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 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.

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**

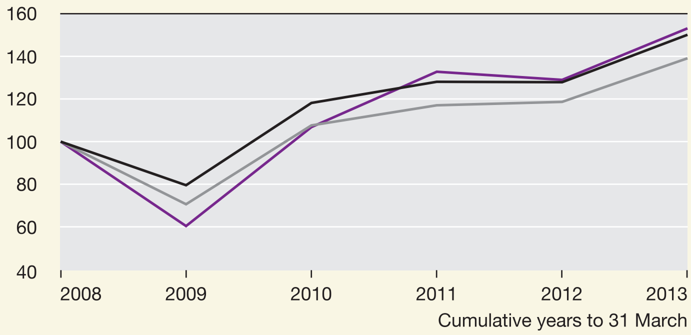
The Directors who served during the year received the above remuneration in the form of fees.

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.