement about the impact of new technologies in many different sectors and continued enthusiasm for opportunities presented by the rapid growth of the Chinese economy.

Financial Highlights – Year to 31 March 2012

Share Price -4.6%

NAV -5.8%

Benchmark* -2.9%

Share Price (pence)

NAV and Benchmark
(rebased to 100 at 31 March 2011)

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 2012	31 March 2011	% change
Total assets (before deduction of debentures, long and short term borrowings)	£2,378.3m	£2,502.3m	
Loans and debentures	£366.0m	£370.0m	
Shareholders' funds	£2,012.3m	£2,132.3m	
Net asset value per ordinary share (after deducting borrowings at fair value)*	768.7p	816.5p	(5.8)
Share price	708.0p	742.0p	(4.6)
FTSE All-World Index (in sterling terms)	203.3	209.4	(2.9)
Dividends paid and proposed per ordinary share	13.00p	12.00p	8.3
Revenue earnings per ordinary share	13.07p	13.32p	(1.9)
Total expense ratio	0.51%	0.51%	
Discount (after deducting borrowings at fair value)	(7.9%)	(9.1%)	

Year to 31 March	2012	2012	2011	2011
Year's high and low	**High**	**Low**	**High**	**Low**
Share price	781.0p	565.0p	742.5p	533.0p
Net asset value per ordinary share (after deducting borrowings at fair value)†	861.6p	621.0p	816.5p	604.1p
Discount (after deducting borrowings at fair value)†	(2.7%)	(11.2%)	(6.5%)	(15.0%)
Average sector discount (AIC Global Growth Sector)	(9.1%)	(11.5%)	(10.3%)	(13.0%)

	31 March 2012	31 March 2011
Net return per ordinary share		
Revenue return	13.07p	13.32p
Capital return	(39.81p)	119.40p
Total return	**(26.74p)**	**132.72p**

*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 2012.

5 Year Total Return Performance
(figures rebased to 100 at 31 March 2007)

Dividend and RPI Growth
(cumulative from 31 March 2007)
(figures rebased to 100 at 31 March 2007)

* Benchmark: FTSE All World Index (in sterling terms).

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

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

Past performance is not a guide to future performance.

Chairman's Statement

Investment Performance

The past year has been a very volatile one for world stockmarkets and, having at one point fallen by over 20% from last year's closing price, the value of your Company's shares staged a significant recovery in the second half of our financial year to close at 708p. I warned in 2011 that "shareholders should remember that not every year will be as good as the period just ended" and indeed that was prescient. Over the year to 31 March 2012 net asset value (NAV) per share fell by 5.8%, the share price by 4.6% and the benchmark (the FTSE All-World Index in sterling terms) by 2.9%, but these end-of-year statistics disguise the fact that in the period under review our share price fluctuated between a high of 781p and a low of 565p.

As stated in previous years, performance is primarily assessed over the long term in line with the nature of the investment approach. During the past five years, the NAV has increased by 39%, the share price by 45% and the benchmark by 26% in total return terms (including capital and income); over ten years the increases are 125% NAV, 139% share price and 73% benchmark. Your Directors regard this as a very satisfactory performance and believe that, in the year under review, our Managers acted with great skill in a very testing investment climate.

The past year has been characterised by low confidence in markets and a tendency for most commentators and participants to focus on negative factors. In particular, anxiety about the future of the Eurozone and worries about what appears to be a double dip recession in several European countries (including the UK) have been recurrent. To a large extent good news has been ignored, with investors transfixed by some of the horror stories emerging in southern Europe. Included in the good news is the remarkable health of much of the corporate sector, the good progress made by many developed economies, notably, but not exclusively, Germany, and the continued growth of advancing economies especially China, albeit sometimes at a slightly slower pace than hitherto. But it is the riots on the streets of Athens and the unemployment queues in Spain which have tended to capture the headlines.

It is to the Managers' credit that they have continued to maintain a clear focus on progress at individual company level whilst also being prepared to swim against the tide in their investment approach. They still see considerable investment opportunities. Excitement about the impact of new technologies in many different sectors and continued enthusiasm for opportunities presented by the rapid growth of the Chinese economy come through strongly in the Managers' Review.

Equity investment is not without risk, but the Managers' approach whereby the primary focus is on fundamental and thorough analysis of individual companies and their long term growth prospects, rather than on short term market predictions, is the rational one. Portfolio diversification at company level and also by activity remains important. We have what is by most standards quite a concentrated portfolio (currently 70 holdings for £2.4 billion of investments) and the Board regularly challenges and questions the Managers on individual investments, diversification, risk concentration and broader trends.

Shareholders may note that the value of the equity portfolio listed in the UK now stands at 12% of total assets; a decade ago it was close to 50%. The portfolio does not resemble, let alone try to match, the benchmark so there will be times when performance is out of kilter with markets and indices. Scottish Mortgage aims to appeal to investors who seek long term growth from investment in equities chosen on a global basis. I make no apology for the fact that Scottish Mortgage is generally not well suited to investors with short term horizons or those who cannot endure the occasionally violent fluctuations inherent in equity investment.

Earnings and Dividend

As well as offering capital growth, Scottish Mortgage has provided shareholders with a stream of rising dividends over the years. This year earnings per share were 13.1p (13.3p last year). A final dividend of 6.8p is proposed which will give a total dividend for the year of 13.0p. This is a satisfactory increase of 8.3% over last year and is well ahead of all measures of UK inflation (currently 3.6% on an RPI basis). It is also the 30th consecutive increase in the total dividend ahead of inflation.

Past performance is not a guide to future performance.

Gearing

Gearing has been maintained at broadly constant levels. Gross assets totalled £2,378m at the year end and our fixed rate debentures and floating rate bank loans of £366m account for 15% of total assets. While the bank loans are at historically low interest rates, our debentures generally carry high coupons, reflecting the radically different conditions which prevailed when they were arranged.

Discount and Buybacks

The discount at which the Company's share price stands to net asset value has continued to narrow and at the end of the financial year it stood at 8% which, while higher than your Directors would like to see, is nonetheless lower than that of our peer group. It is important that the Managers communicate effectively with existing shareholders so that the aspirations of the Company and its owners are aligned. Also important is the quest for a new generation of shareholders. There are opportunities here as the ways in which advisers are remunerated change with the introduction of the Retail Distribution Review (RDR) and this is a particular area of focus for the Managers' marketing department. The Company has maintained its low total expense ratio (0.51%) which is among the lowest in the industry and this important feature should be beneficial in attracting new investors when comparable charges on other funds can be many times higher than those incurred by Scottish Mortgage.

Shares were again bought back last year when supply exceeded demand. A total of 2.9m shares were repurchased, similar to the amount in 2010/11 (3m). These shares were transferred into Treasury from which they can be re-issued in future, but only at a premium to net asset value. There are now 31m shares in Treasury available for re-issue. Net asset value was enhanced by 1.0p by buybacks this year. Over five years the equivalent figure is 9.1p.

Board and AGM

I am very pleased that Dr Linda Yueh has agreed to join the Board. Linda has depth of knowledge and experience, especially of China, which I believe will be very valuable to Scottish Mortgage, which already has some £400m of investments in Greater China.

The Annual General Meeting will be held in Edinburgh at Baillie Gifford's offices at 4.30pm on the 28th June. James Anderson and Tom Slater will make short presentations on the investments and I hope you will be able to attend.

Baillie Gifford is holding an investment trust presentation in London on 19th September at which Scottish Mortgage will be featured. Shareholders interested in receiving details of this event should contact Baillie Gifford's Client Relations Team (see page 54 for contact details).

Outlook

Although the health of much of the corporate sector appears to be good in terms of profitability and balance sheet strength, the challenges at a macro-economic level are considerable. Some European economies are faltering but others, notably Germany, are doing very well and it is this remarkable divergence of fortunes which is causing strains of titanic proportions within the Eurozone. Even ardent supporters of the Euro project now belatedly accept that certain countries should not have been admitted to the single currency so early in the piece and their continuing membership seems to be justified on the basis that it acts as a financial straitjacket which, while painful in the short term, will do the patient good in the end; and that, in any event, the release keys were discarded. Much has been achieved in the past year in terms of averting a disorderly default for Greece, but in both that country and elsewhere in southern Europe there remains an uneasy feeling that all that has been bought is more time; enduring solutions are proving elusive.

Looking further afield, there continue to be worrying developments in the likes of North Korea and Iran. While shareholders will realise that we hold no investments in either country, both have the capacity to cause major disruptions to the value of all capital markets in the world. Such worries have perhaps served to obscure a flow of positive news this year, particularly from the United States which could well be approaching an economic turning point as the gradual unwinding of earlier years' excesses moves towards a conclusion.

For Scottish Mortgage it is the careful selection of individual companies and their subsequent performance which remain the most important influence on future long term returns. Our Managers continue to demonstrate that they are adept at identifying opportunities and, when taken together with the impact of low operating costs, I believe our Company continues to offer its shareholders a compelling investment proposition.

JOHN SCOTT
Chairman
8 May 2012

Directors and Managers

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, 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 has many business, community and sporting interests including being a member of the Advisory Board of The Winning Scotland Foundation.

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 is undertaking a review of equity markets and long term decision making for the Department of Business Innovation and Skills.

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, The Edinburgh Investment Trust plc and Shaftesbury PLC.

Dr L Yueh

Dr Yueh is an economist, broadcaster and author. Linda was appointed to the Board in May 2012 and is being put forward for election at the AGM on 28 June. A Fellow in Economics at Oxford University, Linda directs the China Growth Centre at St. Edmund Hall. She is Adjunct Professor of Economics at the London Business School and at the London School of Economics and Political Science. Linda is an associate of both the Globalisation Programme at the Centre for Economic Performance and of the International Affairs, Diplomacy & Strategy Research Centre. Linda is a director of JPMorgan Asian Investment Trust plc and a Board Member of London & Partners and an Advisory Board Member of The Official Monetary and Financial Institutions Forum (OMFIF).

John Scott | Michael Gray | John Kay

Fiona McBain | Gordon McQueen | Linda Yueh

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 is one of the largest investment trust managers in the UK and currently manages 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 £78 billion at 31 March 2012. Based in Edinburgh, it is one of the leading privately owned investment management firms in the UK, with 36 partners and a staff of around 700.

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 partner and 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 is 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

Each year the Amazon Annual Report incorporates the original shareholder letter from 1997. Although the origins of Scottish Mortgage are more distant and our thoughts are far less profound than those of Jeff Bezos we think this is an admirable discipline. What follows is therefore a summary of how our investment approach has evolved over the last decade. We should be prepared to be judged by it in the years ahead.

Our Core Investment Beliefs

Whilst fund managers claim to spend much of their careers assessing the competitive advantage of companies they are notoriously reluctant to perform any such analysis on themselves. The tendency is to cite recent performance as evidence of skill despite the luck, randomness and mean-reverting characteristics of most such data. If this does not suffice then attention turns to a discussion of the high educational qualifications, hard work and exotic remuneration packages that the fund manager enjoys. Sometimes the procedural details of the investment process are outlined with heavy emphasis on risk controls. Little attention is given to either the distinctiveness of the approach or the strategic advantages the manager might enjoy in order to make imitation improbable. We think we should try to do better than this.

- We are long term in our investment decisions. It is only over periods of at least five years that the competitive advantages and managerial excellence of companies becomes apparent. It is these characteristics that we want to identify and support. We own companies rather than rent shares. We do not regard ourselves as experts in forecasting the oscillations of economies or the mood swings of markets. Indeed we think that it is hard to excel in such areas as this is where so many market participants focus and where so little of the value of companies lies. Equally Baillie Gifford is more likely to possess competitive advantages for the good of shareholders when it adopts a long term perspective. We are a 100 year old Scottish partnership. We think about our own business over decades not quarters. Such stability may not be exciting but it does encourage patience in this most impatient of industries. We only judge our investment performance over five year plus time horizons. In truth it takes at least a decade to provide adequate evidence of investment skill.
- The investment management industry is ill-equipped to deal with the behavioural and emotional challenges inherent in today's capital markets. Our time frame and ownership structure help us to fight these dangers. We are besieged by news, data and opinion. The bulk of this information is of little significance but it implores you to rapid and usually futile action. This can be particularly damaging at times of stress. Academic research argues that most individuals dislike financial losses twice as much as they take pleasure in gains. We fear that for fund managers this relationship is close to tenfold. Internal and external pressures make the avoidance of loss dominant. This is damaging in a portfolio context. We need to be willing to accept loss if there is an equal or greater chance of (almost) unlimited gain.
- We are very dubious about the value of routine information. We have little confidence in quarterly earnings and none in the views of investment banks. We try to screen out rather than incorporate their noise. In contrast we think that the world offers joyous opportunities to hear views, perspectives and visions that are barely noticed by the markets. From our office in Shanghai to futurists in California there is more in the investment world than the *Financial Times* or *Wall Street Journal* describe.
- We are global in stock selection, asset allocation and attribution. We are active not passive – or far worse – index plus in stock selection. Holding sizes reflect the potential upside and its probability (or otherwise) rather than the combination of the market capitalization and geographical location of the company and its headquarters. We do not have sufficient confidence in our top-down asset allocation skills to wish to override stock selection. We do not have enough confidence in our market timing abilities to wish to add or remove gearing at frequent intervals. We do, however, have strong conviction that our portfolio should be comparatively concentrated, and

1 New Oriental Education & Technology
Provider of private education in China.

2 Apple
The latest version of the iPad.

that it is of little use to shareholders to tinker around the edges of indices. We think this eventually produces better investment results and it certainly makes us more committed shareholders in companies. We suspect that selecting stocks on the basis of the past (their current market capitalization) is a policy designed to protect the security of tenure of asset managers rather than to build the wealth of shareholders. Companies that are large and established tend to be internally complacent and inflexible. They are often vulnerable to assault by more ambitious and vibrant newcomers.

- We are Growth stock investors. Such has been the preference for Value and the search to arbitrage away minor rating differentials that investors find it very hard to acknowledge the extraordinary growth rates and returns that can be found today. The growth that we are particularly interested in is of an explosive nature and often requires minimal fixed assets or indeed capital. We think of it as 'Growth at Unreasonable Prices' rather than the traditional discipline of 'Growth at a Reasonable Price'. We need to be willing to pay high multiples of immediate earnings because the scale of future potential and returns can be so dramatic. On the stocks that flourish the valuation will have turned out to be derisorily low. On the others we will lose money.
- We believe that it is our first duty to shareholders to limit fees. Both the investment management fee (equivalent to 0.32%) and the TER (0.51%) are low by comparative standards but at least adequate in absolute terms. We think that the malign impact of high fees is frequently underestimated. The difference between a TER of 0.5% and one of 1.5% may not appear great but if the perspective is altered to think of costs as a percentage of expected annual returns then the contrast becomes obvious. If annual returns average 10% (sadly they have not in recent years) then this is the difference between removing 5% of your returns or 15% each year. Nor do we believe in a performance fee. Usually it undermines investment performance. It increases pressure and narrows perspective.

Portfolio Comments

The three contentions that we have outlined in the past remain intact. To repeat the formulation of 2010:

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

Technological Innovation

We have seriously underestimated this force. It is more powerful than we thought and far broader in its application than we suspected. We now believe it to be the most important influence on the investment world. The opportunities in front of us are likely to be even more dramatic than in the recent past. This is because the very pace of change is in itself accelerating. It is very hard to grasp the implications of this. The minds of normal human beings, let alone those of fund managers with their preoccupation with the immediate, have difficulty in coping with change that is exponential rather than linear and where the guidance offered by the past is so modest.

Apple is perhaps the simplest example of this process as its devices are so dominant and as so much of its story is visible. In product terms this has taken us from the original Apple computer retailing at the equivalent of US$2,500 in today's prices without a monitor, power supply or even a casing to an iPad with at least 10,000x as much processing power for a fifth the price. In 2001 it took 91 weeks to sell one million iPods. In 2011 it took 24 hours to sell one million iPhone 4Ss. For the company this will translate into sales of over US$150bn this fiscal year (with China now running at 20% of sales) with near 40% operating margins and US$110bn in cash. From the share price lows before the return of Steve Jobs in 1997 a market value of below US$1.5bn has become US$550 bn. Identifying and holding such extraordinary companies is our primary task. Doing so holds far greater rewards than any amount of market prognostication. Whilst we have owned Apple since early 2009 we feel that we deserve more criticism than praise for our actions. Not

1 Novozymes
Enzyme manufacturer's stadardization tanks in North Carolina.

2 ABB
Work at the Shanghai robotics factory.

just did it take us several years to buy the shares but we were also quick to take profits in 2011. Our holding and our profits should have been significantly larger.

We hope that we own several companies that can follow the same path as Apple but are at a much earlier stage of development. As suggested earlier they are businesses with substantial growth opportunities, minimal or negative capital requirements from a young age and what we think are sustainable competitive advantages. This often translates into formidable margins and return on capital. Their advantages lie in network effects or in more traditional dominance by scale but the lack of capital intensity is in common. We think that such companies are extremely unusual in the history of capitalism. The markets are very uncomfortable in dealing with their existence and characteristics. They are hard to fit into the established valuation frameworks – particularly those that stress the relationship between the capitalization of a company and the value of its fixed assets. Although most of these companies are American (or specifically West Coast American) there is little theoretical reason that this need be so. The main exceptions are currently Chinese which is intriguing.

Our two largest holdings continue to be Baidu and Amazon. Both fit into the description above. They also reflect our strong preference for companies that are led by their share-owning founders. Baidu has continued to grow dramatically but the room to expand still seems open-ended. It has only 321,000 paying customers. There are approximately 40 million small businesses in China. Mobile search is growing very rapidly and advertising is becoming critical to the Chinese consumption surge. Amazon may be an even less mature business. Unlike Apple or Baidu it currently operates on very low margins. It has so many opportunities to invest that despite very favourable cash-flow dynamics it can consume all the cash it generates. As long as it is investing in activities where its competitive position ought to be powerful and returns improving then we are content to be very patient investors in such a vision for all the resultant volatility in the share price.

Alternative Energy and Healthcare

We have grown accustomed to the extraordinary pace of change in the electronics and telecommunications industries. As we noted last year similar developments are now working their way into industries in which innovation has previously been blocked by the self-interest of established players. Whilst opposition can still slow progress it is unlikely to be able to do more than delay transformation once the relevant technologies acquire sufficient momentum. We have applied this idea to the alternative energy and healthcare sectors. So far this has proven a significant error in the first case and seems quite promising in the latter. We have now sold First Solar but not before it was one of our worst investment decisions. Whilst the cost of solar energy has fallen even more sharply than we believed likely, the competitive advantage once enjoyed by First Solar has been eaten away by the power of Chinese competition and by the advent of shale gas.

Healthcare requires reform. It is costly, inefficient and frequently fails to provide the best available medical outcomes. Whilst improving this situation will be the task of decades it is possible the pace of technological innovation is starting to chip away at a previously impervious system. Just before his death Steve Jobs remarked that *'I think the biggest innovation of the 21st century will be the intersection of biology and technology. A new era is beginning.'* Genome sequencing appears to be the critical scientific advance enabling such a new era. Its costs are also falling at around twice the pace of the famed Moore's Law that has transformed semiconductor performance over the last four decades. We have a large shareholding in Illumina which is the established leader in this technology. We have recently supported the company in its (thus far) successful battle against hostile takeover by Roche. We also have what has become a large holding in Intuitive Surgical, which is not just the dominant leader in robotic surgery but is also the first pure robotics company in any field of activity to become highly profitable and of substantial size.

1 Fiat
Owner of top car brand Ferrari.

2 Google
A view from Google Earth.

China

It is fashionable to be gloomy about Chinese prospects. We are not. We think that the transition from a low cost, low valued added export behemoth to a domestic empire driven first by infrastructure and increasingly by consumption is further and more smoothly advanced than was believed possible. Productivity has risen impressively. The trade surplus is largely a memory. Naturally there will be pauses and blockages. Whilst we think the authorities have been right to clamp down on an overly-exuberant housing market before it assumed bubble proportions this could not prevent local excesses nor does it prop up growth. As productivity rises and innovation accelerates the Communist Party is likely to find the process of evolution still more complex.

But such concerns are minor compared with the scale of the achievement and of the remaining potential. We think China has the human capital, the patience and the competing multiplicity of cities and regions to continue its rise. Growth may, indeed should, slow but we doubt it will collapse. We see no eventual reason why China should be poorer than Britain. We are encouraged that we can find enough individual companies of imagination and innovation and with strong competitive moats that this admiration is a matter of practical importance. We have already discussed Baidu but arguably Tencent has been even more prescient in developing the Chinese internet with its focus on social aspects and on mobile. Certainly Facebook respects its prowess.

China's return to prominence has been distinguished more by the absence of dramatic disruptions than by their presence. Whilst American ascent was marked by internal and external wars, booms and busts, the last thirty years of Chinese progress has been remarkable in its consistency. The current comparative serenity in the face of a troubled Western economy equally appears remarkable. In contrast India, Brazil and Russia all appear to be struggling with these changed conditions. Inflation, deficits, uncompetitive industries and political failings have combined in varied guises to trigger significant productivity and growth disappointments. China is very special.

Western Financial Weakness

We do not have much to add to the daily media preoccupation with the systemic fall-out from the catastrophic implosion of the bloated world of finance in 2008–9. But some comment is probably required. At one level we are moderately encouraged. Both the American and German economies show signs of gradually overcoming the damage inflicted by finance. Given that it is now 7 years since the U.S. property bubble initially burst and that American animal spirits are hard to repress entirely in perpetuity this is pleasing but perhaps not surprising. In Germany finance and housing were never so proud but that employment and business confidence remain so buoyant despite banking frailties and Eurozone anxieties is tribute to the remarkable strength of German industry. Further south we are more concerned that Spain still has several years of working through a fearsome housing bust than we are that the age-old infelicities of the Italian state will entirely undermine a population of cautious savers and serious industrialists. Indeed we have recently bought shares in Fiat Auto as an improved generation of managers can combine with the allure of Ferrari to revive the company. Less controversially we would simply observe that replacing Silvio Berlusconi with Mario Monti is also a managerial improvement.

Such notes of comparative optimism may be unusual amongst the unremitting media gloom but they are not raised to obscure our concern at the continuing inability of the financial sector to reform itself. Whilst modest and piece-meal measures have lessened the returns and attraction of investment banking there is no evidence that a culture of stability, restraint and modesty has yet been embraced by the industry or been enforced by regulators. Whilst the shock of the crisis and the generosity of tax-payers may defer disaster, the temptations and immediate rewards of finance capital will remain serious threats to the health of the Western world.

1 PPR
Among many others, PPR's luxury brands include Gucci, Bottega Veneta, Yves Saint Laurent and Alexander McQueen.

2 Fuchs Petrolub
High performance oils and lubricants.

Conclusion

Although it has been a frustrating year we find more to be excited about than to fear. Innovation combined with globalization has enabled the rise of a series of companies with historically unparalleled returns and growth opportunities. We think that this process is far from complete. We think that it is underestimated and misunderstood by markets. Whilst we hope we are aware of the dangers of overconfidence, we are also convinced that impatience and fear have all too often exerted too great an influence on markets. At times over the last year, most notably in late 2011, it has seemed to us that the flight to presumed safety has been as exaggerated as the rush towards technology stocks in 1999–2000. Market distortions can just as easily result in undue depression as in overvaluation. Indeed given the difficult recent experience of market participants, this currently seems more probable than an outburst of excessive optimism. Pessimism is very popular. We do not share it.

JAMES ANDERSON
Manager of Scottish Mortgage
8 May 2012

Thirty Largest Holdings and Twelve Month Performance at 31 March 2012

Name	Business	Fair value 31 March 2012 £'000	% of total assets	Absolute † performance %	Contribution to absolute performance %	Fair value 31 March 2011 £'000
Baidu	Online search engine	197,279	8.29	6.2	0.8	172,596
Amazon.com	Online retailer	186,895	7.86	12.7	0.6	167,061
PPR	Luxury goods producer and retailer	136,045	5.72	15.1	0.8	104,138
Brazil CPI Linked 2045	Brazilian government inflation linked bond	120,575	5.07	8.7	0.7	117,307
Atlas Copco	Engineering	113,961	4.79	(4.2)	0.4	101,279
Tencent Holdings	Internet services	102,012	4.29	15.2	0.6	83,026
Illumina	Biotechnology equipment	70,861	2.98	(23.9)	(0.2)	5,170
Google	Online search engine	70,674	2.97	9.4	0.4	49,369
Intuitive Surgical	Surgical robots	65,370	2.75	63.0	1.4	38,235
Salesforce	Cloud computing and hosting	61,701	2.59	14.9	0.3	12,405
Vale (CVRD)	Iron ore and nickel mining	60,946	2.56	(18.2)	(0.6)	58,576
Inditex	International clothing retailer	60,201	2.53	22.4	0.4	24,320
Banco Santander	Banking	53,022	2.23	(26.7)	(1.0)	84,357
New Oriental Education & Technology	Education and training	51,851	2.18	10.2	0.2	37,832
KGHM	Copper mining	51,141	2.15	(22.8)	(0.8)	26,560
ABB	Power systems and automation	43,642	1.83	(12.5)	(0.1)	32,095
Prudential	International insurance	42,165	1.77	30.3*	0.4*	–
Novozymes	Enzyme manufacturer	41,186	1.73	(2.4)	(0.0)	32,088
Apple	Computer technology	40,894	1.72	71.9	0.7	22,585
Intertek Group	Business support providers	36,746	1.55	25.3	0.4	29,751
Deere	Farm machinery	35,792	1.50	(14.7)	(0.4)	72,557
Reckitt Benckiser	Consumer goods company	35,330	1.49	11.0*	0.2*	–
Rolls-Royce Group	Aerospace equipment	32,480	1.37	33.1	0.5	24,760
Whole Foods Market	Food retailer	32,383	1.36	27.3	0.4	28,929
Telekomunikacja Polska	Fixed and mobile telecoms	31,026	1.30	(3.9)	(0.1)	39,726
Telefonica O2 Czech Republic	Fixed and mobile telecoms	30,659	1.29	(2.2)	(0.1)	15,886
Aggreko	Power equipment rental	29,702	1.25	43.7	0.5	18,014
BASF	Chemicals	27,811	1.17	4.3	0.2	15,265
Hero Motorcorp	Motorcycle and scooter manufacturer	24,975	1.05	20.4	(0.0)	14,208
Housing Development Finance Corporation	Mortgage bank	23,296	0.98	(14.7)	(0.2)	18,690
		1,910,621	**80.32**			**1,446,785**

† Absolute performance (in sterling terms) has been calculated on a total return basis over the period 1 April 2011 to 31 March 2012.

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

Source: Baillie Gifford & Co/StatPro.

Past performance is not a guide to future performance.

Investment Changes

	Valuation at 31 March 2011 £'000	Net acquisitions/ (disposals) £'000	Appreciation/ (depreciation) £'000	Valuation at 31 March 2012 £'000
Equities*:				
North America	839,460	(139,573)	(55,539)	644,348
South America	102,080	10,908	(27,691)	85,297
Europe				
United Kingdom	239,518	8,825	50,116	298,459
Eurozone	275,670	67,836	(6,186)	337,320
Developed Europe (non euro)	193,965	38,299	(19,868)	212,396
Rest of Europe	152,544	37,953	(40,926)	149,571
Africa and the Middle East	11,056	–	(608)	10,448
Asia				
China	340,086	28,460	19,394	387,940
India	32,898	18,545	(3,172)	48,271
Japan	40,246	(16,067)	(13,167)	11,012
Rest of Asia	90,628	(38,660)	4,031	55,999
Australasia	27,922	(23,059)	(4,863)	–
Total equities	**2,346,073**	**(6,533)**	**(98,479)**	**2,241,061**
Sterling bonds	20,458	(20,402)	(56)	–
Euro bonds	2,413	(2,740)	327	–
Brazilian bonds	117,307	–	3,268	120,575
Total bonds	**140,178**	**(23,142)**	**3,539**	**120,575**
Total investments	2,486,251	(29,675)	(94,940)	2,361,636
Net liquid assets	16,027	(2,906)	3,562	16,683
Total assets	**2,502,278**	**(32,581)**	**(91,378)**	**2,378,319**

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 2012 (2011)

Sectoral 2012 (2011)

Classification of Investments

Classification Equities*:	North America %	South America %	Europe %	Africa and Middle East %	Asia %	Australasia %	2012 Total %	2011 Total %
Oil and Gas	–	–	0.4	–	–	–	0.4	3.2
Oil and gas producers	–	–	0.4	–	–	–	0.4	1.6
Oil equipment, services and distribution	–	–	–	–	–	–	–	1.6
Basic Materials	–	2.6	4.0	–	–	–	6.6	4.9
Chemicals	–	–	1.8	–	–	–	1.8	1.4
Mining	–	2.6	2.2	–	–	–	4.8	3.5
Industrials	2.7	0.4	13.6	–	2.2	–	18.9	20.5
Aerospace and defence	–	–	2.2	–	–	–	2.2	2.4
General industrials	–	–	–	–	–	–	–	1.0
Electronic and electrical equipment	0.9	–	1.8	–	–	–	2.7	3.3
Industrial engineering	1.5	–	7.4	–	–	–	8.9	9.7
Support services	0.3	0.4	2.2	–	2.2	–	5.1	4.1
Consumer Goods	–	0.6	2.7	–	1.8	–	5.1	5.8
Automobiles and parts	–	–	1.2	–	1.8	–	3.0	2.0
Beverages	–	–	–	–	–	–	–	1.3
Household goods and home construction	–	–	1.5	–	–	–	1.5	–
Leisure goods	–	–	–	–	–	–	–	1.4
Personal goods	–	0.6	–	–	–	–	0.6	–
Tobacco	–	–	–	–	–	–	–	1.1
Health Care	5.7	–	1.7	–	0.3	–	7.7	3.2
Health care equipment and services	2.7	–	–	–	–	–	2.7	1.5
Pharmaceuticals and biotechnology	3.0	–	1.7	–	0.3	–	5.0	1.7
Consumer Services	10.1	–	9.3	–	1.7	–	21.1	19.3
Food and drug retailers	1.4	–	0.6	–	–	–	2.0	3.0
General retailers	8.7	–	8.7	–	1.4	–	18.8	14.7
Media	–	–	–	–	–	–	–	1.0
Travel and leisure	–	–	–	–	0.3	–	0.3	0.6
Telecommunications	–	–	2.6	–	–	–	2.6	2.2
Mobile telecommunications	–	–	2.6	–	–	–	2.6	2.2
Financials	0.2	–	6.1	0.4	1.5	–	8.2	13.8
Banks	–	–	3.4	0.4	–	–	3.8	7.8
Nonlife insurance	–	–	–	–	–	–	–	2.8
Real estate investment and services	–	–	–	–	–	–	–	–
Financial services	0.2	–	2.3	–	1.5	–	4.0	2.7
Open ended investment companies	–	–	0.4	–	–	–	0.4	0.5
Technology	8.4	–	1.5	–	13.7	–	23.6	20.9
Software and computer services	6.5	–	1.3	–	13.7	–	21.5	15.3
Technology hardware and equipment	1.9	–	0.2	–	–	–	2.1	5.6
Total Equities*	**27.1**	**3.6**	**41.9**	**0.4**	**21.2**	–	**94.2**	
Total Equities* – 2011	33.6	4.1	34.5	0.4	20.1	1.1		**93.8**
Bonds	–	5.1	–	–	–	–	5.1	5.6
Net Liquid Assets	0.6	0.1	(0.3)	–	0.3	–	0.7	0.6
Total Assets (before deduction of debentures, long and short term borrowings)	**27.7**	**8.8**	**41.6**	**0.4**	**21.5**	–	**100.0**	
Total Assets – 2011	34.2	8.9	35.2	0.4	20.2	1.1		**100.0**
Debentures, Long and Short Term Borrowings	(6.9)	–	(8.5)	–	–	–	(15.4)	(14.8)
Shareholders' Funds	**20.8**	**8.8**	**33.1**	**0.4**	**21.5**	–	**84.6**	
Shareholders' Funds – 2011	29.7	8.9	24.9	0.4	20.2	1.1		**85.2**
Number of equity investments*	**15**	**3**	**35**	**1**	**15**	–	**69**	**83**

*Including OEICs.

List of Investments as at 31 March 2012

Classification	Name	Business	Fair value £'000	% of total assets
North America				
Electronic and electrical equipment	Flir Systems	Infrared sensors	21,490	0.9
Industrial engineering	Deere	Farm machinery	35,792	1.5
Support services	Linkedin Corp	Business-related social networking site	6,385	0.3
Health care equipment and services	Intuitive Surgical	Surgical robots	65,370	2.7
Pharmaceuticals and biotechnology	Illumina	Biotechnology equipment	70,861	3.0
Food and drug retailers	Whole Foods Market	Food retailer	32,383	1.4
General retailers	Amazon.com	Online retailer	186,895	
	eBay	Internet trading company	13,353	
	Opentable	Electronic restaurant reservations	6,585	
			206,833	8.7
Financial services	WI Harper Fund*	Venture capital	3,812	0.2
Software and computer services	Google	Online search engine	70,674	
	Salesforce	Cloud computing and hosting	61,701	
	Rackspace Hosting	Cloud computing and hosting	22,671	
			155,046	6.5
Technology hardware and equipment	Apple	Computer technology	40,894	
	F5 Networks	Networking equipment	5,482	
			46,376	1.9
Total North American Equities			**644,348**	**27.1**
South America				
Mining	Vale (CVRD)	Iron ore and nickel mining – Brazil	60,946	2.6
Support services	America Latina Logistica	Railroad operator – Brazil	10,789	0.4
Personal goods	Natura	Manufacturer and marketer of skin products – Brazil	13,562	0.6
Total South American Equities			**85,297**	**3.6**
Europe				
Oil and gas producers	Gazprom	Gas production and distribution – Russia	10,064	0.4
Chemicals	BASF	Chemicals – Germany	27,811	
	Fuchs Petrolub	Manufacturer of lubricants – Germany	13,280	
			41,091	1.8
Mining	KGHM	Copper mining – Poland	51,141	2.2
Aerospace and defence	Meggitt	Aerospace equipment and systems – UK	19,817	
	Rolls-Royce Group	Aerospace equipment – UK	32,480	
			52,297	2.2
Electronic and electrical equipment	ABB	Power systems and automation – Switzerland	43,642	1.8
Industrial engineering	Atlas Copco	Engineering – Sweden	113,961	
	Sandvik	Engineering – Sweden	13,607	
	Renishaw	Electronic equipment – UK	19,201	
	Aggreko	Power equipment rental – UK	29,702	
			176,471	7.4
Support services	Intertek Group	Business support providers – UK	36,746	
	Serco Group	Government outsourcing – UK	17,512	
			54,258	2.2
Automobiles and parts	Porsche	Automobiles – Germany	11,230	
	Fiat	Automobiles – Italy	15,349	
			26,579	1.2

*Denotes unlisted security.

Classification	Name	Business	Fair value £'000	% of total assets
Europe (continued)				
Household goods and home construction	Reckitt Benckiser	Consumer goods company – UK	35,330	1.5
Pharmaceuticals and biotechnology	Novozymes	Enzyme manufacturer – Denmark	41,186	1.7
Food and drug retailers	Jeronimo Martins	Retailer – Portugal	14,618	0.6
General retailers	Inchcape	Motor distributor – UK	9,389	
	PPR	Luxury goods producer and retailer – France	136,045	
	Inditex	International clothing retailer – Spain	60,201	
			205,635	8.7
Mobile telecommunications	Telekomunikacja Polska	Fixed and mobile telecoms – Poland	31,026	
	Telefonica O2 Czech Republic	Fixed and mobile telecoms – Czech Republic	30,659	
			61,685	2.6
Banks	Banco Santander	Banking – Spain	53,022	
	Garanti Bankasi	Banking – Turkey	12,970	
	Standard Chartered	Banking – UK	14,754	
	NBNK	Banking – UK	2,706	
			83,452	3.4
Real estate investment and services	Black Sea Property Fund	Bulgarian property trust	180	–
Financial services	Intermediate Capital Group	Mezzanine finance provider – UK	8,265	
	Level E Maya Fund	Artificial intelligence based algorithmic trading – UK	4,906	
	Prudential	International insurance – UK	42,165	
			55,336	2.3
Open ended investment companies	Baillie Gifford Global Discovery Fund	Global growth fund	9,708	0.4
Software and computer services	Arm Holdings	Semiconductor and software design company – UK	15,778	
	Mail.RU Group	Software and computer services – Russia	13,531	
			29,309	1.3
Technology hardware and equipment	Aixtron	LED manufacturing equipment – Germany	5,764	0.2
Total European Equities			**997,746**	**41.9**
Africa and Middle East				
Banks	Standard Bank Group	Banking – South Africa	10,448	0.4
Total African and Middle East Equities			**10,448**	**0.4**
Asia				
Support services	New Oriental Education & Technology	Education and training – China	51,851	2.2
Automobiles and parts	Hero Motorcorp	Motorcycle and scooter manufacturer – India	24,975	
	Astra International	Automotive conglomerate – Indonesia	17,268	
			42,243	1.8
Pharmaceuticals and biotechnology	Celltrion	Biopharmaceutical company – Korea	7,921	0.3
General retailers	Belle International	Footwear – China	9,343	
	Rakuten	Online retailer – Japan	11,012	
	Dangdang	E-Commerce – China	11,950	
			32,305	1.4
Travel and leisure	Ctrip.com	Travel agent – China	7,868	0.3

Classification	Name	Business	Fair value £'000	% of total assets
Asia (continued)				
Financial services	Housing Development Finance Corporation	Mortgage bank – India	23,296	
	Singapore Exchange	Securities exchange owner/operator – Singapore	10,184	
	Innovation Works Development Fund*	Investment company – China	2,872	
			36,352	1.5
Software and computer services	Baidu	Online search engine – China	197,279	
	Taiwan Semiconductor Manufacturing	Semiconductor manufacturer – Taiwan	20,626	
	Tencent Holdings	Internet services – China	102,012	
	Vanceinfo Technologies	Computer services – China	4,765	
			324,682	13.7
Total Asian Equities			**503,222**	**21.2**
Total Equity Investments			**2,241,061**	**94.2**
Fixed Interest				
Brazilian real denominated	Brazil CPI Linked 2045		120,575	5.1
Total Fixed Interest			**120,575**	**5.1**
Total Investments			**2,361,636**	**99.3**
Net Liquid Assets			**16,683**	**0.7**
Total Assets at Fair Value (before deduction of debentures, long and short term borrowings)			**2,378,319**	**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) %
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
2012	**2,378,319**	**365,996**	**2,012,323**	**793.4**	**768.7**	**795.6**	**708.0**	**7.9**	**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 50).
† 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 are no longer treated as a liability at the year end. Figures prior to 2005 have not been restated for these changes.

Revenue

Gearing Ratios

Year to 31 March	Gross revenue £'000	Available for ordinary shareholders £'000	Revenue earnings per ordinary share ‡ p	Dividend paid and proposed per ordinary share (net) p	Total expense ratio ¶ %	Actual gearing §	Potential gearing ^
2002	36,377	24,213	7.56	6.25	0.47	109	116
2003	33,909	22,597	7.43	6.60	0.49	113	125
2004	35,829	23,931	8.05	7.00	0.60	111	120
2005	35,456	21,809	7.37	7.35	0.52	110	117
2006	41,456	25,738	8.82	8.50	0.52	108	113
2007	45,522	27,817	9.80	9.50	0.49	110	116
2008	49,575	27,043	9.79	10.30	0.51	118	124
2009	57,470	34,571	12.67 ††	12.30 ††	0.54	119	129
2010	49,174	30,200	11.18	11.30	0.52	109	117
2011	53,703	34,374	13.32	12.00	0.51	110	117
2012	**52,689**	**33,473**	**13.07**	**13.00**	**0.51**	**111**	**118**

‡ 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 2002 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
2002	100	100	100	100	100	100	100	100	100
2003	67	69	68	69	64	65	98	106	103
2004	90	95	84	89	83	88	106	112	106
2005	100	105	92	99	90	97	97	118	109
2006	144	154	116	129	141	156	117	136	112
2007	149	162	120	137	147	165	130	152	117
2008	159	176	116	135	163	185	129	165	122
2009	94	106	89	108	96	112	168	197	121
2010	168	195	129	160	165	198	148	181	126
2011	197	231	137	173	201	246	176	192	133
2012	**188**	**225**	**133**	**173**	**192**	**239**	**173**	**208**	**138**
Compound annual returns									
5 year	4.7%	6.8%	2.1%	4.8%	5.5%	7.7%	5.9%	6.5%	3.3%
10 year	6.5%	8.4%	2.9%	5.6%	6.7%	9.1%	5.6%	7.6%	3.3%

^^ 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 2012.

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 2011, 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 allocations 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 primarily 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 2,900,000 shares, all of which are held in treasury, increasing net asset value per share by 0.13%. Between 1 April 2012 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) decreased by 5.8% during the year, compared to a decrease in the benchmark of 2.9%; the discount was 7.9% at 31 March 2012.

The Board recommends a final dividend of 6.80p per ordinary share which, together with the interim of 6.20p already paid, makes a total of 13.00p for the year compared with 12.00p for the previous year.

If approved, the recommended final dividend on the ordinary shares will be paid on 2 July 2012 to shareholders on the register at the close of business on 1 June 2012. The ex-dividend date is 30 May 2012.

The Company's Registrars offer a Dividend Reinvestment Plan (see page 51) and the final date for elections for this dividend is 11 June 2012.

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 and 48 to 50. In addition, multi-currency loan facilities are in place which are also shown on page 42.

During the year the Lloyds TSB Bank loan, which had drawings of US$80 million and €59.8 million was repaid and a new three year £100 million multi-currency facility was entered into with National Australia Bank which has been drawn down in US$.

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 50.

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 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 Managers have 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 Managers 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 25.

Corporate Governance

Compliance

The Board is committed to achieving and demonstrating high standards of Corporate Governance. This statement outlines how the principles of the June 2010 UK Corporate Governance Code (the "Code"), which can be found at **www.frc.org.uk**, were applied throughout the financial year.

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

The Association of Investment Companies has published its own Code of Corporate Governance which provides a framework of best practice for investment companies which can be found at www.theaic.co.uk. The Board is of the opinion that the Company has complied with the recommendations 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.

Following the appointment of Dr Linda Yueh on 3 May 2012 the Board comprises six Directors, all of whom are non-executive.

The Chairman is responsible for organising the business of the Board, ensuring its effectiveness and setting its agenda.

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

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

Under the provisions of the Company's Articles of Association, a Director appointed during the year is required to retire and seek election by shareholders at the next Annual General Meeting. In accordance with the Code all Directors 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, have served on the Board for more than nine years.

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**	**1**
JPHS Scott	6	2	1
MM Gray	6	2	1
Professor JA Kay	6	2	1
FC McBain	6	2	1
WG McQueen	6	2	1

Dr L Yueh was appointed subsequent to the year end, 3 May 2012.

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 page of the Manager's website: **www.scottishmortgageit.com**.

The Nomination Committee reviewed the Directors' balance of skills, knowledge, experience and length of service during the year. The Committee concluded that, in line with the policy for regular refreshment of the Board, an additional Director should be appointed. The Committee identified the skills and experience that would strengthen the Board having due regard for the benefits of diversity, including gender. The Committee considered several high quality candidates and identified Dr Yueh as the preferred candidate due to her international knowledge and experience and in particular her knowledge of China. Following an interview by the Board, Dr Yueh was appointed on 3 May 2012. The large number of high quality candidates made it unnecessary to use external search consultants or open advertising.

Following the appointment of Dr Yueh, two Directors out of six are women. While the Board recognises the benefits of gender diversity, the priority in appointing new Directors to the Board is to identify the candidate with the best range of skills and experience to complement existing Directors.

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.

The Directors are considering the merits of having the Board evaluation externally facilitated.

Induction and Training

New Directors are provided with an induction programme which is tailored to the particular circumstances of the appointee. Briefings were provided during the year on industry and regulatory matters, taxation and company law. 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 risk management and internal control systems and for reviewing their effectiveness. The systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable but not absolute assurance against material misstatement or loss.

The Board confirms that there is a continuing 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 Company's risk management and internal control systems and they have procedures in place to review their 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 conducts an annual review of its 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 Audit Committee.

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. The custodian prepares a report on its internal controls which is independently reviewed by KPMG LLP.

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 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. 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 page of the Managers' 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 him 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 the adequacy and effectiveness of internal control and risk management systems;
- 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 is 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 was appointed during the 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 2012 were £640 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 page of the Managers' 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 at **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.bailliegifford.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.

Bribery Act 2010

The Bribery Act came into force on 1 July 2011. The Company has a zero tolerance policy towards bribery and is committted to carrying out business fairly, honestly and openly. The Managers also adopt a zero tolerance approach and have policies and procedures in place to prevent bribery.

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 a continuing 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 and the excellent results, particularly over a five year basis, 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 2012	Ordinary 25p shares held at 31 March 2011
JPHS Scott	Beneficial	40,284	37,322
MM Gray	Beneficial	150,000	150,000
	Non-beneficial	12,500	12,500
Professor JA Kay	Beneficial	5,000	5,000
FC McBain	Beneficial	1,136	1,115
WG McQueen	Beneficial	1,500	1,500

The Directors at the year end, and their interests in the Company, were as shown above. Dr L Yueh acquired 812 shares on 4 May 2012 in which she has a beneficial interest. There have been no other changes intimated in the Directors' interests up to 8 May 2012.

Directors

Dr Yueh, having been appointed to the to the Board on 3 May 2012, is required to seek election by shareholders at the Annual General Meeting. The Directors believe that the Board will benefit from her extensive knowledge and experience and recommend her election to shareholders.

All other Directors will retire and offer themselves for re-election in accordance with the UK Corporate Governance Code.

Following formal performance evaluation, the Board considers that the performance of the Directors 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 at 31 March 2012	% of issue *
BlackRock Inc (Indirect)	21,361,299	8.4
D.C. Thomson & Company Limited (Direct)	13,400,000	5.3
Legal & General Group Plc (Direct)	10,847,845	4.3

Since year end, D.C. Thomson & Company Limited have notified the Company that their direct holding is 12,700,000 ordinary shares (5.0%). There have been no other changes to the major interests in the Company's shares intimated up to 8 May 2012.

*Ordinary shares in issue excluding treasury shares.

Share Capital

Capital Structure

The Company's capital structure as at 31 March 2012 consists of 284,346,176 ordinary shares of 25p each, of which 253,619,897 are allotted and fully paid and 30,726,279 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 56 and 57.

Purchase of Own Shares

During the year to 31 March 2012 the Company bought back 2,900,000 ordinary shares (nominal value £725,000), on the London Stock Exchange, all of which are held in treasury. The total consideration for these shares was £19,637,000. Between 1 April 2012 and the date of this report no further shares have been bought back. At 31 March 2012 the Company held 30,726,279 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 per share of the Company has increased by approximately 0.13%. 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 12, 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 2013. 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 12, 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 13, 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 £6,340,497 in aggregate (representing 10% of the issued ordinary share capital (excluding treasury shares) of the Company as at 8 May 2012) 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 2013.

The Directors consider that the power proposed to be granted by Resolution 13 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 8 May 2012 the Company held 30,726,279 treasury shares, representing 12.1% of the ordinary shares in issue (excluding treasury shares).

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

Recommendation

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

Creditor Payment Policy

It is the Company's payment policy for the forthcoming financial year to obtain the best terms for all business. In general, the Company agrees with its suppliers the terms on which business will take place and it is its policy to abide by these terms. The Company had no trade creditors at 31 March 2012 or 2011.

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
8 May 2012

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

Following the appointment of Dr Yueh on 3 May 2012 the Company has six Directors, all of whom are non-executive. There is no separate Remuneration Committee and the Board as a whole considers changes to Directors' fees from time to time. Baillie Gifford & Co, who have been appointed by the Board as Managers and Secretaries, provide advice and comparative information when the Board considers the level of Directors' fees.

Policy on Directors' Fees

The Board's policy is that the remuneration of Directors should be set at a reasonable level that is commensurate with the duties and responsibilities of the role and consistent with the requirement to attract and retain Directors of the appropriate quality and experience. It should also reflect the experience of the Board as a whole, be fair and should take account of the level of fees paid by comparable investment trusts. This policy will continue for the year ending 31 March 2013 and subsequent years.

The fees for the non-executive Directors are determined within the limits set out in the Company's Articles of Association which state that 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. Non-executive Directors are not eligible for any other remuneration apart from the reimbursement of allowable expenses.

The Board carried out a review of the level of Directors' fees during the year, and concluded that the fees should remain unchanged for the year to 31 March 2013 at £40,000 for the Chairman and £27,000 for each Director, with the additional fee for the Chairman of the Audit Committee being £3,000. The last increase was effective from 1 April 2011.

Directors' Remuneration for the Year (audited)

Name	2012 £	2011 £
JPHS Scott (Chairman)	40,000	36,000
MM Gray	27,000	24,000
Professor JA Kay	27,000	24,000
FC McBain	27,000	24,000
WG McQueen (Audit Committee Chairman)	30,000	27,000
	151,000	**135,000**

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 shall retire annually and, if they wish, offer themselves for re-election. 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/election
JPHS Scott	31 October 2001	AGM 2012
MM Gray	26 February 2004	AGM 2012
Professor JA Kay	11 December 2008	AGM 2012
FC McBain	26 February 2009	AGM 2012
WG McQueen	15 February 2001	AGM 2012
L Yueh	3 May 2012	AGM 2012

Performance Graph

Scottish Mortgage's Share Price, FTSE All-Share Index and Benchmark* (figures have been rebased to 100 at 31 March 2007)

*All figures are total return (assuming all dividends are reinvested).
† Benchmark: FTSE All-World Index (in sterling terms).

Past performance is not a guide to future performance.

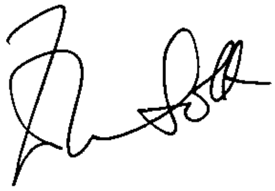
Company Performance

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 8 May 2012.

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.

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

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
8 May 2012

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 year ended 31 March 2012 set out on pages 32 to 50. 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 and express an opinion on 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 2012 and of its loss 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 UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on Directors' remuneration.

C Burnet

Catherine Burnet (Senior Statutory Auditor)
for and on behalf of
KPMG Audit Plc, Statutory Auditor
Chartered Accountants
Edinburgh
8 May 2012

Income Statement

For the year ended 31 March

	Notes	2012 Revenue £'000	2012 Capital £'000	**2012 Total £'000**	2011 Revenue £'000	2011 Capital £'000	**2011 Total £'000**
(Losses)/gains on investments	9	–	(94,940)	**(94,940)**	–	325,193	**325,193**
Currency gains/(losses)	14	–	5,974	**5,974**	–	(4,578)	**(4,578)**
Income	2	52,689	–	**52,689**	53,703	–	**53,703**
Investment management fee	3	(3,632)	(3,632)	**(7,264)**	(3,638)	(3,638)	**(7,276)**
Other administrative expenses	4	(2,380)	–	**(2,380)**	(2,438)	–	**(2,438)**
Net return before finance costs and taxation		46,677	(92,598)	**(45,921)**	47,627	316,977	**364,604**
Finance costs of borrowings	5	(9,401)	(9,401)	**(18,802)**	(8,814)	(8,814)	**(17,628)**
Net return on ordinary activities before taxation		37,276	(101,999)	**(64,723)**	38,813	308,163	**346,976**
Tax on ordinary activities	6	(3,803)	–	**(3,803)**	(4,439)	–	**(4,439)**
Net return on ordinary activities after taxation		**33,473**	**(101,999)**	**(68,526)**	**34,374**	**308,163**	**342,537**
Net return per ordinary share	7	**13.07p**	**(39.81p)**	**(26.74p)**	**13.32p**	**119.40p**	**132.72p**

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 50 are an integral part of the financial statements.

Balance Sheet

As at 31 March

	Notes	2012 £'000	2012 £'000	2011 £'000	2011 £'000
Fixed assets					
Investments held at fair value through profit or loss	9		2,361,636		2,486,251
Current assets					
Debtors	10	8,321		15,468	
Cash and short term deposits		20,855		14,699	
		29,176		30,167	
Creditors					
Amounts falling due within one year	11	(125,295)		(178,745)	
Net current liabilities			(96,119)		(148,578)
Total assets less current liabilities			2,265,517		2,337,673
Creditors					
Amounts falling due after more than one year	12		(253,194)		(205,379)
			2,012,323		**2,132,294**
Capital and reserves					
Called up share capital	13		71,086		71,086
Capital redemption reserve	14		19,094		19,094
Capital reserve	14		1,844,229		1,965,865
Revenue reserve	14		77,914		76,249
Shareholders' funds	15		**2,012,323**		**2,132,294**
Net asset value per ordinary share (after deducting borrowings at fair value)	22		**768.7p**		**816.5p**
Net asset value per ordinary share (after deducting borrowings at par)	16		**795.6p**		**833.5p**

The Financial Statements of Scottish Mortgage Investment Trust PLC (Company registration No. SC007058) were approved and authorised for issue by the Board and signed on 8 May 2012.

JOHN SCOTT
Chairman

The accompanying notes on pages 36 to 50 are an integral part of the financial statements.

Reconciliation of Movements in Shareholders' Funds

For the year ended 31 March 2012

	Notes	Share capital £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	**Shareholders' funds £'000**
Shareholders' funds at 1 April 2011		71,086	19,094	1,965,865	76,249	**2,132,294**
Net return on ordinary activities after taxation	14	–	–	(101,999)	33,473	**(68,526)**
Shares bought back	13	–	–	(19,637)	–	**(19,637)**
Dividends paid during the year	8	–	–	–	(31,808)	**(31,808)**
Shareholders' funds at 31 March 2012		**71,086**	**19,094**	**1,844,229**	**77,914**	**2,012,323**

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		–	–	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**

The accompanying notes on pages 36 to 50 are an integral part of the financial statements.

Cash Flow Statement

For the year ended 31 March

	Notes	2012 £'000	2012 £'000	2011 £'000	2011 £'000
Net cash inflow from operating activities	17		44,484		49,530
Servicing of finance					
Interest paid		(18,803)		(18,323)	
Net cash outflow from servicing of finance			(18,803)		(18,323)
Taxation					
Income tax refunded		38		21	
Overseas tax incurred		(3,896)		(4,488)	
Total tax paid			(3,858)		(4,467)
Financial investment					
Acquisitions of investments		(621,168)		(446,404)	
Disposals of investments		654,761		414,713	
Realised currency profit		3,562		1,099	
Net cash inflow/(outflow) from financial investment			37,155		(30,592)
Equity dividends paid	8		(31,808)		(29,936)
Net cash inflow/(outflow) before financing			27,170		(33,788)
Financing					
Shares bought back	13	(19,637)		(20,215)	
Bank loans repaid		(102,206)		(151,049)	
Bank loans drawn down		100,829		200,853	
Net cash (outflow)/inflow from financing			(21,014)		29,589
Increase/(decrease) in cash	18		**6,156**		**(4,199)**
Reconciliation of net cash flow to movement in net debt	18				
Increase/(decrease) in cash in the period			6,156		(4,199)
Decrease/(increase) in bank loans			1,377		(49,804)
Exchange movement on bank loans			2,412		(5,677)
Other non-cash changes			199		174
Movement in net debt in the year			10,144		(59,506)
Net debt at 1 April			(355,285)		(295,779)
Net debt at 31 March			**(345,141)**		**(355,285)**

The accompanying notes on pages 36 to 50 are an integral part of the financial statements.

1 Principal Accounting Policies

The financial statements for the year to 31 March 2012 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. Where income returns are for a non-fixed amount, the impact of these returns on the effective interest rate is recognised once such returns are known. If there is reasonable doubt that a return will be received, its recognition is deferred until that doubt is removed.

(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 within losses/gains on investments; 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

	2012 £'000	2011 £'000
Income from investments		
Franked investment income*	6,156	5,970
UK unfranked investment income*	797	1,680
Overseas dividends	39,140	38,993
Overseas interest	6,575	6,710
	52,668	**53,353**
Other income		
Deposit interest	13	26
Underwriting commission and commitment fees	8	324
	21	**350**
Total income	**52,689**	**53,703**
Total income comprises:		
Dividends from financial assets designated at fair value through profit or loss	45,378	45,108
Interest from financial assets designated at fair value through profit or loss	7,290	8,245
Deposit interest from financial assets not at fair value through profit or loss	13	26
Other income not from financial assets	8	324
	52,689	**53,703**

*Includes OEIC income.

3 Investment Management Fee

	2012 Revenue £'000	2012 Capital £'000	**2012 Total £'000**	2011 Revenue £'000	2011 Capital £'000	**2011 Total £'000**
Investment management fee	3,632	3,632	**7,264**	3,638	3,638	**7,276**

Baillie Gifford & Co is 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

	2012 £'000	2011 £'000
General administrative expenses	2,205	2,280
Directors' fees (see Directors' Remuneration Report page 28)	151	135
Auditor's remuneration for audit services	23	22
Auditor's remuneration for other services – certification of results for the debenture trustees	1	1
	2,380	**2,438**

5 Finance Costs of Borrowings

	2012 Revenue £'000	2012 Capital £'000	**2012 Total £'000**	2011 Revenue £'000	2011 Capital £'000	**2011 Total £'000**
Financial liabilities not at fair value through profit or loss						
Bank loans and overdrafts repayable within five years	2,507	2,507	**5,014**	1,908	1,908	**3,816**
Debentures repayable wholly or partly in more than five years	6,894	6,894	**13,788**	6,906	6,906	**13,812**
	9,401	**9,401**	**18,802**	**8,814**	**8,814**	**17,628**

6 Tax on Ordinary Activities

	2012 Revenue £'000	2012 Capital £'000	**2012 Total £'000**	2011 Revenue £'000	2011 Capital £'000	**2011 Total £'000**
Overseas taxation	**3,803**	–	**3,803**	**4,439**	–	**4,439**

	2012 £'000	2011 £'000
The tax charge for the year is lower than the standard rate of corporation tax in the UK of 26% (2011 – 28%)		
The differences are explained below:		
Net return on ordinary activities before taxation	(64,723)	346,976
Net return on ordinary activities before taxation multiplied by the standard rate of corporation tax in the UK of 26% (2011 – 28%)	(16,828)	97,153
Capital returns not taxable	23,131	(89,772)
Income not taxable (franked investment income)	(1,601)	(1,672)
Income not taxable (overseas dividends)	(9,585)	(9,351)
Adjustment to income received from OEICs for tax purposes	3	5
Taxable expenses in the year not utilised	4,969	3,872
Overseas withholding tax	3,803	4,439
Double taxation relief	(89)	(235)
Current tax charge for the year	**3,803**	**4,439**

At 31 March 2012 the Company had surplus management expenses and losses on non-trading loan relationships of £79 million (2011 – £59 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

	2012 Revenue	2012 Capital	**2012 Total**	2011 Revenue	2011 Capital	**2011 Total**
Net return per ordinary share	**13.07p**	**(39.81p)**	**(26.74p)**	**13.32p**	**119.40p**	**132.72p**

Revenue return per ordinary share is based on the net revenue on ordinary activities after taxation of £33,473,000 (2011 – £34,374,000), and on 256,199,678 (2011 – 258,103,596) 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 loss for the financial year of £101,999,000 (2011 – net capital gain of £308,163,000), and on 256,199,678 (2011 – 258,103,596) 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

	2012	2011	2012 £'000	2011 £'000
Amounts recognised as distributions in the year:				
Previous year's final (paid 4 July 2011)	6.20p	5.80p	15,904	14,968
Interim (paid 25 November 2011)	6.20p	5.80p	15,904	14,968
	12.40p	**11.60p**	**31,808**	**29,936**

Also set out below are 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 £33,473,000 (2011 – £34,374,000).

	2012	2011	2012 £'000	2011 £'000
Dividends paid and payable in respect of the year:				
Interim dividend per ordinary share (paid 25 November 2011)	6.20p	5.80p	15,904	14,968
Proposed final dividend per ordinary share (payable 2 July 2012)	6.80p	6.20p	17,246	15,904
Adjustment to previous year's final dividend re shares bought back			–	(84)
	13.00p	**12.00p**	**33,150**	**30,788**

9 Fixed Assets – Investments

As at 31 March 2012	Level 1 £'000	Level 2 £'000	Level 3 £'000	**Total £'000**
Listed equities	2,226,765	7,612	–	**2,234,377**
Listed debt securities	–	120,575	–	**120,575**
Unlisted equities	–	–	6,684	**6,684**
Unlisted debt securities	–	–	–	**–**
Total financial asset investments	**2,226,765**	**128,187**	**6,684**	**2,361,636**

9 Fixed Assets – Investments (continued)

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**

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 2011	1,561,986	76,372	9,565	**1,647,923**
Investment holding gains/(losses) at 1 April 2011	781,620	59,219	(2,511)	**838,328**
Value of investments at 1 April 2011	2,343,606	135,591	7,054	**2,486,251**
Movements in year:				
Purchases at cost	615,244	–	3,785	**619,029**
Sales – proceeds	(632,262)	(16,445)	–	**(648,707)**
– gains/(losses) on sales	3,630	(15,492)	–	**(11,862)**
Amortisation of fixed income book cost	–	3	–	**3**
Change in listing	6,700	–	(6,700)	**–**
Changes in investment holding gains and losses	(102,541)	16,918	2,545	**(83,078)**
Value of investments at 31 March 2012	**2,234,377**	**120,575**	**6,684**	**2,361,636**
Cost of investments at 31 March 2012	1,555,298	44,438	6,650	**1,606,386**
Investment holding gains/(losses) at 31 March 2012	679,079	76,137	34	**755,250**
Value of investments at 31 March 2012	**2,234,377**	**120,575**	**6,684**	**2,361,636**

The purchases and sales proceeds figures above include transaction costs of £968,000 (2011 – £483,000) and £669,000 (2011 – £455,000) respectively.

Of the losses on sales during the year of £11,862,000 (2011 – gains of £109,495,000) a net gain of £145,013,000 (2011 – gain of £60,000) 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 2011 £'000	Purchases/ amortisation £'000	Sales proceeds £'000	Change in listing £'000	Gains/ (losses) on sales £'000	Holding gains/ (losses) £'000	**Value at 31 March 2012 £'000**
Listed debt securities	8,523	–	(8,482)	–	(14,475)	14,434	**–**
Unlisted equities	2,467	3,785	–	–	–	432	**6,684**
Unlisted debt securities	4,587	–	–	(6,700)	–	2,113	**–**
	15,577	**3,785**	**(8,482)**	**(6,700)**	**(14,475)**	**16,979**	**6,684**

	Value at 1 April 2010 £'000	Purchases/ amortisation £'000	Sales proceeds £'000	Change in listing £'000	Gains/ (losses) on sales £'000	Holding gains/ (losses) £'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**

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.

	2012 £'000	2011 £'000
Net (losses)/gains on investments designated at fair value through profit or loss on initial recognition		
(Losses)/gains on sales	(11,862)	109,495
Changes in investment holding gains/(losses)	(83,078)	215,698
	(94,940)	**325,193**

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:

	2012 C income shares held	2012 Value £'000	2012 % of fund held	2011 C income shares held	2011 Value £'000	2011 % of fund held
Baillie Gifford Global Discovery Fund*	2,554,821	9,708	47.0	3,466,398	13,970	43.5

*On 1 May 2011 the Fund changed its name from the Baillie Gifford European Smaller Companies Fund to the Baillie Gifford Global Discovery Fund.

10 Debtors

	2012 £'000	2011 £'000
Amounts falling due within one year:		
Income accrued	5,842	6,916
Sales for subsequent settlement	1,705	7,759
UK taxation recoverable	22	59
Other debtors and prepayments	752	734
	8,321	**15,468**

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

	2012 £'000	2011 £'000
Lloyds TSB Bank plc multi-currency loan	–	102,846
The Royal Bank of Scotland loan	50,842	–
The Bank of New York Mellon multi-currency loan	61,960	61,759
Purchases for subsequent settlement	2,974	5,113
Share buybacks payable	4,994	4,467
Other creditors and accruals	4,525	4,560
	125,295	**178,745**

Included in other creditors is £1,153,000 (2011 – £1,252,000) in respect of the investment management fee.

Borrowing facilities

A 1 year US$99 million multi-currency loan facility has been arranged with The Bank of New York Mellon.
A 2 year €61 million loan facility has been arranged with The Royal Bank of Scotland plc.
A 3 year £100 million multi-currency loan facility, at the time of draw down, has been arranged with National Australia Bank Limited.

At 31 March 2012 drawings were as follows:

The Bank of New York Mellon	US$99 million at an interest rate of 1.36% per annum
The Royal Bank of Scotland plc	€61 million at an interest rate of 2.72% per annum
National Australia Bank Limited	US$163 million at an interest rate of 2.63% 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.

During the year the Lloyds TSB Bank plc loan, which had drawings of U$80 million and €59.8 million was repaid and a new three year £100 million facility was entered into with National Australia Bank.

12 Creditors – Amounts falling due after more than one year

	Nominal rate	Effective rate	2012 £'000	2011 £'000
Debenture stocks:				
£20 million 8–14% stepped interest debenture stock 2020	14.0%	12.3%	21,747	21,860
£75 million 6.875% debenture stock 2023	6.875%	6.9%	74,599	74,562
£50 million 6–12% stepped interest debenture stock 2026	12.0%	10.8%	54,158	54,281
4½% irredeemable debenture stock			675	675
Bank loans:				
National Australia Bank Limited multi-currency loan			102,015	-
The Royal Bank of Scotland loan			–	54,001
			253,194	**205,379**

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 £5,504,000 (2011 – £5,703,000) over nominal value. The debenture stocks are secured by a floating charge over the assets of the Company.

13 Called Up Share Capital

	2012 Number	2012 £'000	2011 Number	2011 £'000
Allotted, called up and fully paid ordinary shares of 25p each	**253,619,897**	**63,405**	256,519,897	64,130
Treasury shares of 25p each	**30,726,279**	**7,681**	27,826,279	6,956
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 2012 a total of 2,900,000 (2011 – 3,000,000) ordinary shares with a nominal value of £725,000 (2011 – £750,000) were bought back at a total cost of £19,637,000 (2011 – £20,215,000) and held in treasury. At 31 March 2012 the Company had authority to buy back a further 35,552,332 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 2011	71,086	19,094	1,965,865	76,249	**2,132,294**
Losses on sales	–	–	(11,862)	–	**(11,862)**
Changes in investment holding gains and losses	–	–	(83,078)	–	**(83,078)**
Exchange differences	–	–	3,562	–	**3,562**
Exchange differences on multi-currency loans	–	–	2,412	–	**2,412**
Shares bought back	–	–	(19,637)	–	**(19,637)**
Investment management fee charged to capital	–	–	(3,632)	–	**(3,632)**
Finance costs of borrowings charged to capital	–	–	(9,401)	–	**(9,401)**
Dividends paid in year	–	–	–	(31,808)	**(31,808)**
Revenue return on ordinary activities after taxation	–	–	–	33,473	**33,473**
At 31 March 2012	**71,086**	**19,094**	**1,844,229**	**77,914**	**2,012,323**

The capital reserve includes investment holding gains of £755,250,000 (2011 – gains of £838,328,000) as disclosed in note 9.

15 Shareholders' Funds

	2012 £'000	2011 £'000
Total shareholders' funds are attributable as follows:		
Equity shares	**2,012,323**	**2,132,294**

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:

	2012	2011
Shareholders' funds attributable to ordinary shares (as above)	£2,012,323,000	£2,132,294,000
Number of ordinary shares in issue at the year end*	253,619,897	256,519,897
Shareholders' funds per ordinary share	793.4p	831.2p
Additions/(deductions)		
– expenses of debenture issue	(0.6p)	(0.6p)
– allocation of interest on borrowings	2.8p	2.9p
Net asset value per ordinary share	**795.6p**	**833.5p**

*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:

	2012	2011	2012 £'000	2011 £'000
Ordinary shares	**795.6p**	**833.5p**	**2,017,827**	**2,137,997**

	2012 £'000	2011 £'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	2,137,997	1,845,785
Total recognised gains and losses for the year	(68,526)	342,537
Dividends paid in the year	(31,808)	(29,936)
Adjustment to debentures	(199)	(174)
Shares bought back	(19,637)	(20,215)
Total net assets at 31 March	**2,017,827**	**2,137,997**

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 253,619,897 (2011 – 256,519,897) 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

	2012 £'000	2011 £'000
Net return on ordinary activities before finance costs and taxation	(45,921)	364,604
Losses/(gains) on investments	94,940	(325,193)
Currency (gains)/losses	(5,974)	4,578
Amortisation of fixed income book cost	(3)	(46)
Decrease in accrued income	1,167	1,028
Increase in debtors	(19)	(362)
Increase in creditors	294	4,921
Net cash inflow from operating activities	**44,484**	**49,530**

18 Analysis of Change in Net Debt

	At 1 April 2011 £'000	Cash flows £'000	Other non-cash changes £'000	Exchange movement £'000	At 31 March 2012 £'000
Cash at bank and in hand	14,699	6,156	–	–	20,855
Loans due within one year	(164,605)	102,206	(54,001)	3,598	(112,802)
Loans due in two to five years	(54,001)	(100,829)	54,001	(1,186)	(102,015)
Debenture stocks	(151,378)	–	199	–	(151,179)
	(355,285)	**7,533**	**199**	**2,412**	**(345,141)**

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 2012 is disclosed in note 11. Details of the holding in an Open Ended Investment Company managed by Baillie Gifford & Co are shown in note 9 on page 41.

20 Contingencies, Guarantees and Financial Commitments

At the year end the Company had a capital commitment amounting to US$14,769,400 (2011 – US$20,750,000) in respect of two subscription agreements, 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 2012 US$4.50 million and US$5.73 million (2011 – US$2.25 million and US$2.00 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.

With prior approval of the Board, the Company may undertake derivative transactions for the purpose of efficient portfolio management and for investment purposes.

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 a continuing 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 2012	Investments £'000	Cash and deposits £'000	Loans and debentures £'000	Other debtors and creditors * £'000	**Net exposure £'000**
US dollar	1,026,100	13,249	(163,975)	204	**875,578**
Euro	337,320	–	(50,842)	364	**286,842**
Brazilian real	144,926	–	–	2,738	**147,664**
Swedish krona	127,568	–	–	–	**127,568**
Hong Kong dollar	111,355	–	–	–	**111,355**
Polish zloty	82,167	–	–	–	**82,167**
Indian rupee	48,271	–	–	–	**48,271**
Swiss franc	43,642	–	–	95	**43,737**
Danish krone	41,186	–	–	58	**41,244**
Czech koruna	30,659	–	–	–	**30,659**
Japanese yen	11,012	29	–	–	**11,041**
Other overseas currencies	58,791	4,518	–	1,973	**65,282**
Total exposure to currency risk	**2,062,997**	**17,796**	**(214,817)**	**5,432**	**1,871,408**
Sterling	298,639	3,059	(151,179)	(9,604)	**140,915**
	2,361,636	**20,855**	**(365,996)**	**(4,172)**	**2,012,323**

*Includes net non-monetary assets of £48,000.

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 zloty	66,286	–	–	–	**66,286**
Indian rupee	32,898	–	–	–	**32,898**
Swiss franc	32,095	–	–	96	**32,191**
Danish krone	42,800	–	–	40	**42,840**
Czech koruna	15,886	–	–	–	**15,886**
Japanese yen	40,246	–	–	583	**40,829**
Other overseas currencies	130,913	–	–	1,895	**132,808**
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.

Currency Risk Sensitivity

At 31 March 2012, 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 2011.

22 Financial Instruments (continued)

Currency Risk Sensitivity (continued)

	2012 £'000	2011 £'000
US dollar	43,779	55,494
Euro	14,342	8,572
Brazilian real	7,383	6,884
Swedish krona	6,378	5,953
Hong Kong dollar	5,568	5,677
Polish zloty	4,108	3,314
Indian rupee	2,414	1,645
Swiss franc	2,187	1,610
Danish krone	2,062	2,142
Czech koruna	1,533	795
Japanese yen	552	2,041
Other overseas currencies	3,264	6,640
	93,570	**100,767**

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.

22 Financial Instruments (continued)

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

Financial Assets	2012 Fair value £'000	2012 Weighted average interest rate	2012 Weighted average period until maturity *	2011 Fair value £'000	2011 Weighted average interest rate	2011 Weighted average period until maturity *
Fixed rate:						
Sterling bonds (perpetual)	–	–	–	9,761	7.5%	n/a
Euro bonds	–	–	–	442	–	8 years
Floating rate:						
Sterling bonds (interest rate linked to sterling LIBOR)	–	–	–	10,697	3.7%	13 years
Euro bonds (interest rate linked to euro LIBOR)	–	–	–	1,971	2.1%	74 years
Brazilian bonds (index linked)	120,575	12.3%	33 years	117,307	11.5%	34 years
Cash and short-term deposits:						
Other overseas currencies	17,796	–	n/a	14,490	–	n/a
Sterling	3,059	0.1%	n/a	209	0.1%	n/a

*Based on expected maturity date.

The cash deposits generally comprise call or short term money market deposits of less than one month which are repayable on demand. The benchmark rate which determines the interest payments received on cash balances is the bank base rate.

Financial Liabilities	2012 £'000	2011 £'000
The interest rate risk profile of the Company's financial liabilities at 31 March was:		
Floating rate – US$ denominated	61,960	111,666
– Euro denominated	–	52,939
Fixed rate – Sterling denominated	151,179	151,378
– Euro denominated	50,842	54,001
– US$ denominated	102,015	–
	365,996	**369,984**

	2012 £'000	2011 £'000
The maturity profile of the Company's financial liabilities at 31 March was:		
In one year or less, or on demand	112,802	164,605
In two to five years	102,015	54,001
In more than five years (weighted average period fixed 13 years)	150,504	150,703
No fixed date for repayment	675	675
	365,996	**369,984**

Interest Rate Risk Sensitivity

An increase of 100 basis points in bond yields as at 31 March 2012 would have decreased total net assets and total return on ordinary activities by £17,712,000 (2011 – £16,972,000). 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 2012 would have increased the net asset value per share (with borrowings at fair value) by 0.43p (2011 – decreased by 0.75p). 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.

22 Financial Instruments (continued)

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 investments by their aggregate market value are contained in the Managers' Review Section.

111.0% (2011 – 110.0%) of the Company's net assets are invested in quoted equities. A 3% increase in quoted companies equity valuations at 31 March 2012 would have increased total assets and total return on ordinary activities by £67,031,000 (2011 – £70,308,000). A decrease of 3% would have had an equal but opposite effect.

Liquidity Risk

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

Liquidity risk is potentially significant but the majority of the Company's assets are investments in quoted securities that are believed to be readily realisable. The Board provides guidance to the Investment Managers as to the maximum exposure to any one holding and to the maximum aggregate exposure to substantial holdings.

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

Credit Risk

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

This risk is managed as follows:

- Where the Investment Managers make an investment in a bond or other security with credit risk, that credit risk is assessed and then compared to the prospective investment return of the security in question.
- The Board regularly receives information from the Investment Managers on the credit ratings of those bonds and other securities in which the Company has invested.
- The Company's listed investments are held on its behalf by The Bank of New York Mellon (acting as agent), the Company's custodian. Bankruptcy or insolvency of the custodian may cause the Company's rights with respect to securities held by the custodian to be delayed. The Investment Managers monitor the Company's risk by reviewing the custodian's internal control reports and reporting its findings to the Board.
- Investment transactions are carried out with a large number of brokers whose creditworthiness is reviewed by the Investment Managers. Transactions are ordinarily undertaken on a delivery versus payment basis whereby the Company's custodian bank ensures that the counterparty to any transaction entered into by the Company has delivered on its obligations at the same time as 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 direct credit risk at 31 March was:	2012 £'000	2011 £'000
Fixed interest investments	120,575	140,178
Cash and short term deposits	20,855	14,699
Debtors and prepayments	8,321	15,468
	149,751	**170,345**

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

22 Financial Instruments (continued)

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 in relation to debentures are included in the accounts at the amortised amount of net proceeds after issue, plus accrued finance costs in accordance with FRS26. The fair value of bank loans is calculated with reference to government bonds of comparable maturity and yield. A comparison with the fair value (closing offer value) is as follows:

	2012 Par/nominal £'000	2012 Book £'000	2012 Fair £'000	2011 Par/nominal £'000	2011 Book £'000	2011 Fair £'000
8–14% stepped interest debenture stock 2020	20,000	21,747	31,660	20,000	21,860	29,240
6.875% debenture stock 2023	75,000	74,599	94,140	75,000	74,562	83,303
6–12% stepped interest debenture stock 2026	50,000	54,158	85,740	50,000	54,281	76,445
4½% irredeemable debenture stock	675	675	616	675	675	531
Total debentures	**145,675**	**151,179**	**212,156**	**145,675**	**151,378**	**189,519**
Fixed rate loans		102,015	103,738		54,001	53,737
Total long term borrowings		**253,194**	**315,894**		**205,379**	**243,256**

All short term borrowings are stated at fair value, which is considered to be equal to their par value.

Deducting long term borrowings at fair value would have the effect of reducing the net asset value per share from 795.6p to 768.7p. Taking the market price of the ordinary shares at 31 March 2012 of 708.0p, this would have given a discount to net asset value of 7.9% as against 11.0% on a debt at par basis. At 31 March 2011 the effect would have been to reduce the net asset value 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.

Capital Management

The capital of the Company is its share capital and reserves as set out in notes 13 and 14 together with its borrowings (see notes 11 and 12). The objective of the Company is to maximise total return, whilst also generating real dividend growth, from a focused and actively managed global portfolio. The Company's investment policy is set out on page 20. In pursuit of the Company's objective, the Board has a responsibility for ensuring the Company's ability to continue as a going concern and details of the related risks and how they are managed are set out on page 24. The Company has the authority to issue and buy back its shares (see pages 26 and 27) and changes to the share capital during the year are set out in notes 13 and 14. The Company does not have any externally imposed capital requirements other than the covenants on its loans which are detailed in notes 11 and 12.

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 53). 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.

Scottish Mortgage Share Identifiers

ISIN GB0007838849

Sedol 0783884

Ticker SMT

The Ordinary shares of the Company are listed on the London Stock Exchange and their price is shown in the Financial Times, Daily Telegraph and The Scotsman under 'Investment Companies'.

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.investorcentre.co.uk**.

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 value 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.investorcentre.co.uk** 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.investorcentre.co.uk** 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.investorcentre.co.uk** 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.investorcentre.co.uk/eproxy**. 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

	2012 Number of shares held	2012 %	2011 Number of shares held	2011 %
Institutions	80,391,030	31.7	84,958,204	33.1
Intermediaries	120,478,724	47.5	116,604,803	45.5
Individuals	27,123,112	10.7	29,756,823	11.6
Baillie Gifford Share Plans/ISA	24,379,661	9.6	23,271,501	9.1
Marketmakers	1,247,370	0.5	1,928,566	0.7
	253,619,897	**100.0**	**256,519,897**	**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 £11,280 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 is 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 53 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**.

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**. You will find full details of Scottish Mortgage, including recent portfolio information and performance figures.

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 53.

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 for training or monitoring purposes.

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. Please arrive at the entrance at The Cube, 45 Leith Street, Edinburgh, EH1 3AT as shown on the map (rather than the usual main entrance on Greenside Row) on Thursday, 28 June 2012 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.

Public Transport

By Rail:
Edinburgh Waverley – approximately a 5 minute walk away.

By Bus:
Lothian Buses local services include: 1, 5, 7, 8, 10, 12, 14, 15, 15A, 16, 22, 25, 34.

Access to Waverley Train Station on foot.

Notice of Annual General Meeting

Notice is hereby given that the one-hundred and third Annual General Meeting of Scottish Mortgage Investment Trust PLC will be held within the offices of Baillie Gifford & Co, The Cube, 45 Leith Street, Edinburgh, EH1 3AT on Thursday, 28 June 2012 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 2012 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 2012.
3. To declare a final dividend.
4. To re-elect Mr JPHS Scott as a Director.
5. To re-elect Mr MM Gray as a Director.
6. To re-elect Professor JA Kay as a Director.
7. To re-elect Ms FC McBain as a Director.
8. To re-elect Mr WG McQueen as a Director.
9. To elect Dr L Yueh as a Director.
10. 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.
11. 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:

12. 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 38,017,622 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 2013, 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.

13. 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:

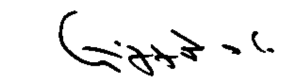
   (a) the sale of treasury shares in connection with a rights issue in favour of the holders of ordinary shares of 25 pence each in the Company ('Shares') where the equity securities respectively attributable to the interests of all such shareholders are proportionate (as nearly as may be practicable) 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 £6,340,497 being 10% of the Company's issued Share Capital as at 8 May 2012;

   and shall expire at the conclusion of the next Annual General Meeting of the Company to be held in 2013, save that the Company may, before such expiry, make any offer or enter into an agreement which would or might require treasury shares to be sold after the expiry of such power, and the Directors of the Company may sell treasury shares in pursuance of such offer or agreement as if the power conferred hereby had not expired.

By order of the Board

Baillie Gifford & Co
Managers and Secretaries
21 May 2012



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.investorcentre.co.uk/eproxy** 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 8 May 2012 (being the latest practicable date prior to the publication of this notice) the Company's issued share capital consisted of 253,619,897 ordinary shares (excluding treasury shares), carrying one vote each. Therefore, the total voting rights in the Company as at 8 May 2012 were 253,619,897 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. 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
Dr L Yueh

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. SC007058

Managers, Secretaries and Registered Office

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