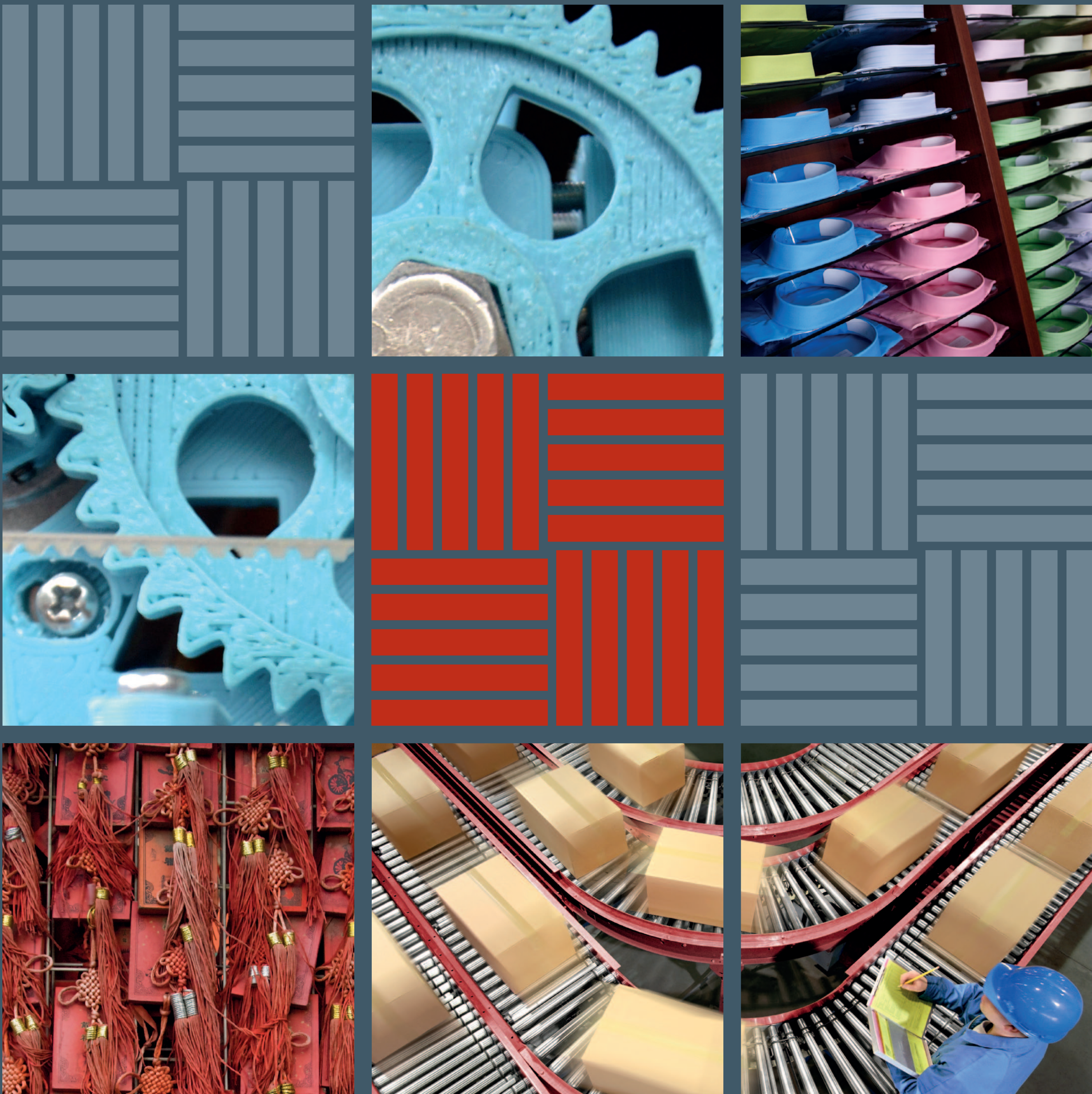
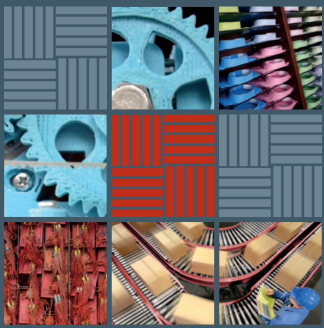
SCOTTISH MORTGAGE INVESTMENT TRUST PLC

Your low cost choice
for global investment



Annual Report and Financial Statements
31 March 2013

BAILLIE GIFFORD



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

Contents

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 Conduct 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

It has been a year of continued progress for Scottish Mortgage: the share price closed at 822.5p, a new year end high, having at one point during the year reached an all-time high of 862.5p. Over the year it rose by 16%, the net asset value per share by 12% and the FTSE All-World Index by 14%.

Given the long term investment approach, measurements over longer periods are more significant and over 10 years the share price total return (including both capital returns and dividends) has been 336%, the net asset value total return, 270%, while the FTSE All-World Index total return was 174%.

The dividend for the year has been increased by 7.7% well ahead of RPI inflation (3.3%).

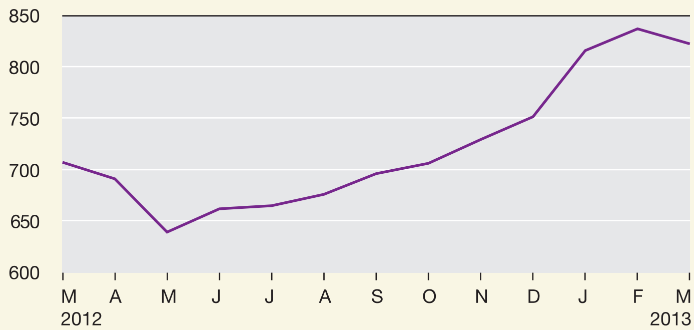
Your Managers still find plenty of investment opportunities. Amongst other areas, technology, in its broadest sense, and the growth of developing markets continue to provide fertile ground for long term investors.

Financial Highlights – Year to 31 March 2013

Share Price 16.2% **NAV 11.6%** **Benchmark 13.8%**

Share Price (pence)

Share price

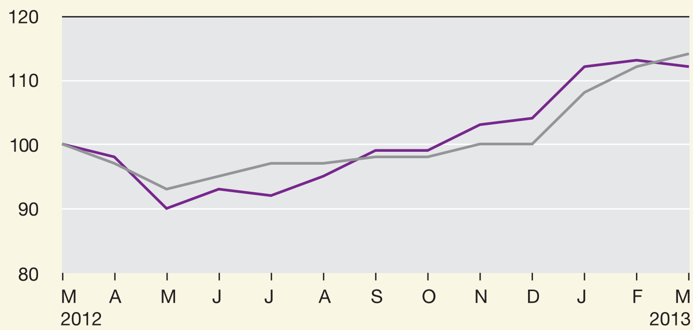


NAV and Benchmark

(rebased to 100 at 31 March 2012)

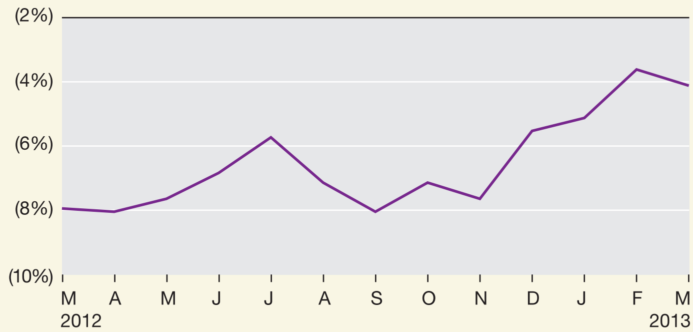
NAV (after deducting borrowings at fair value)

Benchmark*



Discount

Discount (after deducting borrowings at fair value) plotted as at month end dates



* 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 2013	31 March 2012	% change
Total assets (before deduction of debentures, long and short term borrowings)	£2,593.5m	£2,378.3m	
Loans and debentures	£375.1m	£366.0m	
Shareholders' funds	£2,218.4m	£2,012.3m	
Net asset value per ordinary share (after deducting borrowings at fair value)*	857.6p	768.7p	11.6
Share price	822.5p	708.0p	16.2
FTSE All-World Index (in sterling terms)	231.3	203.3	13.8
Dividends paid and proposed per ordinary share	14.00p	13.00p	7.7
Revenue earnings per ordinary share	15.59p	13.07p	19.3
Ongoing charges	0.51%	0.51%	
Discount (after deducting borrowings at fair value)	(4.1%)	(7.9%)	

Year to 31 March	2013	2013	2012	2012
Year's high and low	**High**	**Low**	**High**	**Low**
Share price	862.5p	624.0p	781.0p	565.0p
Net asset value per ordinary share (after deducting borrowings at fair value)†	910.2p	675.4p	861.6p	621.0p
Discount (after deducting borrowings at fair value)†	(2.7%)	(10.3%)	(2.7%)	(11.2%)
Average sector discount (AIC Global Growth Sector)	(8.5%)	(12.0%)	(9.1%)	(11.5%)

	31 March 2013	31 March 2012
Net return per ordinary share		
Revenue return	15.59p	13.07p
Capital return	87.42p	(39.81p)
Total return	**103.01p**	**(26.74p)**

* Borrowings are deducted at fair value (the estimate of market worth).
† Cum-income.

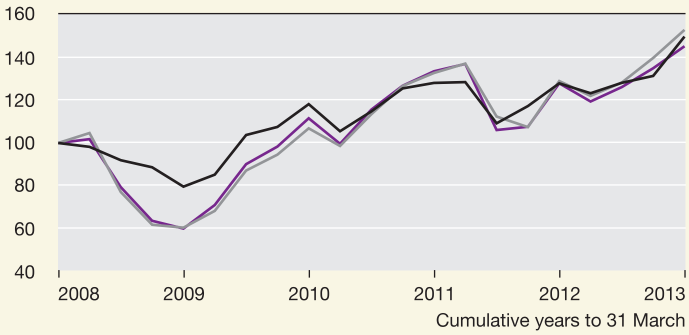
Past performance is not a guide to future performance.

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 2013.

Five Year Total Return Performance

(figures rebased to 100 at 31 March 2008)



Source: Thomson Reuters Datastream.

NAV (fair) total return

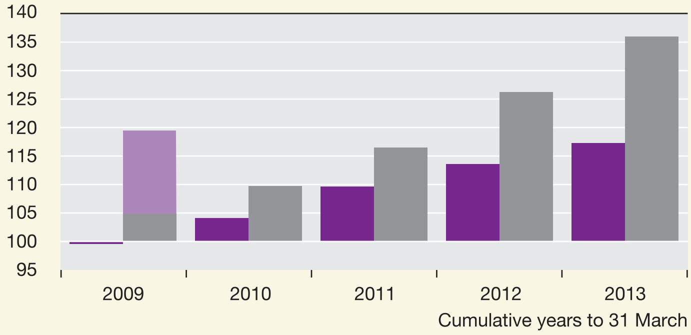
Share price total return

Benchmark* total return

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

Dividend and RPI Growth

(cumulative from 31 March 2008)
(figures rebased to 100 at 31 March 2008)



Source: Thomson Reuters Datastream/Baillie Gifford & Co.

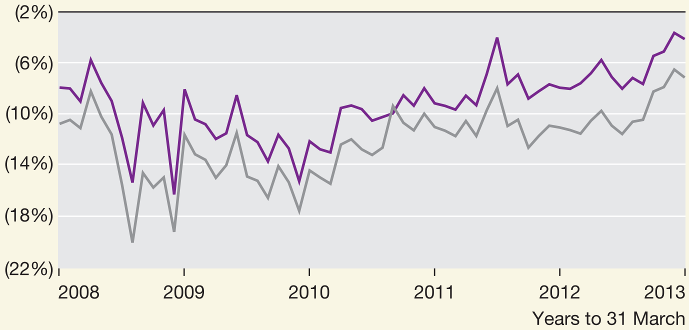
RPI

Scottish Mortgage dividend

The dividend for 2009 includes a non-recurring 1.5p per share from the reimbursement of previous years' VAT and associated interest thereon

Discount to Net Asset Value

(plotted on a monthly basis)



Source: Thomson Reuters Datastream/Baillie Gifford & Co.

Scottish Mortgage discount (after deducting borrowings at fair value)

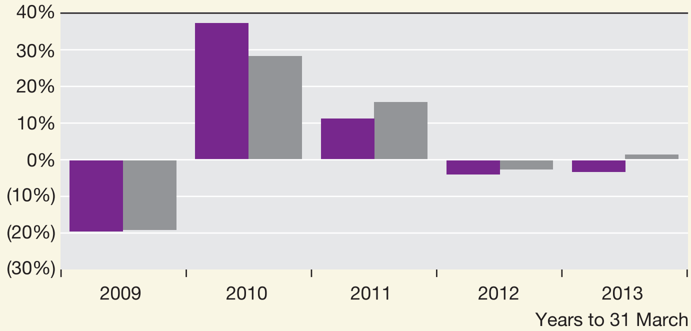
Scottish Mortgage discount (after deducting borrowings at par)

The discount is the difference between Scottish Mortgage's quoted share price and its underlying net asset value calculated on one of two bases:

Borrowings are either deducted at par (redemption value) or at fair value (the current market worth). As borrowings have a current market value above par, the effect of valuing the borrowings at fair value reduces both the NAV and resultant discount.

Annual Net Asset Value and Share Price Total Returns

(relative to the benchmark total return)



Source: Thomson Reuters Datastream.

NAV (fair) return

Share price return

Past performance is not a guide to future performance.

Chairman's Statement

Performance

The past year has seen continued progress for Scottish Mortgage with the share price reaching a new high of 862.5p in early March 2013, before falling back to close at 822.5p at the end of March. Over the course of the year to 31 March 2013 the share price rose by 16.2% and the net asset value (NAV) per share by 11.6%, whereas the benchmark index (the FTSE All-World Index in sterling terms) rose by 13.8%. Over 10 years to end March 2013, the share price total return (including both capital returns and dividends) has been 336%, the net asset value total return, 270% and the FTSE All-World Index total return, 174%. The five year figures are more modest as they still reflect the impact of the 2008 financial crisis. Nonetheless, over five years the total return was, respectively: 53% (share price), 45% (NAV) and 50% (benchmark). Given the long term investment approach, we consider that measurements over longer periods are more significant.

A year ago, the prevailing attitude towards equity markets was one of fear and nervousness. In the event, there was no wholesale renewal of the financial crisis, the European Union – despite some testing moments emanating from Cyprus and Italy – continues to hold together, there was progress in the United States towards a resumption of sustainable growth and at the same time operating conditions for many companies around the world have been favourable. More importantly, the Managers still seem to find plenty of opportunities, as can be seen from their Report which follows. In particular, technology in its broadest sense and the growth of developing markets continue to provide fertile ground for those with a long term investment view. Despite some very significant holdings, the portfolio remains well diversified and growth opportunities are not restricted to these two criteria.

Earnings and Dividend

Earnings were strong in the past year, boosted by non recurring dividends, most notably from our holding in the Polish copper mining company KGHM. Earnings per share totalled 15.59p compared to 13.07p in 2011/12. A final dividend of 7.3p is proposed which will give a total for the year of 14.0p per share. This represents a rise of 7.7%, which is well ahead of sterling inflation (currently 3.3% as measured by RPI), which means that we have now increased our dividend by more than prevailing inflation for 31 years in a row.

It is probable that earnings in 2013/14 will be lower than in the past year as the Company has benefitted from the special dividends and accelerated timing of dividend receipts. Although the primary focus of this trust is to provide long term capital growth, it is the Board's intention to provide progressive and real dividend growth; the existence of reserves of 26p per share would allow us, if necessary, to smooth dividend payments from year to year should the need arise. Longer term, the outlook for dividend increases remains healthy.

Gearing

Scottish Mortgage remains committed to the use of gearing. Gearing levels were maintained throughout the year.

Demand for Shares

I am pleased to say that over the past year the discount has progressively narrowed, meaning that the share price has risen faster than the underlying net asset value. To an extent this must reflect the fact that the long term and global approach, which was adopted as a strategy by the Company ten years ago, has proved attractive to investors. Ten years ago the discount stood at 12.5% and the following two years at 15.9% and 16.5% respectively. At the close of the year under review it stood at 4.1%. While performance is the primary impetus, a combination of judicious share buy backs as well as effective communication and marketing influence the balance between supply and demand. In the past year 2,475,000 shares (1% of issued share capital at the start of the year) were bought back at discounts ranging from 4.0% to 5.8%. This should be seen as part of your Board's desire to maintain the trend of a narrowing discount.

A total of 33.2 million shares have been bought back since 2006, and these are held in Treasury and are available for reissue. The main advantages of reissuing shares are: the continued provision of good liquidity, the maintenance of scale and the further spreading of costs across a wider shareholder base. Shareholders' authority is being sought at the Annual General Meeting to sell shares held in Treasury at a premium to the NAV.

2013 has also seen the implementation of the Retail Distribution Review which is designed to provide greater clarity on the true costs associated with different types of investments. As Scottish Mortgage enjoys one of the lowest expense ratios in the industry (currently 0.51%), we stand to benefit. Against this, we are currently in the process of complying with the EU-wide Alternative Investment Fund Managers Directive (AIFMD). This has been conceived by legislators in Brussels with, on the one hand, an agenda to bash hedge funds, but, on the other, with a limited understanding, at best, of how an Investment Trust operates – is Scottish Mortgage really an 'Alternative Investment'? The AIFMD will, in your Board's opinion, provide little additional investor protection, yet it stands to add significantly (and in our view unnecessarily) to our annual cost base.

Board

Dr Linda Yueh resigned as a Director with effect from 31 March 2013 following her appointment as BBC World News Chief Business Correspondent, based in Singapore. The Board greatly appreciated Dr Yueh's contributions in her year with Scottish Mortgage and wishes her well in her new post.

The Annual General Meeting will be held in Edinburgh at Baillie Gifford's offices at 4.30pm on the 18th June. James Anderson and Tom Slater will make presentations on the investments and I hope you will be able to attend.

Outlook

The past four years have seen a steady recovery in equity markets as investor confidence has returned and many equity indices are close to, or in, new high ground. This is happening at a time when interest rates in many markets, notably those scarred by the 2008 crash, remain abnormally low. Many pension funds, driven by

Past performance is not a guide to future performance.

regulatory requirements to match investment allocations to eventual liabilities, are increasingly investing in bonds where yields are historically low and prices high, a process sometimes referred to as 'de-risking'. Fortunately, the private investor has greater flexibility and can be less inhibited when it comes to asset allocation and long term equity investment which, while carrying greater risk, also offers the potential for commensurate returns. It is to this type of investor that Scottish Mortgage is designed to appeal; we offer a high conviction equity portfolio invested across the world's markets, constructed with little heed paid to short term performance relative to indices but with great attention to the long term fundamentals of our investee companies.

The list of potential threats to global political, economic and commercial stability is no shorter than before and, close to home, there have been concerns at the level of unemployment in several of Europe's largest economies and their stubborn refusal to show any real signs of growth. At the same time, there may be profound long term consequences of the 'bail-in' in Cyprus, which demonstrated that, even within the EU, private bank deposits can be at risk. However, despite the drive to austerity amongst those governments and consumers who are over-indebted, many quoted companies are enjoying favourable operating conditions. Accepting that economic growth and stock price appreciation do not always go hand in hand, a world where the IMF forecast for annual global growth is 3.3% is a fairly benign environment, even given the continued work needed to repair and reform banking systems and to balance national budgets – especially in developed economies.

I take this opportunity to remind our shareholders that Scottish Mortgage is founded on the principle of selecting well managed companies from around the world and investing in them on a long term basis; and, thanks in part to our size, doing so in a way which costs our shareholders less than most other approaches. The skill which your Managers display in identifying growth opportunities as well as the successful execution of individual corporate strategies will determine returns to a very great extent. Whilst, as we are always reminded, past performance is no guide to the future, the record of our Managers in the past decade and their process for selecting investments to generate returns for the next one gives me great confidence in the investment proposition offered by Scottish Mortgage.

John Scott
Chairman
10 May 2013

Directors and Managers

Members of the Board come from a broad variety of backgrounds. The Board can draw on a very extensive pool of knowledge and experience. Baillie Gifford & Co, a leading UK investment management firm, who act as Managers and Secretaries to the Company have done so since its formation in 1909.

Directors

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, JPMorgan Claverhouse Investment Trust plc, Schroder Japan Growth Fund plc, Alternative Asset Opportunities PCC Limited and Impax Environmental Markets plc. He is also chairman of Alpha Insurance Analysts.

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 and Investment Officer, St John's College, University of Oxford. He is a director of Law Debenture Corporation p.l.c., Value and Income Trust PLC and Audax Properties PLC.

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 Enterprise 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.

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.

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 JPMorgan Mid Cap Investment Trust plc, The Edinburgh Investment Trust plc and Shaftesbury PLC.

Linda Yueh is an economist, broadcaster and author. Linda was appointed to the Board in May 2012 and stood down on 31 March 2013 following her appointment with the BBC World News as Chief Business Correspondent, a Singapore based position. 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. Linda is an associate of both the Globalisation Programme at the Centre for Economic Performance and of the International Affairs, Diplomacy & Strategy Research Centre.

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 £93 billion at 31 March 2013. Based in Edinburgh, it is one of the leading privately owned investment management firms in the UK, with 37 partners and a staff of over 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 Conduct 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

We made few changes to your portfolio in 2012/13. We still own all of the top thirty holdings of a year ago. Market movements accounted for the bulk of the changes in the rankings of these stocks. Overall turnover has been little over 10%.

Whilst equity markets have generally moved forward over the year it has been a frustrating period for patient investors looking for strongly growing companies. Our approach will not change but there is little sign that the markets are willing to abandon their preoccupation with alternating waves of macroeconomic and political hope followed by renewed angst. In the terrible but revealing jargon of our time this is presented as 'risk on' or 'risk off' with risk defined as short term share price volatility. Any serious assessment of the long-run competitive prospects of individual companies appears unlikely at the current juncture.

Whilst our portfolio is built upon the attractions of individual companies we think that the opportunities available to us are in turn moulded by the dominant forces in the global economy. For several years now we have believed that three factors are especially critical:

— The rise of China (and to a lesser extent other emerging economies).

— The underestimated power of structural technological change.

— The flaws of the Western financial system.

We see no imminent reason to amend this framework.

Our Core Investment Beliefs as set out in last year's Review are reiterated in the section following the California Note.

China

It is on this topic that we find ourselves most out of sympathy with current market sentiment. The disdain shown to Chinese equities (wherever they may be listed) is but part of a sustained and continuing antipathy towards the stocks of all the major emerging markets. Brazil, Russia and India have been similarly unpopular. This is an extraordinary contrast with the mood five years ago when the BRIC countries were perceived to be the saviours of the global economy. Whilst we share some disillusion with the current progress of Brazil, India and Russia we have long believed that China is in a class apart. This conviction has grown rather than shrunk over the last year. Growth has migrated from exports to domestic demand and from the coasts to the underdeveloped heartlands. Wages have risen as has productivity. Inflation is subdued. Naturally further progress is needed in several areas from corruption to pollution but the underlying transformation has been impressive. We cannot expect China to grow at 10% per annum as it has in the past. We do not want it to do so with the dramatic export surpluses of that era. The current trend of 7% growth and burgeoning import demand contribute far more to the health of the global economy than the unbalanced and immature boom of the past.

The future drivers of the Chinese economy are reflected in the portfolio. As imports have grown we have maintained significant exposure to international companies that have the skills and vision to enable them to flourish in China. PPR's luxury goods have been a major beneficiary of the conspicuous consumption of the newly wealthy Chinese consumer but broad gains in disposable income have opened up prospects for classic middle class purchases. This has made China fertile ground for the superb business model of Inditex in which we now have a larger holding. In such ways does the Chinese consumer aid even the rural economy of bedraggled Spain.

PPR
A luxury goods company, a beneficiary of Chinese consumer consumption.

We remain most excited by the opportunities surrounding the Chinese internet. This was the specific area in which we have been most out of step with the market mood in the last year. In particular Baidu's share price has been extremely weak. As it began the year as our largest holding this has obviously had a substantial impact on our NAV. We do not intend to retreat from our belief in the company and its management. Baidu has been investing heavily in replicating its dominance of desktop search in the booming mobile business. This seems to us to be very sensible. It has been characteristic of the last year that equity markets are deeply intolerant of any investment spending by companies that crimp immediate profit growth. We find this both remarkably short term even by recent standards and deeply disturbing in its implications for corporate behaviour and the global economy. In the course of the year we have participated in a placing of unquoted convertible preference shares in Alibaba. This is China's dominant e-commerce enterprise. On its peak trading day last year Alibaba's gross merchandise volumes ran at double that of the entire US e-commerce sector on Cyber Monday. Alibaba too will continue to invest fearlessly and admirably. Its reticence about a full IPO reflects both this characteristic and its strong cash-flows.

Technology

We are appending a note by Tom Slater describing his extended stay in Silicon Valley last autumn. It describes areas of potential interest in the future. It may be worth adding a few words on current developments. Here too the dominant characteristic is extreme impatience and intolerance of even the most modest and temporary halt in earnings gratification. Thus we have seen the rise and dramatic fall of Apple (with a loss approaching $300bn in capitalization over the last seven months) although it is hard to see that future prospects have changed substantively. Such a pattern has been replicated from the high-profile lurches in Facebook's share price to similar but less heavily observed gyrations in cloud-computing company Rackspace. The only surprise is that Amazon has thus far avoided such dramatic share price swings (albeit with quite sufficient volatility around results). This is remarkable as Amazon is more dedicated to the pursuit of much deferred rewards than any other quoted company in our experience. It is possible that it has a shareholder base that tries to match this pleasing perspective.

The greatest encouragement of the year has been the continued progress in genomic science. Prices for sequencing continue to plunge, diagnostic improvements are following and gradually health systems and pharmaceutical behemoths are adjusted to a new world. Illumina continues to lead this technology. We are pleased it has preserved its independence.

Western Financial Flaws

There is little sign that banks have become less complex, less greedy or less dangerous. Management modesty remains rare. Regulatory changes have been piecemeal and hardly distinguished by their own simplicity. All we are left with is the hope that the combination of the savage lesson of 2008/9 and a gradual push for more equity within the banks has dampened the imminent threats.

Over the last year more attention has been paid to the flaws of government finances than those of banks. At times conventional interpretations appeared lacking in common sense. It has always seemed improbable that the ECB and Germany were willing to walk away from the continued existence of the euro. That it was believed to be so appears to us to owe more to the lurid imaginings of the London establishment than to serious analysis. Equally it is becoming increasingly probable that the gospel of austerity that has so appealed to so many in conservative financial and political sectors is self-defeating in practice. That it appears historically and evidentially questionable is becoming increasingly obvious. Structural reform accompanied by the pursuit of growth rather than consolidation appears the appropriate policy in almost all the developed world.

Conclusion

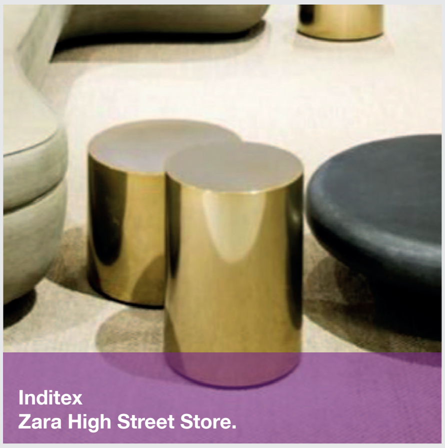
Although the last 12 months have seen a modest improvement in stock markets the atmosphere remains acutely nervous and confidence low. Only those stocks and those countries perceived to be the safest and most stable have enjoyed consistent rallies. Even in America politics and economic data points continue to fray emotions. The corporate sector has as yet proven unwilling to re-invest its extraordinary cash riches – perhaps unsurprisingly given the suspicion investors have shown when any such ambitions have been mooted. At the same time prior optimism about emerging markets has been leeched away by the drip-drip of underperformance and redemptions. Yet all this seems to neglect substantial improvements. America is recovering – however inelegantly. The risk of extreme outcomes in Europe has been shown to be lower than once feared. China has transformed itself and in doing so assisted the global economy. Above all there are truly great, growing and sustainable companies available to us at alluring prices. Eventually this will matter.

James Anderson
Manager of Scottish Mortgage
10 May 2013

Alibaba Group
China's dominant e-commerce enterprise.

Tencent
Tencent's 'WeChat' logo.

Atlas Copco
Swedish engineering excellence.



Inditex
Zara High Street Store.

Intuitive Surgical
Continued advance in diagnostic technology and robotic surgery techniques.

Our portfolio is built upon the attractions of individual companies.

California Note

The model of capitalism that exists on the West Coast of the United States has produced several of the largest holdings in our portfolio. I spent the autumn there visiting existing holdings, thinking about the emerging technologies and meeting early stage companies that may become significant in future years.

Despite the efforts of many imitators, the San Francisco Bay Area remains the most important centre for the generation and growth of new technology companies. The influence of such companies is increasing rapidly in both geographic reach and economic impact. The personal computer reached the upper income tier of the developed world. Over the coming decade, computers in the form of smartphones are likely to be in the hands of billions of users. This level of ubiquity transforms the opportunity set for those that can harness the technology. It is not just the scale of this change that is impressive. The way consumers access internet services is moving at astonishing speed. It is plausible that within the next two years the majority of access will be from mobile devices.

Today in the Western world there are four dominant platforms in the consumer internet: Amazon, Google, Facebook and Apple. We currently own shares in all of them. Whilst a lot is written in the media about the skirmishes between these companies, it appears to us that their core businesses encounter limited competition. They are growing rapidly. Their management teams have thus far been highly successful in navigating the shift towards mobile access and it seems no coincidence that three of the four are run by their founders. From IBM to Microsoft to Hewlett Packard to Intel it is striking that long periods of dominance in technology have coincided with the reigns of founder-managers. In the consumer internet in particular, having a CEO who is very close to product development seems likely to be a critical factor as user behaviour continues to evolve so quickly.

Spending time with some of the area's venture capitalists provided a perspective on some of the most interesting areas of early stage investment. In general the companies they are investing in build on top of the big four consumer platforms. This allows them to minimise development costs and also to acquire users rapidly. Instagram, a mobile photo sharing service recently acquired by Facebook, provides an example. Prior to acquisition, its user base grew from 10m people to 30m in six months. It served these users with just 13 employees and a modest amount of capital. This profile isn't unusual for a breakthrough consumer internet service.

E-commerce

E-commerce remains an area of active interest for early stage funding and new business models are emerging. However there seems little that might challenge the dominance of Amazon in the distribution of any item with a universal product code. Amazon's reputation for investing large sums of money over long periods of time in order to reinforce its dominance has informed the behaviour of the venture capital community, which is unwilling to fund direct competitors. Instead the new generation of e-commerce companies are finding other ways to serve customers. They are designing and sourcing their own goods. Often they are collapsing inefficient legacy supply chains by cutting out intermediate layers. They are re-inventing physical retail merchandising online and developing alternative ways of distributing their products. It seems very unlikely that there will be any let-up in the assault on high-street retail anytime soon.

Payments

A variety of venture-funded companies are seeking to reinvent the way we pay for goods and services. The underlying idea is that if mobile computing devices become widespread, consumers may use online methods to pay for goods in the offline world. This would be attractive to retailers as it would give them more information about their customers and allow them to better target their advertising budget. However, the user experience of swiping a payment card is straightforward and well understood. To change behaviour, the key will be providing sufficient incentive. Several ideas are being pursued, the most promising of which seems to me to be the elimination of physical checkout and the associated queues altogether. Through our holding in eBay we currently have exposure to the largest online payments business in the world, PayPal. This is a remarkable business which has continued to grow rapidly despite its already significant scale and a relatively lackluster pace of product development. The huge investment in infrastructure that has been required to get PayPal to its current base of 120m users in 190 countries now represents a significant asset and a major hurdle for new players. Following a change in leadership there seems to be a marked acceleration in the pace of product development at PayPal. This leaves it well placed to benefit from future growth in its addressable market despite the emergence of new and innovative competition.

Enterprise

The technologies that have been created by the recent wave of innovation in consumer internet are being adapted and developed for the enterprise marketplace. The latest consumer websites are driven by software architecture and interfaces that have great potential in a corporate setting. Whilst most of the existing enterprise software companies are built around providing systems of record in areas such as accounting or human resources, the next generation of businesses are utilising the data that exists outside of such a structured environment. Inexpensive storage techniques mean that huge volumes of data can be retained and the technologies to make the most of this information are starting to emerge. Typically, Amazon has been at the forefront of understanding the implications of these changes. It is now commonplace for new technology companies to outsource their computing infrastructure to Amazon rather than investing in servers or data centres. Similarly, Rackspace is rapidly becoming the world's largest IT department providing an outsourced service for those companies that no longer want such distractions.

The historic core functions of enterprise software are also being challenged by companies employing more modern approaches. Workday was founded in 2005 by the former management of Peoplesoft and listed on the stock market recently. Its centrally-hosted software is accessed via a webpage to deliver accounting and human resources systems. Centralisation allows for much greater efficiency. Because all users are running the latest version of the software, support costs are lowered and development cycles are shortened. Salesforce.com has achieved a similar feat in customer relationship management and is trying to broaden the application of its software to manage online marketing.

Electricity – using existing resources to increase efficiency.

Healthcare

Healthcare seems like an industry ripe for disruption through innovative technology. However the regulatory environment and unionised workforce are off-putting to the venture capitalist community, which creates a difficult funding environment for start-ups. Whilst Intuitive Surgical is nominally a healthcare company, it is headquartered in Silicon Valley, its research and development is lead by an engineer, not a doctor, and its robots run over a million lines of software code. To date, these instruments have employed artificial intelligence to recreate open surgery using minimally invasive techniques. The future might look quite different. Developments in diagnostic technology mean that clinical targets will get smaller. Targeting nerves or vessels will require precision beyond the abilities of most human surgeons. Equally the ability to distinguish between different tissue types can be beyond the scope of the human eye and new visualisation techniques are required. Over the coming decade we should anticipate that these technologies will expand the realm of what is surgically possible.

Electricity Consumption

Whilst much of the innovation we invest in is implemented by software companies, there are exceptions. The efficiency with which computers use electrical power has been doubling every eighteen months for the past sixty years equating to a 100-fold improvement every decade. It is this progress that has enabled laptop computing and subsequently the smartphone market. If a modern-day MacBook Air operated at the energy efficiency of computers from 1991, its fully charged battery would last 2.5 seconds. In recent years, the contribution of one of our holdings, ARM, to microprocessor designs has been increasingly important to this trend. Its designs are used in over 90% of mobile phone handsets as they offer the best trade-offs between performance and power consumption. Their technology continues to drive down power requirements and the implications of this progress continuing are fascinating. University laboratories are already producing sensors that use 60 microwatts when active. In metropolitan areas, this amount of power can be harvested from ambient radio and TV signals. Without the need for batteries you get sensors that run indefinitely. Such distributed computing power could significantly reduce our energy consumption by increasing the efficiency with which we use existing resources.

We are continually trying to improve our investment approach. Whilst we base ourselves in Edinburgh, in part to get away from the noise and compulsion to act that are present in major financial centres, spending time in the parts of the world that are producing great companies is a fabulous opportunity to learn. We are told by the efficient market theorists that future outcomes are down to chance and the best we can hope for is to diversify our portfolio. Engaging with the entrepreneurs who are out there creating value by building new companies reveals a very different view of the world. They don't leave things to the chance outcomes of normal distributions and believe that they must build the future for themselves. Most will fail (experimentation and failure is a badge of honour) but the returns that accrue to the winners can be very large. Our belief is that by developing our knowledge of the potential winners at an earlier stage of their development cycle we will be able to do a better job at investing in them for our shareholders in the future.

Tom Slater
Deputy Manager of Scottish Mortgage
10 May 2013

Our Core Investment Beliefs

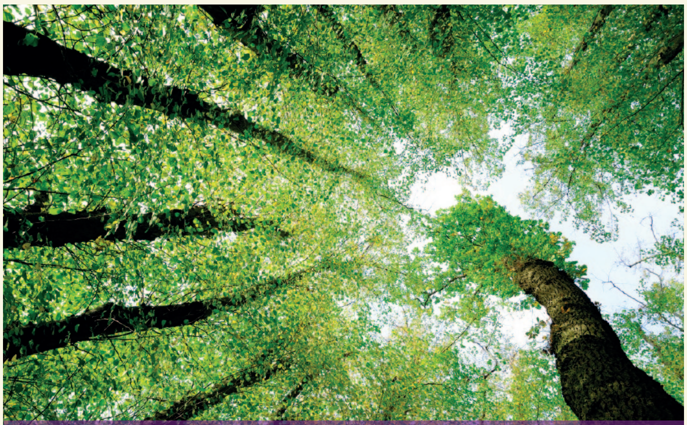
Whilst fund managers claim to spend much of their careers assessing the competitive advantage of companies they are notoriously reluctant to perform any such analysis on themselves. The tendency is to cite recent performance as evidence of skill despite the luck, randomness and mean-reverting characteristics 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 that it is of little use to shareholders to tinker around the edges of indices. We think this 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.

— 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 ongoing charges (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 ongoing charges 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% or 15% of your returns each year. Nor do we believe in a performance fee. Usually it undermines investment performance. It increases pressure and narrows perspective.

Thirty Largest Holdings and Twelve Month Performance at 31 March 2013

Name	Business	Fair value 31 March 2013 £'000	% of total assets	Absolute† performance %	Contribution to absolute performance %	Fair value 31 March 2012 £'000
Amazon.com	Online retailer	214,120	8.26	38.6	3.8	186,895
Atlas Copco	Engineering	134,345	5.18	27.7	1.6	113,961
PPR	Luxury goods producer and retailer	129,785	5.00	39.0	2.2	136,045
Baidu	Online search engine	128,692	4.96	(36.7)	(3.8)	197,279
Inditex	International clothing retailer	125,978	4.86	48.9	1.9	60,201
Tencent Holdings	Internet services	94,668	3.65	20.2	1.1	102,012
Google	Online search engine	91,998	3.55	30.3	1.1	70,674
Salesforce	Cloud computing and hosting	81,120	3.13	21.8	0.7	61,701
Illumina	Biotechnology equipment	76,518	2.95	8.0	0.2	70,861
Prudential	International insurance	67,109	2.59	46.6	1.1	42,165
Brazil CPI Linked 2045	Brazilian government inflation linked bond	66,857	2.58	19.8	1.2	120,575
Intuitive Surgical	Surgical robots	62,307	2.40	(4.6)	(0.2)	65,370
Apple	Computer technology	61,270	2.36	(21.2)	(0.6)	40,894
Reckitt Benckiser	Consumer goods company	57,706	2.22	37.7	0.8	35,330
Banco Santander	Banking	53,199	2.05	3.9	0.3	53,022
KGHM	Copper mining	52,720	2.03	36.1	1.1	51,141
Novozymes	Enzyme manufacturer	50,676	1.95	24.0	0.4	41,186
BASF	Chemicals	49,848	1.92	9.2	0.1	27,811
Vale (CVRD)	Iron ore and nickel mining	49,461	1.91	(19.4)	(0.7)	60,946
Rolls-Royce Group	Aerospace equipment	45,200	1.74	39.2	0.6	32,480
Whole Foods Market	Food retailer	40,351	1.56	12.4	0.3	32,383
Deere	Farm machinery	40,021	1.54	14.0	0.3	35,792
Alibaba Group#	Online retail	38,064	1.47	23.8*	0.3*	–
Rackspace Hosting	Cloud computing and hosting	35,852	1.38	(7.6)	0.1	22,671
New Oriental Education & Technology	Education and training	35,730	1.38	(29.9)	(1.2)	51,851
Fiat	Automobiles	34,599	1.33	(5.1)	0.0	15,349
Intertek Group	Business support providers	34,375	1.33	36.9	0.6	36,746
Facebook	Social networking site	29,493	1.14	(29.2)*	(0.4)*	–
ABB	Power systems and automation	29,473	1.14	20.7	0.1	43,642
Housing Development Finance Corporation	Mortgage bank	28,197	1.09	23.2	0.3	23,296
		2,039,732	**78.65**			**1,832,279**

† Absolute performance (in sterling terms) has been calculated on a total return basis over the period 1 April 2012 to 31 March 2013.

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

# Denotes holding in unlisted convertible preference shares.

Source: Baillie Gifford & Co/StatPro.

Past performance is not a guide to future performance.

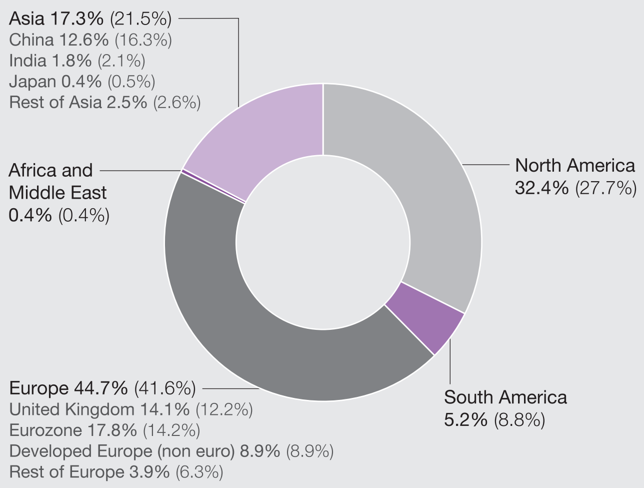
Investment Changes

	Valuation at 31 March 2012 £'000	Net acquisitions/ (disposals) £'000	Appreciation/ (depreciation) £'000	Valuation at 31 March 2013 £'000
Equities*:				
North America	644,348	75,908	117,315	837,571
South America	85,297	(6,706)	(13,181)	65,410
Europe				
United Kingdom	298,459	(13,857)	76,298	360,900
Eurozone	337,320	43,579	80,546	461,445
Developed Europe (non euro)	212,396	(22,367)	39,795	229,824
Rest of Europe	149,571	(35,847)	(11,930)	101,794
Africa and the Middle East	10,448	183	(629)	10,002
Asia				
China	387,940	4,497	(66,689)	325,748
India	48,271	–	(1,593)	46,678
Japan	11,012	–	183	11,195
Rest of Asia	55,999	(721)	9,147	64,425
Total equities	**2,241,061**	**44,669**	**229,262**	**2,514,992**
Brazilian bonds	120,575	(69,444)	15,726	66,857
Total bonds	**120,575**	**(69,444)**	**15,726**	**66,857**
Total investments	**2,361,636**	**(24,775)**	**244,988**	**2,581,849**
Net liquid assets	16,683	(3,998)	(1,088)	11,597
Total assets	**2,378,319**	**(28,773)**	**243,900**	**2,593,446**

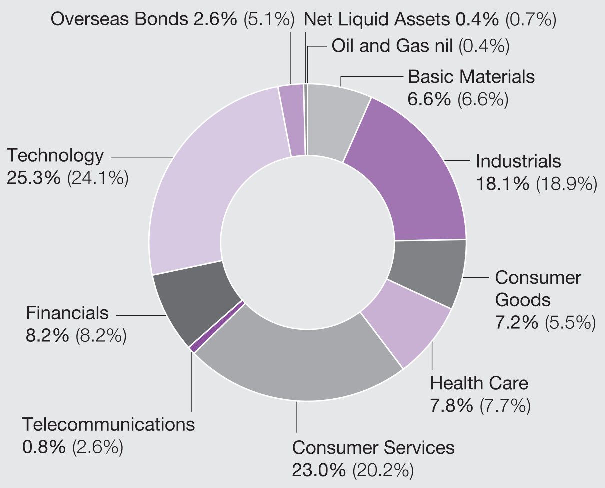
The figures above for total assets are made up of total net assets before deduction of debentures, long and short term borrowings.
* Equities include OEICs.

Distribution of Portfolio

Geographical 2013 (2012)



Sectoral 2013 (2012)



Classification of Investments

Classification Equities*:	North America %	South America %	Europe %	Africa and Middle East %	Asia %	2013 Total %	2012 Total %
Oil and Gas	**–**	**–**	**–**	**–**	**–**	**–**	**0.4**
Oil and gas producers	–	–	–	–	–	–	0.4
Basic Materials	**–**	**1.9**	**4.7**	**–**	**–**	**6.6**	**6.6**
Chemicals	–	–	2.7	–	–	2.7	1.8
Mining	–	1.9	2.0	–	–	3.9	4.8
Industrials	**3.4**	**–**	**13.3**	**–**	**1.4**	**18.1**	**18.9**
Aerospace and defence	–	–	2.7	–	–	2.7	2.2
Electronic and electrical equipment	0.9	–	1.1	–	–	2.0	2.7
Industrial engineering	1.5	–	7.7	–	–	9.2	8.9
Support services	1.0	–	1.8	–	1.4	4.2	5.1
Consumer Goods	**–**	**0.6**	**4.9**	**–**	**1.7**	**7.2**	**5.5**
Automobiles and parts	–	–	2.2	–	1.4	3.6	3.0
Household goods and home construction	–	–	2.2	–	–	2.2	1.5
Personal goods	–	0.6	0.5	–	0.3	1.4	1.0
Health Care	**5.4**	**–**	**2.0**	**–**	**0.4**	**7.8**	**7.7**
Health care equipment and services	2.4	–	–	–	–	2.4	2.7
Pharmaceuticals and biotechnology	3.0	–	2.0	–	0.4	5.4	5.0
Consumer Services	**11.3**	**–**	**11.2**	**–**	**0.5**	**23.0**	**20.2**
Food and drug retailers	1.6	–	0.8	–	–	2.4	2.0
General retailers	9.7	–	10.4	–	0.2	20.3	17.9
Travel and leisure	–	–	–	–	0.3	0.3	0.3
Telecommunications	**–**	**–**	**0.8**	**–**	**–**	**0.8**	**2.6**
Mobile telecommunications	–	–	0.8	–	–	0.8	2.6
Financials	**0.2**	**–**	**5.9**	**0.4**	**1.7**	**8.2**	**8.2**
Banks	–	–	2.6	0.4	–	3.0	3.8
Financial services	0.2	–	2.8	–	1.7	4.7	4.0
Open ended investment companies	–	–	0.5	–	–	0.5	0.4
Technology	**12.0**	**–**	**1.7**	**–**	**11.6**	**25.3**	**24.1**
Software and computer services	9.6	–	1.3	–	11.6	22.5	22.0
Technology hardware and equipment	2.4	–	0.4	–	–	2.8	2.1
Total Equities*	**32.3**	**2.5**	**44.5**	**0.4**	**17.3**	**97.0**	
Total Equities* – 2012	27.1	3.6	41.9	0.4	21.2		**94.2**
Bonds	**–**	**2.6**	**–**	**–**	**–**	**2.6**	5.1
Net Liquid Assets	**0.1**	**0.1**	**0.2**	**–**	**–**	**0.4**	0.7
Total Assets (before deduction of debentures, long and short term borrowings)	**32.4**	**5.2**	**44.7**	**0.4**	**17.3**	**100.0**	
Total Assets – 2012	27.7	8.8	41.6	0.4	21.5		**100.0**
Debentures, Long and Short Term Borrowings	**(6.7)**	**–**	**(7.8)**	**–**	**–**	**(14.5)**	(15.4)
Shareholders' Funds	**25.7**	**5.2**	**36.9**	**0.4**	**17.3**	**85.5**	
Shareholders' Funds – 2012	20.8	8.8	33.1	0.4	21.5		**84.6**
Number of equity investments*	**16**	**2**	**35**	**1**	**16**	**70**	**69**

* Including OEICs.

List of Investments as at 31 March 2013

Classification	Name	Business	Fair value £'000	% of total assets
North America				
Electronic and electrical equipment	Flir Systems	Infrared sensors	**23,238**	**0.9**
Industrial engineering	Deere	Farm machinery	**40,021**	**1.5**
Support services	Linkedin Corp	Business-related social networking site	**27,475**	**1.0**
Health care equipment and services	Intuitive Surgical	Surgical robots	**62,307**	**2.4**
Pharmaceuticals and biotechnology	Illumina	Biotechnology equipment	**76,518**	**3.0**
Food and drug retailers	Whole Foods Market	Food retailer	**40,351**	**1.6**
General retailers	Amazon.com	Online retailer	214,120	
	eBay	Internet trading company	26,150	
	Opentable	Electronic restaurant reservations	10,783	
			251,053	**9.7**
Financial services	WI Harper Fund*	Venture capital	**4,701**	**0.2**
Software and computer services	Facebook	Social networking site	29,493	
	Google	Online search engine	91,998	
	Rackspace Hosting	Cloud computing and hosting	35,852	
	Salesforce	Cloud computing and hosting	81,120	
	Workday	Enterprise information technology	12,174	
			250,637	**9.6**
Technology hardware and equipment	Apple	Computer technology	**61,270**	**2.4**
Total North American Equities			**837,571**	**32.3**
South America				
Mining	Vale (CVRD)	Iron ore and nickel mining – Brazil	**49,461**	**1.9**
Personal goods	Natura	Manufacturer and marketer of skin products – Brazil	**15,949**	**0.6**
Total South American Equities			**65,410**	**2.5**
Europe				
Chemicals	BASF	Chemicals – Germany	49,848	
	Fuchs Petrolub	Manufacturer of lubricants – Germany	21,058	
			70,906	**2.7**
Mining	KGHM	Copper mining – Poland	**52,720**	**2.0**
Aerospace and defence	Meggitt	Aerospace equipment and systems – UK	24,046	
	Rolls-Royce Group	Aerospace equipment – UK	45,200	
			69,246	**2.7**
Electronic and electrical equipment	ABB	Power systems and automation – Switzerland	**29,473**	**1.1**
Industrial engineering	Aggreko	Power equipment rental – UK	23,532	
	Atlas Copco	Engineering – Sweden	134,345	
	Renishaw	Electronic equipment – UK	26,571	
	Sandvik	Engineering – Sweden	15,330	
			199,778	**7.7**
Support services	Intertek Group	Business support providers – UK	34,375	
	Serco Group	Government outsourcing – UK	13,438	
			47,813	**1.8**
Automobiles and parts	Fiat	Automobiles – Italy	34,599	
	Porsche	Automobiles – Germany	21,932	
			56,531	**2.2**

* 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	**57,706**	**2.2**
Personal goods	Burberry Group	Clothing and accessories – UK	**14,156**	**0.5**
Pharmaceuticals and biotechnology	Novozymes	Enzyme manufacturer – Denmark	**50,676**	**2.0**
Food and drug retailers	BIM Birlesik Magazalar	Discount food retail – Turkey	4,882	
	Jeronimo Martins	Retailer – Portugal	14,821	
			19,703	**0.8**
General retailers	Inchcape	Motor distributor – UK	12,541	
	Inditex	International clothing retailer – Spain	125,978	
	PPR	Luxury goods producer and retailer – France	129,785	
			268,304	**10.4**
Mobile telecommunications	Telefonica O2 Czech Republic	Fixed and mobile telecoms – Czech Republic	13,163	
	Telekomunikacja Polska	Fixed and mobile telecoms – Poland	7,480	
			20,643	**0.8**
Banks	Banco Santander	Banking – Spain	53,199	
	Garanti Bankasi	Banking – Turkey	13,423	
	NBNK	Banking – UK	1,047	
			67,669	**2.6**
Real estate investment and services	Black Sea Property Fund	Bulgarian property trust	**100**	**0.0**
Financial services	Level E Maya Fund	Artificial intelligence based algorithmic trading – UK	4,498	
	Prudential	International insurance – UK	67,109	
			71,607	**2.8**
Open ended investment companies	Baillie Gifford Global Discovery Fund	Global growth fund	**12,148**	**0.5**
Software and computer services	Arm Holdings	Semiconductor and software design company – UK	24,533	
	Mail.RU Group	Software and computer services – Russia	10,026	
			34,559	**1.3**
Technology hardware and equipment	Aixtron	LED manufacturing equipment – Germany	5,082	
	ASML Holding	Lithography – Netherlands	5,143	
			10,225	**0.4**
Total European Equities			**1,153,963**	**44.5**
Africa and Middle East				
Banks	Standard Bank Group	Banking – South Africa	**10,002**	**0.4**
Total African and Middle East Equities			**10,002**	**0.4**

Classification	Name	Business	Fair value £'000	% of total assets
Asia				
Support services	New Oriental Education & Technology	Education and training – China	**35,730**	**1.4**
Automobiles and parts	Astra International	Automotive conglomerate – Indonesia	18,149	
	Hero MotoCorp	Motorcycle and scooter manufacturer – India	18,481	
			36,630	**1.4**
Personal goods	Belle International	Footwear – China	**9,111**	**0.3**
Pharmaceuticals and biotechnology	Celltrion	Biopharmaceutical company – Korea	**10,660**	**0.4**
General retailers	Dangdang	E–Commerce – China	**4,053**	**0.2**
Travel and leisure	Ctrip.com	Travel agent – China	**8,179**	**0.3**
Financial services	Housing Development Finance Corporation	Mortgage bank – India	28,197	
	Innovation Works Development Fund*	Investment company – China	4,577	
	Singapore Exchange	Securities exchange owner/operator – Singapore	11,170	
			43,944	**1.7**
Software and computer services	Alibaba Group†	Online retail – China	38,064	
	Baidu	Online search engine – China	128,692	
	Pactera Technology International	Outsourcing – China	2,674	
	Rakuten	Online retailer – Japan	11,195	
	Taiwan Semiconductor Manufacturing	Semiconductor manufacturer – Taiwan	24,446	
	Tencent Holdings	Internet services – China	94,668	
			299,739	**11.6**
Total Asian Equities			**448,046**	**17.3**
Total Equity Investments			**2,514,992**	**97.0**
Fixed Interest				
Brazilian real denominated	Brazil CPI Linked 2045		**66,857**	**2.6**
Total Fixed Interest			**66,857**	**2.6**
Total Investments			**2,581,849**	**99.6**
Net Liquid Assets			**11,597**	**0.4**
Total Assets at Fair Value (before deduction of debentures, long and short term borrowings)			**2,593,446**	**100.0**

* Denotes unlisted security.
† Denotes holding in unlisted convertible preference shares.

Ten Year Record

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) %
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
2013	**2,593,446**	**375,078**	**2,218,368**	**883.3**	**857.6**	**885.4**	**822.5**	**4.1**	**7.1**

* 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

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	Ongoing charges ¶ %
2003	33,909	22,597	7.43	6.60	0.49
2004	35,829	23,931	8.05	7.00	0.60
2005	35,456	21,809	7.37	7.35	0.52
2006	41,456	25,738	8.82	8.50	0.52
2007	45,522	27,817	9.80	9.50	0.49
2008	49,575	27,043	9.79	10.30	0.51
2009	57,470	34,571	12.67 ††	12.30 ††	0.54
2010	49,174	30,200	11.18	11.30	0.52
2011	53,703	34,374	13.32	12.00	0.51
2012	52,689	33,473	13.07	13.00	0.51
2013	**58,950**	**39,510**	**15.59**	**14.00**	**0.51**

Gearing Ratios

Year to 31 March	Gearing § %	Potential gearing ^ %
2003	24	25
2004	18	20
2005	16	17
2006	12	13
2007	14	16
2008	23	24
2009	26	29
2010	16	17
2011	17	17
2012	17	18
2013	**16**	**17**

‡ 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).

¶ From 2012 calculated as total operating costs divided by average net asset value (with debt at fair value) in accordance with AIC guidelines. Prior years have not been recalculated as the change in methodology is not considered to result in a materially different figure.

§ Total assets (including all debt used for investment purposes) less all cash and cash equivalents 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 2003 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
2003	100	100	100	100	100	100	100	100	100
2004	134	138	125	128	130	136	108	106	103
2005	148	153	135	143	142	149	99	111	106
2006	214	225	171	185	222	239	119	129	108
2007	221	236	178	198	231	253	132	144	114
2008	236	256	171	195	256	285	132	156	118
2009	140	154	132	155	151	172	171	186	117
2010	249	283	191	230	260	305	150	171	123
2011	292	337	202	250	316	378	179	182	129
2012	279	327	196	249	302	368	176	197	134
2013	**310**	**370**	**223**	**292**	**351**	**436**	**210**	**212**	**138**
Compound annual returns									
5 year	5.7%	7.7%	5.5%	8.4%	6.5%	8.8%	9.8%	6.3%	3.2%
10 year	12.0%	14.0%	8.4%	11.3%	13.4%	15.9%	7.7%	7.8%	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 2013.

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 2012, subject to matters that may arise from any subsequent enquiry by HM Revenue and Customs into the Company's tax return. In accordance with recent changes to section 1158, the Company has obtained approval as an investment trust from HM Revenue & Customs for accounting periods commencing on or after 1 April 2012. The Company intends to conduct its affairs so as to enable it to comply with the ongoing requirements.

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 13. A detailed analysis of the Company's investment portfolio is set out on pages 17 to 19.

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 2,475,000 shares, all of which are held in treasury, increasing net asset value per share by 0.04%. Between 1 April 2013 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);
— ongoing charges;
— 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 20.

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

Results and Dividends

The net asset value per share (after deducting borrowing at fair value) increased by 11.6% during the year, compared to an increase in the benchmark of 13.8%; the discount was 4.1% at 31 March 2013.

The Board recommends a final dividend of 7.30p per ordinary share which, together with the interim of 6.70p already paid, makes a total of 14.00p for the year compared with 13.00p for the previous year.

If approved, the recommended final dividend on the ordinary shares will be paid on 1 July 2013 to shareholders on the register at the close of business on 31 May 2013. The ex-dividend date is 29 May 2013.

The Company's Registrars offer a Dividend Reinvestment Plan (see page 51) and the final date for elections for this dividend is 10 June 2013.

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 Royal Bank of Scotland plc loan, which had drawings of €61.0 million was repaid and a new two year €61.0 million loan has been drawn down with The Royal Bank of Scotland plc.

Since the year end the U$99 million loan with The Bank of New York Mellon has been repaid and replaced with a £100 million multi-currency facility with State Street Bank and Trust Company.

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 13 respectively.

Regulation

The Board has been in discussions with the Managers on how best to address the requirements of the Alternative Investment Fund Managers Directive (an EU Directive). This comes into law in July 2013 although the Company has until July 2014 to comply fully with the legislation. The Directive requires the Company to appoint an Alternative Investment Fund Manager (AIFM) who will be responsible for portfolio and risk management and will be regulated under the Directive. Having taken external advice, it has been agreed that Baillie Gifford is best positioned to act as the Company's AIFM.

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 positions and the level of forecast income and expenditure to ensure the provisions of section 1158 are not breached. Baillie Gifford's Business Risk & Internal Audit and Regulatory Risk Departments provide regular reports to the Audit Committee on Baillie Gifford's monitoring programmes.

Major regulatory change could impose disproportionate compliance burdens on the Company. 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. The executive responsibility for investment management has been delegated to Baillie Gifford & Co.

Social and Community Issues

As an investment trust, the Company has no direct social or community responsibilities. The Company, however, believes that it is in the shareholders' interests to consider environmental, social and governance factors when selecting and retaining investments. Details of the Company's policy on socially responsible investment can be found under Corporate Governance and Stewardship on pages 25 and 26.

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, share buy back policy, 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 retirement of Dr Linda Yueh on 31 March 2013 the Board comprises five 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.

Appointments

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.

Appointments to the Board are made on merit with due regard for the benefits of diversity including gender. The priority in appointing new directors is to identify the candidate with the best range of skills and experience to complement existing Directors. The Board therefore does not consider it appropriate to set diversity targets.

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, Mr MM Gray 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, Mr MM Gray 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 (retired 31 March 2013)	4	1	1

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 pages of the Manager's website: www.scottishmortgageit.com.

Performance Evaluation

During the year the Board appointed Lintstock, a firm which assists companies with the design and execution of board evaluations, to facilitate the performance evaluation of the Chairman, each Director, the Board as a whole and its Committees. Linstock has no other connection with the Company or the Directors. Lintstock provided questionnaires which were tailored to the specific needs of the Company.

The questionnaires addressed, amongst other issues:

- Board and Committee composition and expertise;
- Quality of Board documentation, administration and third party relationships;
- Trust oversight and priorities for change; and
- Personal development.

Each Director and the Chairman completed the questionnaires and the Chairman discussed feedback with each Director.

The appraisal of the Chairman was led by Mr MM Gray.

The results were considered by the Nomination Committee.

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 was no increase in the overall level of the Chairman's other commitments during the year.

Induction and Training

New Directors are provided with an induction programme which is tailored to the particular circumstances of the appointee. Briefings were provided during the year on industry and regulatory matters. 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 page 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.

Baillie Gifford & Co's Business Risk & Internal Audit and Regulatory Risk Departments provide the Board with regular reports on their 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 ISAE 3402 and 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 SA/NV 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 principal risks are market related and include market risk, liquidity risk and credit risk. An explanation of these risks and how they are managed is contained in note 22 to the financial statements. The Company's assets, the majority of which are investments in quoted securities which are readily realisable, exceed its liabilities significantly. The Board approves borrowing limits and reviews regularly the amount of any borrowings and compliance with banking covenants. 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 pages 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 (KPMG) is engaged as the Company's Auditor. Although the Auditor has been in place for over twenty five years, the audit partners responsible for the audit are rotated at least every five years in accordance with professional and regulatory standards in order to protect independence and objectivity and to provide fresh challenge to the business. Ms Burnet, the current partner, was appointed a year ago and will continue as partner until the conclusion of the 2016 audit.

KPMG have confirmed that they believe they are independent within the meaning of regulatory and professional requirements and that the objectivity of the audit partner and staff is not impaired. KPMG also act as auditor to the Manager and Ms Burnet will take on the lead relationship partner role with Baillie Gifford during 2013. A separate audit director is responsible for the Baillie Gifford audit and KPMG have outlined the procedures that would be put in place in the unlikely event that a conflict of interest should arise. The Committee is satisfied with the Auditor's independence. Non-audit fees for the year to 31 March 2013 were £660 and related to the certification of financial information for the debenture trustees and £1,663 in relation to the provision of Indian Tax services. The Committee does not believe that this has impaired the Auditor's independence.

Having considered the experience and tenure of the audit partner and staff and the nature of the services provided the Committee remains satisfied with the Auditor's effectiveness. The Board is therefore recommending that KPMG be reappointed for 2013/14.

The Committee has noted the amendments to the UK Corporate Governance Code and, in particular, the recommendation to put the external audit contract out to tender at least every ten years. In accordance with the FRC guidance the Committee will consider undertaking a tender process to coincide with the five year rotation cycle of the current partner Ms Burnet. There are no contractual obligations restricting the Committee's choice of external auditor.

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 pages 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 on the Company from the Company's pages of the Manager's website: www.scottishmortgageit.com.

Corporate Governance and Stewardship

The Company has given discretionary voting powers to the Investment Managers, Baillie Gifford & Co. The Managers vote against resolutions they consider may damage shareholders' rights or economic interests.

The Company believes that it is in the shareholders' interests to consider environmental, social and governance ('ESG') factors when selecting and retaining investments and have asked the Managers to take these issues into account as long as the investment objectives are not compromised. The Managers do not exclude companies from their investment universe purely on the grounds of ESG factors but adopt a positive engagement approach whereby matters are discussed with management with the aim of improving the relevant policies and management systems and enabling the Managers to consider how ESG factors could impact long term investment returns. The Managers' Statement of Compliance with the UK Stewardship Code can be found on the Managers' website at www.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 Company has a zero tolerance policy towards bribery and is committed 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 (ongoing charges) 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 good performance (particularly over the long term), 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 2013	Ordinary 25p shares held at 31 March 2012
JPHS Scott	Beneficial	43,808	40,284
MM Gray	Beneficial	150,000	150,000
	Non-beneficial	12,500	12,500
Professor JA Kay	Beneficial	5,000	5,000
FC McBain	Beneficial	1,158	1,136
WG McQueen	Beneficial	1,500	1,500
Dr L Yueh (retired 31 March 2013)	Beneficial	1,378	–

The Directors at the year end, and their interests in the Company, were as shown above. There have been no changes intimated in the Directors' interests up to 9 May 2013.

Directors

Dr L Yueh, having been appointed to the Board on 3 May 2012, retired on 31 March 2013.

All other Directors will retire at the Annual General Meeting and offer themselves for re-election.

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 maintains Directors' and Officers' liability insurance.

Major Interests in the Company's Shares

Name	No. of ordinary 25p shares held at 31 March 2013	% of issue*
BlackRock Inc (Indirect)	21,361,299	8.5
D.C. Thomson & Company Limited (Direct)	12,050,000	4.8
Investec Wealth & Investment Limited (Indirect)	10,045,268	4.0

There have been no changes to the major interests in the Company's shares intimated up to 9 May 2013.

* Ordinary shares in issue excluding treasury shares.

Share Capital

Capital Structure

The Company's capital structure as at 31 March 2013 consists of 284,346,176 ordinary shares of 25p each, of which 251,144,897 are allotted and fully paid and 33,201,279 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 2013 the Company bought back 2,475,000 ordinary shares (nominal value £619,000 representing 1.0% of the called up share capital, excluding treasury shares, at 31 March 2012), on the London Stock Exchange, all of which are held in treasury. The total consideration for these shares was £20,767,000. Between 1 April 2013 and the date of this report no further shares have been bought back. At 31 March 2013 the Company held 33,201,279 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 0.04%. 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 11, 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 2014. Such purchases will only be made at a discount to the prevailing net asset value. Any such shares purchased shall either be cancelled or held in treasury. Under the Listing Rules of the UK Listing Authority of the Financial Conduct 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 11, 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 12, 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 £6,278,622 in aggregate (representing 10% of the issued ordinary share capital (excluding treasury shares) of the Company as at 9 May 2013) without first being required to offer such shares to existing shareholders pro rata to their existing holdings.

This power will last until the conclusion of the Annual General Meeting of the Company to be held in 2014.

The Directors consider that the power proposed to be granted by Resolution 12 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 9 May 2013 the Company held 33,201,279 treasury shares, representing 13.2% of the ordinary shares in issue (excluding treasury shares).

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

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 2013 or 31 March 2012.

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.

By order of the Board
John Scott
Chairman
10 May 2013

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 retirement of Dr L Yueh on 31 March 2013 the Company has five Directors, all of whom are non-executive. There is no separate Remuneration Committee and the Board as a whole considers changes to Directors' fees from time to time. Baillie Gifford & Co, who have been appointed by the Board as Managers and Secretaries, provide advice and comparative information when the Board considers the level of Directors' fees.

Policy on Directors' Fees

The Board's policy is that the remuneration of Directors should be set at a reasonable level that is commensurate with the duties and responsibilities of the role and consistent with the requirement to attract and retain Directors of the appropriate quality and experience. It should also reflect the experience of the Board as a whole, be fair and should take account of the level of fees paid by comparable investment trusts. This policy will continue for the year ending 31 March 2014 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 for 2014 should increase from £40,000 to £43,000 per annum for the Chairman and from £27,000 to £29,000 per annum for the other Directors, with the additional fee for the Chairman of the Audit Committee increasing from £3,000 to £4,000. Directors' fees were last increased on 1 April 2011.

Directors' Remuneration for the Year (audited)

Name	2013 £	2012 £
JPHS Scott (Chairman)	40,000	40,000
MM Gray	27,000	27,000
Professor JA Kay	27,000	27,000
FC McBain	27,000	27,000
WG McQueen (Audit Committee Chairman)	30,000	30,000
Dr L Yueh (retired 31 March 2013)	24,645	–
	175,645	**151,000**

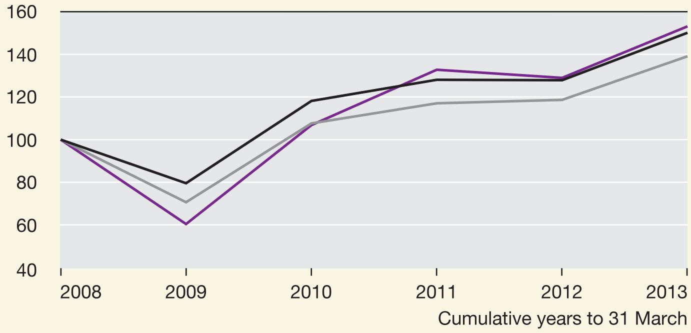
The Directors who served during the year received the above remuneration in the form of fees.

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.

Performance Graph

Scottish Mortgage's Share Price, FTSE All-Share Index and Benchmark*
(figures have been rebased to 100 at 31 March 2008)



Source: Thomson Reuters Datastream
Scottish Mortgage share price
FTSE All-Share
Benchmark†

* 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 above 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 page 29 was approved by the Board of Directors and signed on its behalf on 10 May 2013.

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 pages 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 current Directors, whose names and functions are listed within the Directors and Managers section, confirms 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
10 May 2013

Notes

The following notes relate to financial statements published on a website and are not included in the printed version of the Annual Report and Financial Statements:

— The maintenance and integrity of the Baillie Gifford & Co website is the responsibility of Baillie Gifford & Co; the work carried out by the auditor does not involve consideration of these matters and accordingly, the auditor accepts no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

— Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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 2013 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 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 Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

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 2013 and of its net return for the year then ended;

— have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and

— have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

— the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and

— the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

— adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or

— the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or

— certain disclosures of Directors' remuneration specified by law are not made; or

— we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

— the Directors' statement, set out on page 25, 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.

Catherine Burnet (Senior Statutory Auditor)
for and on behalf of
KPMG Audit Plc, Statutory Auditor
Chartered Accountants
20 Saltire Court
Edinburgh
EH1 2EG
10 May 2013

Income Statement

For the year ended 31 March

	Notes	2013 Revenue £'000	2013 Capital £'000	2013 Total £'000	2012 Revenue £'000	2012 Capital £'000	2012 Total £'000
Gains/(losses) on investments	9	–	244,988	**244,988**	–	(94,940)	**(94,940)**
Currency (losses)/gains	14	–	(10,396)	**(10,396)**	–	5,974	**5,974**
Income	2	58,950	–	**58,950**	52,689	–	**52,689**
Investment management fee	3	(3,836)	(3,836)	**(7,672)**	(3,632)	(3,632)	**(7,264)**
Other administrative expenses	4	(2,379)	–	**(2,379)**	(2,380)	–	**(2,380)**
Net return before finance costs and taxation		52,735	230,756	**283,491**	46,677	(92,598)	**(45,921)**
Finance costs of borrowings	5	(9,215)	(9,215)	**(18,430)**	(9,401)	(9,401)	**(18,802)**
Net return on ordinary activities before taxation		43,520	221,541	**265,061**	37,276	(101,999)	**(64,723)**
Tax on ordinary activities	6	(4,010)	–	**(4,010)**	(3,803)	–	**(3,803)**
Net return on ordinary activities after taxation		**39,510**	**221,541**	**261,051**	**33,473**	**(101,999)**	**(68,526)**
Net return per ordinary share	7	**15.59p**	**87.42p**	**103.01p**	**13.07p**	**(39.81p)**	**(26.74p)**

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	2013 £'000	2013 £'000	2012 £'000	2012 £'000
Fixed assets					
Investments held at fair value through profit or loss	9		2,581,849		2,361,636
Current assets					
Debtors	10	5,401		8,321	
Cash and short term deposits		13,867		20,855	
		19,268		29,176	
Creditors					
Amounts falling due within one year	11	(72,867)		(125,295)	
Net current liabilities			(53,599)		(96,119)
Total assets less current liabilities			2,528,250		2,265,517
Creditors					
Amounts falling due after more than one year	12		(309,882)		(253,194)
			2,218,368		**2,012,323**
Capital and reserves					
Called up share capital	13		71,086		71,086
Capital redemption reserve	14		19,094		19,094
Capital reserve	14		2,045,003		1,844,229
Revenue reserve	14		83,185		77,914
Shareholders' funds	15		**2,218,368**		**2,012,323**
Net asset value per ordinary share (after deducting borrowings at fair value)	22		**857.6p**		**768.7p**
Net asset value per ordinary share (after deducting borrowings at par)	16		**885.4p**		**795.6p**

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 10 May 2013.

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 2013

	Notes	Share capital £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	Shareholders' funds £'000
Shareholders' funds at 1 April 2012		71,086	19,094	1,844,229	77,914	**2,012,323**
Net return on ordinary activities after taxation	14	–	–	221,541	39,510	**261,051**
Shares bought back	13	–	–	(20,767)	–	**(20,767)**
Dividends paid during the year	8	–	–	–	(34,239)	**(34,239)**
Shareholders' funds at 31 March 2013		**71,086**	**19,094**	**2,045,003**	**83,185**	**2,218,368**

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		–	–	(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**

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	2013 £'000	2013 £'000	2012 £'000	2012 £'000
Net cash inflow from operating activities	17		48,335		44,484
Servicing of finance					
Interest paid		(18,693)		(18,803)	
Net cash outflow from servicing of finance			(18,693)		(18,803)
Taxation					
Income tax refunded		19		38	
Overseas tax incurred		(4,061)		(3,896)	
Total tax paid			(4,042)		(3,858)
Financial investment					
Acquisitions of investments		(287,065)		(621,168)	
Disposals of investments		310,571		654,761	
Realised currency (loss)/profit		(1,088)		3,562	
Net cash inflow from financial investment			22,418		37,155
Equity dividends paid	8		(34,239)		(31,808)
Net cash inflow before financing			13,779		27,170
Financing					
Shares bought back	13	(20,767)		(19,637)	
Bank loans repaid		–		(102,206)	
Bank loans drawn down		–		100,829	
Net cash outflow from financing			(20,767)		(21,014)
(Decrease)/increase in cash	18		**(6,988)**		**6,156**

	Notes	2013 £'000	2013 £'000	2012 £'000	2012 £'000
Reconciliation of net cash flow to movement in net debt	18				
(Decrease)/increase in cash in the period			(6,988)		6,156
Decrease/(increase) in bank loans			–		1,377
Exchange movement on bank loans			(9,308)		2,412
Other non-cash changes			226		199
Movement in net debt in the year			(16,070)		10,144
Net debt at 1 April			(345,141)		(355,285)
Net debt at 31 March			**(361,211)**		**(345,141)**

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

Notes to the Financial Statements

1 Principal Accounting Policies

The financial statements for the year to 31 March 2013 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 be retained.

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 and its investment manager, who are subject to the UK's regulatory environment, are also UK based.

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 and are measured at subsequent reporting dates at fair value. The fair value of listed security 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) Cash and Short Term Deposits

Cash includes cash in hand and deposits repayable on demand. Deposits are repayable on demand if they can be withdrawn at any time without notice and without penalty or if they have a maturity or period of notice of not more than one working day.

(d) 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.

(vii) Special dividends are treated as repayments of capital or income depending on the facts of each particular case.

(e) 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.

(f) Long Term Borrowings and Finance Costs

Long term borrowings are carried in the balance sheet at amortised cost, representing 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.

(g) 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.

(h) 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.

(i) 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

	2013 £'000	2012 £'000
Income from investments		
Franked investment income*	7,361	6,156
UK unfranked investment income*	3	797
Overseas dividends	46,629	39,140
Overseas interest	4,927	6,575
	58,920	**52,668**
Other income		
Deposit interest	30	13
Underwriting commission and commitment fees	–	8
	30	21
Total income	**58,950**	**52,689**
Total income comprises:		
Dividends from financial assets designated at fair value through profit or loss	53,993	45,378
Interest from financial assets designated at fair value through profit or loss	4,927	7,290
Deposit interest from financial assets not at fair value through profit or loss	30	13
Other income not from financial assets	–	8
	58,950	**52,689**

* Includes OEIC income.

3 Investment Management Fee

	2013 Revenue £'000	2013 Capital £'000	2013 Total £'000	2012 Revenue £'000	2012 Capital £'000	2012 Total £'000
Investment management fee	3,836	3,836	**7,672**	3,632	3,632	**7,264**

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

	2013 £'000	2012 £'000
General administrative expenses	2,176	2,203
Directors' fees (see Directors' Remuneration Report page 29)	176	151
Auditor's remuneration for audit services	24	23
Auditor's remuneration for non-audit services – certification of results for the debenture trustees	1	1
– provision of Indian tax services	2	2
	2,379	**2,380**

5 Finance Costs of Borrowings

	2013 Revenue £'000	2013 Capital £'000	2013 Total £'000	2012 Revenue £'000	2012 Capital £'000	2012 Total £'000
Financial liabilities not at fair value through profit or loss						
Bank loans and overdrafts repayable within five years	2,334	2,334	**4,668**	2,507	2,507	**5,014**
Debentures repayable wholly or partly in more than five years	6,881	6,881	**13,762**	6,894	6,894	**13,788**
	9,215	**9,215**	**18,430**	**9,401**	**9,401**	**18,802**

6 Tax on Ordinary Activities

	2013 Revenue £'000	2013 Capital £'000	2013 Total £'000	2012 Revenue £'000	2012 Capital £'000	2012 Total £'000
Overseas taxation	**4,010**	**–**	**4,010**	**3,803**	**–**	**3,803**

	2013 £'000	2012 £'000
The tax charge for the year is lower than the standard rate of corporation tax in the UK of 24% (2012 – 26%)		
The differences are explained below:		
Net return on ordinary activities before taxation	265,061	(64,723)
Net return on ordinary activities before taxation multiplied by the standard rate of corporation tax in the UK of 24% (2012 – 26%)	63,615	(16,828)
Capital returns not taxable	(56,302)	23,131
Income not taxable (franked investment income)	(1,767)	(1,601)
Income not taxable (overseas dividends)	(10,683)	(9,585)
Adjustment to income received from OEICs for tax purposes	1	3
Taxable expenses in the year not utilised	5,136	4,969
Overseas withholding tax	4,010	3,803
Double taxation relief	–	(89)
Current tax charge for the year	**4,010**	**3,803**

At 31 March 2013 the Company had surplus management expenses and losses on non-trading loan relationships of £100 million (2012 – £79 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

	2013 Revenue	2013 Capital	2013 Total	2012 Revenue	2012 Capital	2012 Total
Net return per ordinary share	**15.59p**	**87.42p**	**103.01p**	**13.07p**	**(39.81p)**	**(26.74p)**

Revenue return per ordinary share is based on the net revenue on ordinary activities after taxation of £39,510,000 (2012 – £33,473,000), and on 253,421,883 (2012 – 256,199,678) ordinary shares, being the weighted average number of ordinary shares (excluding treasury shares) during the year.

Capital return per ordinary share is based on the net capital gain for the financial year of £221,541,000 (2012 – net capital loss of £101,999,000), and on 253,421,883 (2012 – 256,199,678) 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

	2013	2012	2013 £'000	2012 £'000
Amounts recognised as distributions in the year:				
Previous year's final (paid 2 July 2012)	6.80p	6.20p	17,246	15,904
Interim (paid 23 November 2012)	6.70p	6.20p	16,993	15,904
	13.50p	**12.40p**	**34,239**	**31,808**

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 £39,510,000 (2012 – £33,473,000).

	2013	2012	2013 £'000	2012 £'000
Dividends paid and payable in respect of the year:				
Interim dividend per ordinary share (paid 23 November 2012)	6.70p	6.20p	16,993	15,904
Proposed final dividend per ordinary share (payable 1 July 2013)	7.30p	6.80p	18,334	17,246
	14.00p	**13.00p**	**35,327**	**33,150**

9 Fixed Assets – Investments

As at 31 March 2013	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Listed equities/funds	2,463,152	4,498	–	**2,467,650**
Listed debt securities	–	66,857	–	**66,857**
Unlisted equities	–	–	47,342	**47,342**
Total financial asset investments	**2,463,152**	**71,355**	**47,342**	**2,581,849**

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

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 2012	1,555,298	44,438	6,650	**1,606,386**
Investment holding gains/(losses) at 1 April 2012	679,079	76,137	34	**755,250**
Value of investments at 1 April 2012	2,234,377	120,575	6,684	**2,361,636**
Movements in year:				
Purchases at cost	250,848	–	33,243	**284,091**
Sales – proceeds	(239,421)	(69,445)	–	**(308,866)**
– gains on sales	58,777	47,077	–	**105,854**
Changes in investment holding gains and losses	163,069	(31,350)	7,415	**139,134**
Value of investments at 31 March 2013	**2,467,650**	**66,857**	**47,342**	**2,581,849**
Cost of investments at 31 March 2013	1,625,502	22,070	39,893	**1,687,465**
Investment holding gains/(losses) at 31 March 2013	842,148	44,787	7,449	**894,384**
Value of investments at 31 March 2013	**2,467,650**	**66,857**	**47,342**	**2,581,849**

The purchases and sales proceeds figures above include transaction costs of £238,000 (2012 – £968,000) and £188,000 (2012 – £669,000) respectively.

Of the gains on sales during the year of £105,854,000 (2012 – losses of £11,862,000) a net gain of £95,418,000 (2012 – gain of £145,013,000) 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 2012 £'000	Purchases/ amortisation £'000	Sales proceeds £'000	Change in listing £'000	Gains/ (losses) on sales £'000	Holding gains/ (losses) £'000	Value at 31 March 2013 £'000
Unlisted equities	6,684	33,243	–	–	–	7,415	**47,342**
	6,684	**33,243**	**–**	**–**	**–**	**7,415**	**47,342**

	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**

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.

	2013 £'000	2012 £'000
Net gains/(losses) on investments designated at fair value through profit or loss on initial recognition		
Gains/(losses) on sales	105,854	(11,862)
Changes in investment holding gains/(losses)	139,134	(83,078)
	244,988	**(94,940)**

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:

	2013 C income shares held	2013 Value £'000	2013 % of fund held	2012 C income shares held	2012 Value £'000	2012 % of fund held
Baillie Gifford Global Discovery Fund*	**2,554,821**	**12,148**	**40.1**	**2,554,821**	**9,708**	**47.0**

* 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

	2013 £'000	2012 £'000
Amounts falling due within one year:		
Income accrued	4,776	5,842
Sales for subsequent settlement	–	1,705
UK taxation recoverable	3	22
Other debtors and prepayments	622	752
	5,401	**8,321**

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

	2013 £'000	2012 £'000
The Royal Bank of Scotland plc loan	–	50,842
The Bank of New York Mellon multi-currency loan	65,196	61,960
Purchases for subsequent settlement	–	2,974
Share buybacks payable	3,092	4,994
Other creditors and accruals	4,579	4,525
	72,867	**125,295**

Included in other creditors is £1,325,000 (2012 – £1,153,000) 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 2013 drawings were as follows:

The Bank of New York Mellon	US$99 million at an interest rate of 1.20% per annum
The Royal Bank of Scotland plc	€61 million at an interest rate of 1.64% 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 Royal Bank of Scotland plc loan, which had drawings of €61 million was repaid and a new two year €61 million facility was entered into with The Royal Bank of Scotland plc.

12 Creditors – Amounts falling due after more than one year

	Nominal rate	Effective rate	2013 £'000	2012 £'000
Debenture stocks:				
£20 million 8–14% stepped interest debenture stock 2020	14.0%	12.3%	21,619	21,747
£75 million 6.875% debenture stock 2023	6.875%	6.9%	74,636	74,599
£50 million 6–12% stepped interest debenture stock 2026	12.0%	10.8%	54,023	54,158
4½% irredeemable debenture stock			675	675
Bank loans:				
National Australia Bank Limited multi-currency loan			107,343	102,015
The Royal Bank of Scotland plc loan			51,586	–
			309,882	**253,194**

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 £5,278,000 (2012 – £5,504,000) over nominal value. The debenture stocks are secured by a floating charge over the assets of the Company. Under the terms of the Debenture Trust Deeds, total borrowings should not exceed a sum equal to one half of the adjusted total of capital and reserves at the Company's year end.

13 Called Up Share Capital

	2013 Number	2013 £'000	2012 Number	2012 £'000
Allotted, called up and fully paid ordinary shares of 25p each	251,144,897	62,786	253,619,897	63,405
Treasury shares of 25p each	33,201,279	8,300	30,726,279	7,681
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 2013 a total of 2,475,000 (2012 – 2,900,000) ordinary shares with a nominal value of £619,000 (2012 – £725,000) were bought back at a total cost of £20,767,000 (2012 – £19,637,000) and held in treasury. At 31 March 2013 the Company had authority to buy back a further 35,542,622 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 2012	71,086	19,094	1,844,229	77,914	**2,012,323**
Gains on sales	–	–	105,854	–	**105,854**
Changes in investment holding gains and losses	–	–	139,134	–	**139,134**
Exchange differences	–	–	(1,088)	–	**(1,088)**
Exchange differences on multi-currency loans	–	–	(9,308)	–	**(9,308)**
Shares bought back	–	–	(20,767)	–	**(20,767)**
Investment management fee charged to capital	–	–	(3,836)	–	**(3,836)**
Finance costs of borrowings charged to capital	–	–	(9,215)	–	**(9,215)**
Dividends paid in year	–	–	–	(34,239)	**(34,239)**
Revenue return on ordinary activities after taxation	–	–	–	39,510	**39,510**
At 31 March 2013	**71,086**	**19,094**	**2,045,003**	**83,185**	**2,218,368**

The capital reserve includes investment holding gains of £894,384,000 (2012 – gains of £755,250,000) as disclosed in note 9. The revenue reserve is distributable by way of dividend.

15 Shareholders' Funds

	2013 £'000	2012 £'000
Total shareholders' funds are attributable as follows:		
Equity shares	**2,218,368**	**2,012,323**

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:

	2013	2012
Shareholders' funds attributable to ordinary shares (as above)	£2,218,368,000	£2,012,323,000
Number of ordinary shares in issue at the year end*	251,144,897	253,619,897
Shareholders' funds per ordinary share	883.3p	793.4p
Additions/(deductions)		
– expenses of debenture issue	(0.5p)	(0.6p)
– allocation of interest on borrowings	2.6p	2.8p
Net asset value per ordinary share	**885.4p**	**795.6p**

* 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:

	2013	2012	2013 £'000	2012 £'000
Ordinary shares	**885.4p**	**795.6p**	**2,223,646**	**2,017,827**

	2013 £'000	2012 £'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	2,017,827	2,137,997
Total recognised gains and losses for the year	261,051	(68,526)
Dividends paid in the year	(34,239)	(31,808)
Adjustment to debentures	(226)	(199)
Shares bought back	(20,767)	(19,637)
Total net assets at 31 March	**2,223,646**	**2,017,827**

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 251,144,897 (2012 – 253,619,897) 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

	2013 £'000	2012 £'000
Net return on ordinary activities before finance costs and taxation	283,491	(45,921)
(Gains)/losses on investments	(244,988)	94,940
Currency losses/(gains)	10,396	(5,974)
Amortisation of fixed income book cost	–	(3)
Decrease in accrued income	1,116	1,167
Decrease/(increase) in debtors	130	(19)
(Decrease)/increase in creditors	(1,810)	294
Net cash inflow from operating activities	**48,335**	**44,484**

18 Analysis of Change in Net Debt

	At 1 April 2012 £'000	Cash flows £'000	Other non-cash changes £'000	Exchange movement £'000	At 31 March 2013 £'000
Cash at bank and in hand	20,855	(6,988)	–	–	13,867
Loans due within one year	(112,802)	–	50,842	(3,236)	(65,196)
Loans due in two to five years	(102,015)	–	(50,842)	(6,072)	(158,929)
Debenture stocks	(151,179)	–	226	–	(150,953)
	(345,141)	**(6,988)**	**226**	**(9,308)**	**(361,211)**

19 Related Party Transactions

The Directors' fees for the year are detailed in the Directors' Remuneration Report on page 29.

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.

20 Contingencies, Guarantees and Financial Commitments

At the year end the Company had a capital commitment amounting to US$11,319,400 (2012 – US$14,769,400) 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 2013 US$6.75 million and US$6.93 million (2012 – US$4.50 million and US$5.73 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 17 to 19.

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 2013	Investments £'000	Cash and deposits £'000	Loans and debentures £'000	Other debtors and creditors* £'000	Net exposure £'000
US dollar	1,143,473	3,750	(172,539)	(139)	**974,545**
Euro	461,445	–	(51,586)	409	**410,268**
Swedish krona	149,675	–	–	–	**149,675**
Hong Kong dollar	103,779	–	–	–	**103,779**
Brazilian real	82,806	–	–	1,578	**84,384**
Polish zloty	60,200	–	–	–	**60,200**
Danish krone	50,676	–	–	69	**50,745**
Indian rupee	46,678	–	–	–	**46,678**
Swiss franc	29,473	–	–	–	**29,473**
Turkish lira	18,305	–	–	–	**18,305**
Indonesian rupiah	18,149	–	–	–	**18,149**
Czech koruna	13,163	–	–	–	**13,163**
Japanese yen	11,195	33	–	–	**11,228**
Other overseas currencies	31,832	–	–	4	**31,836**
Total exposure to currency risk	**2,220,849**	**3,783**	**(224,125)**	**1,921**	**2,002,428**
Sterling	361,000	10,084	(150,953)	(4,191)	**215,940**
	2,581,849	**13,867**	**(375,078)**	**(2,270)**	**2,218,368**

* Includes net non-monetary assets of £14,000.

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**
Swedish krona	127,568	–	–	–	**127,568**
Hong Kong dollar	111,355	–	–	–	**111,355**
Brazilian real	144,926	–	–	2,738	**147,664**
Polish zloty	82,167	–	–	–	**82,167**
Danish krone	41,186	–	–	58	**41,244**
Indian rupee	48,271	–	–	–	**48,271**
Swiss franc	43,642	–	–	95	**43,737**
Turkish lira	12,970	–	–	–	**12,970**
Indonesian rupiah	17,268	–	–	–	**17,268**
Czech koruna	30,659	–	–	–	**30,659**
Japanese yen	11,012	29	–	–	**11,041**
Other overseas currencies	28,553	4,518	–	1,973	**35,044**
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.

22 Financial Instruments (continued)

Currency Risk Sensitivity

At 31 March 2013, 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 2012.

	2013 £'000	2012 £'000
US dollar	48,727	43,779
Euro	20,513	14,342
Swedish krona	7,484	6,378
Hong Kong dollar	5,189	5,568
Brazilian real	4,219	7,383
Polish zloty	3,010	4,108
Danish krone	2,537	2,062
Indian rupee	2,334	2,414
Swiss franc	1,474	2,187
Turkish lira	915	649
Indonesian rupiah	908	863
Czech koruna	658	1,533
Japanese yen	561	552
Other overseas currencies	1,592	1,752
	100,121	**93,570**

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)

Interest Rate Risk (continued)

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

Financial Assets

	2013 Fair value £'000	2013 Weighted average interest rate	2013 Weighted average period until maturity*	2012 Fair value £'000	2012 Weighted average interest rate	2012 Weighted average period until maturity*
Floating rate:						
Brazilian bonds (index linked)	66,857	8.8%	32 years	120,575	9.7%	33 years
Cash and short term deposits:						
Other overseas currencies	3,783	–	n/a	17,796	–	n/a
Sterling	10,084	0.1%	n/a	3,059	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

The interest rate risk profile of the Company's bank loans and debentures (at amortised cost) and the maturity profile of the undiscounted future cash flows in respect of the Company's contractual financial liabilities at 31 March are shown below.

Interest Rate Risk Profile

The interest rate risk profile of the Company's financial liabilities at 31 March was:

	2013 £'000	2012 £'000
Floating rate – US$ denominated	65,196	61,960
Fixed rate – Sterling denominated	150,953	151,179
– Euro denominated	51,586	50,842
– US$ denominated	107,343	102,015
	375,078	**365,996**

Maturity Profile

The maturity profile of the Company's financial liabilities at 31 March was:

	2013 Within 1 year £'000	2013 Between 1 and 5 years £'000	2013 More than 5 years £'000	2012 Within 1 year £'000	2012 Between 1 and 5 years £'000	2012 More than 5 years £'000
Repayment of loans and debentures	65,196	158,929	145,675*	112,802	102,015	145,675*
Accumulated interest on loans and debentures to maturity date	17,776	57,067	84,738	17,483	59,330	98,725
	82,972	**215,996**	**230,413**	**130,285**	**161,345**	**244,400**

* Includes £675,000 irredeemable debenture stock.

Interest Rate Risk Sensitivity

An increase of 100 basis points in bond yields as at 31 March 2013 would have decreased total net assets and total return on ordinary activities by £10,442,000 (2012 – £17,712,000). 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 2013 would have increased the net asset value per share (with borrowings at fair value) by 2.93p (2012 – increased by 0.43p). A decrease of 100 basis points would have had an equal but opposite effect.

22 Financial Instruments (continued)

Other Price Risk

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

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

Other Price Risk Sensitivity

Fixed asset investments are valued at bid prices which equate to their fair value. A full list of the Company's investments is given on pages 17 to 19. 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.

111.2% (2012 – 111.0%) of the Company's net assets are invested in quoted equities. A 3% increase in quoted companies equity valuations at 31 March 2013 would have increased total assets and total return on ordinary activities by £74,030,000 (2012 – £67,031,000). 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:

	2013 £'000	2012 £'000
Fixed interest investments	66,857	120,575
Cash and short term deposits	13,867	20,855
Debtors and prepayments	5,401	8,321
	86,125	**149,751**

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:

	2013 Par/nominal £'000	2013 Book £'000	2013 Fair £'000	2012 Par/nominal £'000	2012 Book £'000	2012 Fair £'000
8–14% stepped interest debenture stock 2020	20,000	21,619	33,618	20,000	21,747	31,660
6.875% debenture stock 2023	75,000	74,636	92,287	75,000	74,599	94,140
6–12% stepped interest debenture stock 2026	50,000	54,023	87,430	50,000	54,158	85,740
4½% irredeemable debenture stock	675	675	565	675	675	616
Total debentures	**145,675**	**150,953**	**213,900**	**145,675**	**151,179**	**212,156**
Fixed rate loans		158,929	160,461		102,015	103,738
Total long term borrowings		**309,882**	**374,361**		**253,194**	**315,894**

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 885.4p to 857.6p. Taking the market price of the ordinary shares at 31 March 2013 of 822.5p, this would have given a discount to net asset value of 4.1% as against 7.1% on a debt at par basis. At 31 March 2012 the effect would have been to reduce the net asset value 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.

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 21. 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 25. The Company has the authority to issue and buy back its shares (see page 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 pages 52 and 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 pages 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.eproxyappointment.com. If you have registered for electronic communications you will be issued a PIN number to use when returning proxies to the secure Registrar website. You do not need to register for electronic communications to use electronic proxy voting, paper proxy forms will contain a PIN number to allow you to return proxies electronically.

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

Scottish Mortgage is an investment trust. Investment trusts offer investors the following:

— participation in a diversified portfolio of shares;

— constant supervision by experienced professional managers; and

— the Company is free from capital gains tax on capital profits realised within its portfolio although investors are still liable for capital gains tax on profits when selling their investment.

These accounts have been approved by the Directors of Scottish Mortgage Investment Trust PLC.

Analysis of Shareholders at 31 March

	2013 Number of shares held	2013 %	2012 Number of shares held	2012 %
Institutions	73,641,511	29.3	79,691,030	31.4
Intermediaries	125,488,897	50.0	121,178,724	47.8
Individuals	25,686,296	10.2	27,123,112	10.7
Baillie Gifford Share Plans/ISA	25,399,029	10.1	24,379,661	9.6
Marketmakers	929,164	0.4	1,247,370	0.5
	251,144,897	**100.0**	**253,619,897**	**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 £11,520 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:

— Obtain current valuations;

— Make lump sum investments, except where there is more than one Holder;

— Sell part or all of your holdings, except where there is more than one Holder;

— Switch between investment trusts, except where there is more than one Holder; and

— Update certain personal details e.g. address and telephone number.

* Please note that a bare trust cannot be opened via OMS. A bare trust application form must be completed. Certain restrictions apply for accounts where there is more than one holder.

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 them can fall as well as rise and investors may not get back the amount invested.

— 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 can make use of derivatives. The use of derivatives may impact on its performance.

— 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 savings vehicles shown on pages 52 and 53 are contained in the product brochures.

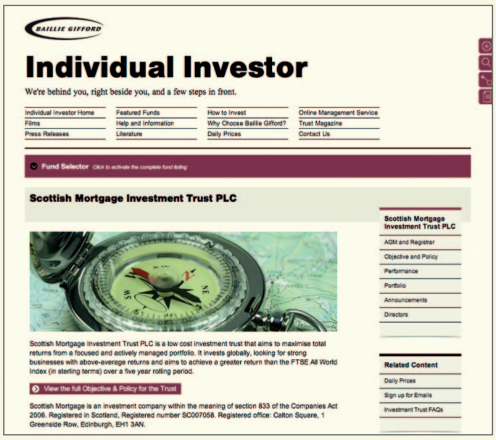
Scottish Mortgage Investment Trust PLC is a UK public listed company and as such complies with the requirements of the UK Listing Authority. It is not authorised and regulated by the Financial Conduct Authority.

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, the Managers and Secretaries of Scottish Mortgage Investment Trust PLC. BGSM and Baillie Gifford & Co are authorised and regulated by the Financial Conduct 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 pages 52 and 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.

Scottish Mortgage on the Web

Up-to-date information about Scottish Mortgage is on the Scottish Mortgage pages 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 pages 52 and 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

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

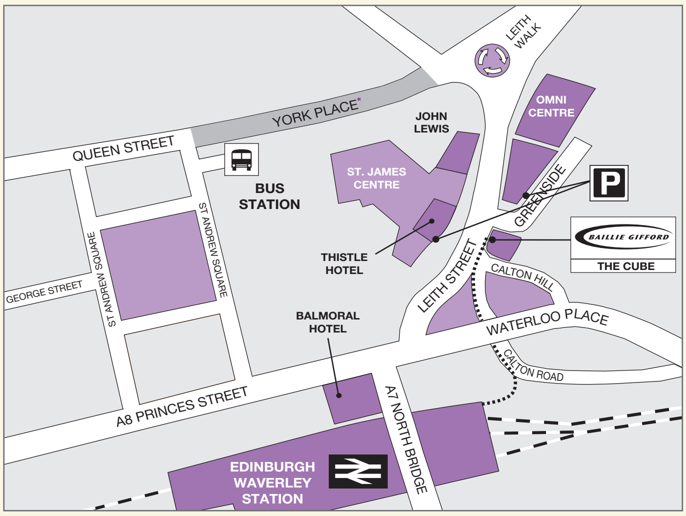
Client Relations Team
Baillie Gifford Savings Management Limited
Calton Square
1 Greenside Row
Edinburgh EH1 3AN

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.

Notice of Annual General Meeting



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 Tuesday, 18 June 2013 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.

* Please note: Traffic disruptions and road closures are in place on York Place due to the Edinburgh Tramwork Project.

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 is hereby given that the one-hundred and fourth 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 Tuesday, 18 June 2013 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 2013 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 2013.
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 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.
10. 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:

11. 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 37,646,620 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 2014, 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.

12. 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 relevant shares (within the meaning of section 560 of the Act) held by the Company immediately before the sale as treasury shares (as defined in section 724 of the Act) ('treasury shares') for cash as if 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 whether by way of a rights issue, open offer or otherwise 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 or otherwise howsoever; and

    (b) the sale of treasury shares (other than pursuant to paragraph (a) of this resolution) of up to a maximum aggregate nominal value of £6,278,622 being 10% of the Company's issued Share Capital as at 9 May 2013;

    and shall expire at the conclusion of the next Annual General Meeting of the Company to be held in 2014, 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
16 May 2013

Notes

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

2. To be valid any proxy form or other instrument appointing a proxy, together with any power of attorney or other authority under which it is signed or a certified copy thereof, must be received by post or (during normal business hours only) by hand at the Registrars of the Company at Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol, BS99 6ZY or www.eproxyappointment.com no later than two days (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 two days (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 the close of business two days (excluding non-working days) before the meeting 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 pages 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 9 May 2013 (being the latest practicable date prior to the publication of this notice) the Company's issued share capital consisted of 251,144,897 ordinary shares (excluding treasury shares), carrying one vote each. Therefore, the total voting rights in the Company as at 9 May 2013 were 251,144,897 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

Managers, Secretaries and Registered Office

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

Registrar

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

Banker

The Bank of
New York Mellon SA/NV
46 Rue Montoyerstraat
B-1000 Brussels
Belgium

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