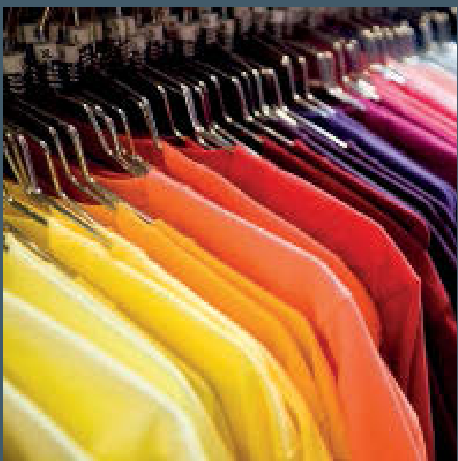
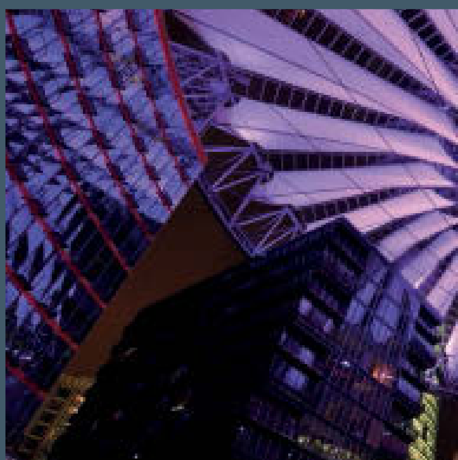
SCOTTISH MORTGAGE INVESTMENT TRUST PLC

Your low cost choice
for global investment

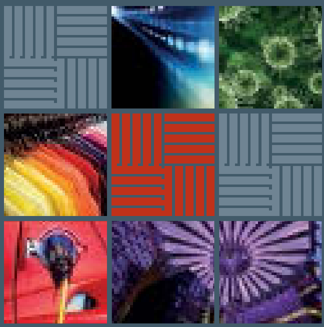







Annual Report and Financial Statements
31 March 2014

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.

Scottish Mortgage Investment Trust PLC currently conducts its affairs, and intends to continue to conduct its affairs, so that the Company's Ordinary Shares can be recommended by Independent Financial Advisers to ordinary retail investors in accordance with the rules of the Financial Conduct Authority (FCA) in relation to non-mainstream investment products.

The Trust's Ordinary Shares are excluded from the FCA's restrictions that apply to non-mainstream investment products because they are shares in an investment trust.

John Scott, Chairman

Message from the Chairman

It has been another strong year for Scottish Mortgage: the net asset value and share price rose considerably and well ahead of the Benchmark. Of more relevance, given the long term approach, the five and ten year figures are likewise excellent. During the year the share price crossed the £10 threshold, gross assets exceeded £3bn and by some measures Scottish Mortgage is now the UK's largest investment trust. The Managers currently find no shortage of companies which they see as being capable of making sustained and attractive long term returns.

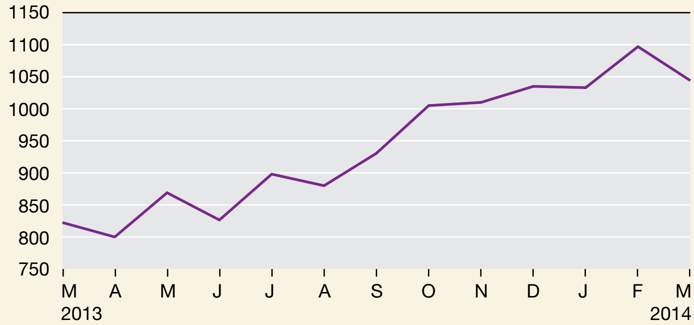
Financial Highlights – Year to 31 March 2014

Share Price* 28.9% **NAV* 23.1%** **Benchmark*† 6.8%**

* Total return.

Share Price (pence)

Share price

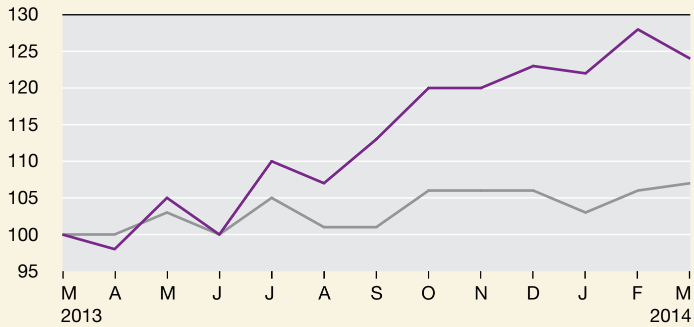


NAV and Benchmark

(figures rebased to 100 at 31 March 2013)

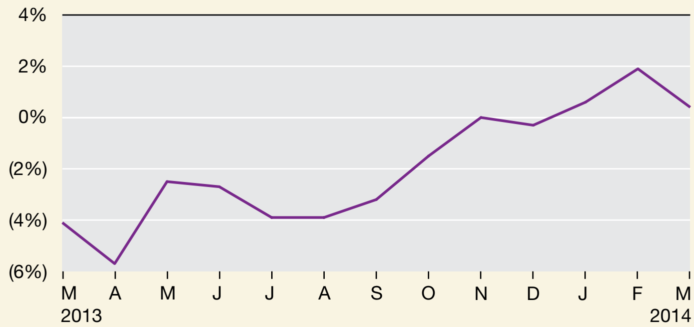
NAV total return (after deducting borrowings at fair value)

Benchmark† total return



Premium/(Discount)

Premium/(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.

Strategic Report

This Strategic Report, which includes pages 2 to 21 and incorporates the Chairman's Statement has been prepared in accordance with the Companies Act 2006. This report is a new requirement and contains many of the disclosures previously contained within the Business Review section of the Directors' Report.

Chairman's Statement

I am pleased to report on another strong year for our Shareholders. Scottish Mortgage's net asset value (NAV) total return (capital and income) for the year to the end of March 2014 was 23.1% and the share price total return was 28.9%; these far surpassed the benchmark (the FTSE All-World Index) total return of 6.8%. It was a landmark year for the Company in many aspects: our share price crossed the £10 threshold, our gross assets exceeded £3 billion and by some measures we became the largest UK conventional investment trust.

Again I urge Shareholders not to pay too much attention to short term numbers, no matter how good they may be. While the Company is required to report these on an annual basis, the investment approach adopted has a much longer horizon. The five and ten year results which the Board uses to assess the Managers' performance are much more relevant and, likewise, excellent.

The table below shows the five and ten year total returns in percentage terms to 31 March 2014 and also includes the Association of Investment Companies (AIC) Global Sector average.

Total Return (%)

	Five years	Ten years
NAV	196	241
Share price	226	314
FTSE All-World Index	101	132
Global Sector Av – NAV	109	149
Global Sector Av – share price	108	173

Source: AIC/Thomsons Reuters Datastream.

The figures speak for themselves and suggest that active management can provide superior returns both in absolute terms and relative to an index.

The usual caveats apply: past performance will not necessarily be repeated; Scottish Mortgage is best suited to those who adopt a similarly long investment horizon and there will undoubtedly be periods of under-performance in both absolute and relative terms. In congratulating the Managers on their excellent performance, I would add that this has been achieved despite our portfolio being held as to nearly 90% in non-sterling denominated investments through a year when sterling has been among the world's strongest currencies.

The Managers' Report provides an investment commentary which is well worth reading. It suffices to say here that a long term and global approach driven by thorough research of individual companies as adopted by the Managers enjoys the Board's full confidence.

Past performance is not a guide to future performance.

Low Cost

I am very pleased that, in agreement with the Managers, Scottish Mortgage announced a reduction in the annual management fee from 0.32% to 0.30% effective from 1 April 2014. Compared to other funds the level of fee was already modest and this reduction improves this advantage. It is hard to overstate the compound positive long term impact of low charges on Shareholder returns; we believe that the lion's shares of investment returns need to accrue to Shareholders and not to third parties. For the year just passed, the figure for Scottish Mortgage's "Ongoing Charges Ratio" is just 0.50%, one of the lowest figures reported on the investment trust sector.

Earnings and Dividends

As foreseen in last year's Statement, earnings per share were lower this year, totalling 12.14p as opposed to 15.59p in 2012/13. A final dividend of 7.6p is proposed which gives a total of 14.5p for the year, an increase of 3.6%. If approved this will entail using 2.4p of revenue reserves.

With an objective to maximise total returns, Scottish Mortgage is primarily a growth trust. Dividends form part of the total return and are valued by many Shareholders. However, the Board considers it important that the Managers are not constrained as growth investors by having to chase income when constructing the portfolio. To this end a Resolution is to be proposed at the AGM to amend the Objective and Policy so that while dividend growth remains within the Objective, the aspiration to increase the dividend in real terms (that is, ahead of inflation) is removed so that the potential to achieve growth and maximise total returns is not constrained. The intention remains to grow the dividend, but not necessarily ahead of inflation.

There are Revenue Reserves of 26p per share set aside to cover any shortfall in earnings; furthermore permission is being sought this year to amend the Articles of Association to delete the provision which expressly prohibits the distribution of any surplus arising from the realisation of any investments. While your Board has no immediate plans to make use of this provision, it will give the Company greater flexibility in its distribution policy in the long term.

Both of these Resolutions are set out in detail in the Circular that accompanies the Annual Report and Financial Statements.

A further change that has been made and has been approved by the Board is a revision to the allocation of the investment management fee and borrowing costs from 50% against revenue and 50% against capital to 25% against revenue and 75% against capital. This change has been applied from 1 April 2014 and reflects more realistically the recent split of returns from the portfolio and indeed where we expect them to be derived in the future.

Gearing

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

Buybacks and Share Issuance

Over the year the shares moved from a discount of 4.1% to close the year at a premium of 0.4% and at one point the premium rose to 4.2%. The proposition offered by Scottish Mortgage has been clearly articulated by the Board and Managers and there has been extensive press coverage which, along with other marketing initiatives, has led to demand for shares from existing and new investors. It is particularly gratifying to see that there has been growing demand from direct investors through the Baillie Gifford Savings Schemes and also through other share dealing platforms.

As the provision of liquidity is important at times when supply and demand do not immediately coincide, during the year 5,805,000 shares were bought back by the Company and were placed in Treasury for subsequent re-issue. Buying back shares, even at narrow discounts, does enhance net asset value for continuing shareholders. A total of 39,006,279 ordinary shares are now held in Treasury.

Permission is again being sought to reissue shares from Treasury at a premium to NAV and also to issue new shares. The premium is specified as that reached when net asset value is calculated on the basis of the Company's debt at fair value, as distinct from par value. This is the standard industry measure as used by the AIC when compiling its statistics. The accompanying Circular gives full details of the terms of any issuance and of the authorities being sought from Shareholders to meet regulatory requirements and comply with the Listing Rules.

If the share price moves to a premium and there is unfulfilled demand, the intention is that shares will be issued from Treasury and this will be undertaken with a long term purpose in mind rather than on a short term opportunistic basis. Increasing the scale of the Company means that the burden of costs is shared across a wider base, while the provision of liquidity in our shares remains an important factor. While no discount limit or target is set, the Board is aware that Shareholders will expect the Company to continue to act to provide liquidity and buy back shares when supply exceeds demand. The Board's actions in this regard are intended to establish levels of trust and confidence for the future.

Proposed Sub-Division of Shares

The share price exceeded £10 for much of the period and closed the year at £10.44. A high share price can be unattractive to new investors while also making the administration of Savings Schemes difficult since small amounts are invested on a regular basis and a large share price presents an unhelpful lack of granularity as savers cannot buy fractions of shares. To improve marketability and as described in the accompanying Circular, a sub-division of each of the current ordinary shares of 25p shares into five ordinary shares of 5p nominal value is proposed. This means that, if the Resolution is approved, your holding will be multiplied by five as of 30 June 2014, while the share price in the market will presumably adjust accordingly. For those who hold their shares in certificated form, new share certificates will be issued and the old certificates will become invalid.

Changes to Investment Policy

I have already highlighted that permission is being sought from Shareholders to remove the hurdle of generating real growth in income from the Objective; this Resolution also asks you to approve other changes to the Objective and Investment Policy. The principal change for which approval is being sought is the removal of the current investment restriction whereby individual holdings of over 3% of total assets must together be less than 40% of total assets. This historic restriction has meant that successful investments with the potential for further growth have had to be reduced. This runs counter to the way the portfolio is now managed whereby companies are backed for the long term and turnover of investments is low. It also contradicts the Managers' core investment beliefs and, we feel, could limit Shareholders' long term returns. The Board favours its removal.

Should the new Objective and Investment Policy be approved, we will nonetheless retain the current restriction whereby the maximum investment in any one holding at time of purchase must be less than 8% of total assets. Monitoring the portfolio concentrations so that adequate levels of diversification are achieved will continue to be an important and regular undertaking for the Board as has been the case in the past.

Other changes to the Objective and Investment Policy are suggested for the sake of simplification and clarification. The wording of the current and proposed Objective and Investment Policy is set out on pages 9 and 10 of the Circular.

The Board believes that these changes are in the best interests of the Company and Shareholders as a whole and it unanimously recommends that you vote in favour of all of the Resolutions as the Directors intend to so do in respect of their own holdings.

AIFMD

As mentioned last year the Company is required to comply with the EU-wide Alternative Investment Fund Managers Directive (AIFMD). To this end a new investment management agreement has been entered into between the Company and Baillie Gifford & Co Limited, a wholly owned subsidiary of the Baillie Gifford & Co partnership and the entity which will fulfil the role of Alternative Investment Fund Manager (AIFM) under the Directive. A depositary agreement has been drawn up with Bank of New York Mellon and the intention is that they will fulfil the function of depositary as required by the AIFMD.

Scottish Referendum

The Company's primary purpose is to provide investment returns to Shareholders and it is not the Board's intention to take a political stance over the Referendum on Scottish independence which will take place on 18 September 2014. Scottish Mortgage, as its name suggests, is registered as a Scottish company and the Managers, Baillie Gifford & Co, form a Scottish partnership. The Board is well aware of the issues arising out of the vote and there are many actions that might be taken to prepare for various contingencies, and all of these come at a cost. Consequently, our current view is that to start any processes now before the result of the vote is known and before the relevant putative issues have emerged would not be a good use of Shareholders' funds and management resource.

In the event of a Yes vote we understand that there will be a period of negotiations which will probably be followed by a transitional period following independence. Consequently the

Board believes it will have ample time to assess the economic (including taxation and currency), political and regulatory landscape which might emerge and to formulate Scottish Mortgage's response accordingly.

This Referendum is only one of a variety of political risks facing the Company which are considered by the Board on a regular basis. The Directors are aware that a large number of Shareholders are resident outside Scotland and they will act in a pragmatic and measured way to ensure that Shareholders' interests as a whole are protected.

Board and AGM

I am very pleased that Dr Paola Subacchi agreed to join the Board with effect from 1 April 2014. Paola brings to the Board a broad set of skills and knowledge that spans political and economic fields both in Europe and China.

The Annual General Meeting will be held in Edinburgh at Baillie Gifford's offices at 4.30pm on 26 June 2014. As usual, James Anderson and Tom Slater will make a presentation on the investments and take questions. I do hope you will be able to attend.

Investment and Outlook

In investment terms this has been a significant period for Scottish Mortgage. I have covered performance earlier and now re-iterate the Board's wholehearted endorsement of the Managers' core investment beliefs which are again set out in an unchanged form in this Report on page 14. It is the strict adherence to these well articulated beliefs which represent the foundations of the Company's investment success over recent years.

The philosophy focuses on individual companies and seeks to ignore short term market noise and trends whose observance can be extremely destructive. This philosophy does to a large extent render observations about the short term outlook and market preoccupations almost redundant.

I will restrict myself to noting that there has been continued progress at economic and company level. Political factors as always act as a de-stabilising element in the short term; the impact of the withdrawal of monetary stimulus may not be straightforward and there will be upsets as the Chinese economy adjusts towards an increasing domestic focus. However, overall the commercial and trading environment for companies is broadly benign. This, coupled with an outstanding and accelerating pace of technological advance across so many fronts, makes for an environment where well managed companies with sound strategies and an eye on the long term should be capable of making sustained and attractive returns. Scottish Mortgage's business is to back such companies and what is important is that our Managers see no lack of such opportunities.

John Scott
Chairman
14 May 2014

Past performance is not a guide to future performance.

One Year Summary

The following information illustrates how Scottish Mortgage has performed over the year to 31 March 2014.

	31 March 2014	31 March 2013	% change
Total assets (before deduction of debentures, long and short term borrowings)	£2,986.6m	£2,593.5m	
Loans and debentures	£388.9m	£375.1m	
Shareholders' funds	£2,597.7m	£2,218.4m	
Net asset value per ordinary share (after deducting borrowings at fair value)*	1,039.9p	857.6p	21.3
Share price	1,044.0p	822.5p	26.9
FTSE All-World Index (in sterling terms)	240.7	231.3	4.0
Dividends paid and proposed per ordinary share	14.50p	14.00p	3.6
Revenue earnings per ordinary share	12.14p	15.59p	(22.1)
Ongoing charges ratio	0.50%	0.51%	
Premium/(discount) (after deducting borrowings at fair value)	0.4%	(4.1%)	

Year to 31 March	2014	2013
Total returns (%)†		
Net asset value per ordinary share (after deducting borrowings at fair value)	23.1%	13.7%
Share price	28.9%	18.5%
FTSE All-World Index (in sterling terms)	6.8%	17.1%

Year to 31 March	2014	2014	2013	2013
Year's high and low	**High**	**Low**	**High**	**Low**
Share price	1,100.0p	781.0p	862.5p	624.0p
Net asset value per ordinary share (after deducting borrowings at fair value)#	1,098.4p	807.8p	910.2p	675.4p
Premium/(discount) (after deducting borrowings at fair value)#	4.2%	(6.7%)	(2.7%)	(10.3%)
Average sector discount (AIC Global Sector)	(6.2%)	(9.1%)	(8.5%)	(12.0%)

	31 March 2014	31 March 2013
Net return per ordinary share		
Revenue return	12.14p	15.59p
Capital return	176.96p	87.42p
Total return	**189.10p**	**103.01p**

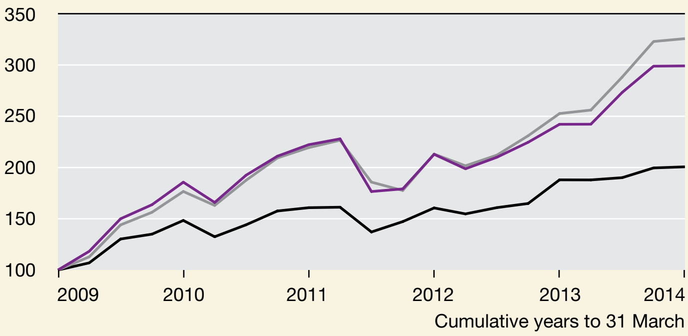
* Borrowings are deducted at fair value (the estimate of market worth).
†Source: Morningstar/Baillie Gifford & Co.
#Cum-income.

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 2014.

Five Year Total Return Performance

(figures rebased to 100 at 31 March 2009)



Source: Thomson Reuters Datastream.

NAV (fair) total return

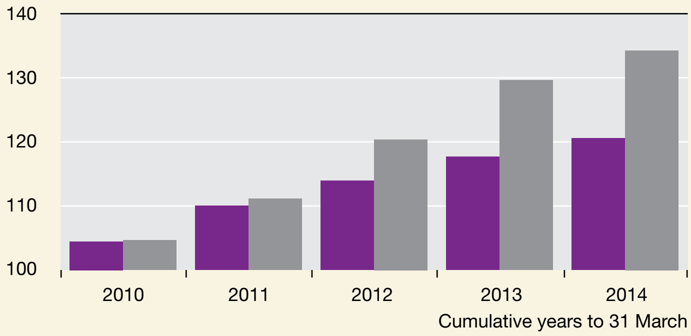
Share price total return

Benchmark* total return

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

Dividend and RPI Growth

(cumulative from 31 March 2009)
(figures rebased to 100 at 31 March 2009)



Source: Thomson Reuters Datastream/Baillie Gifford & Co.

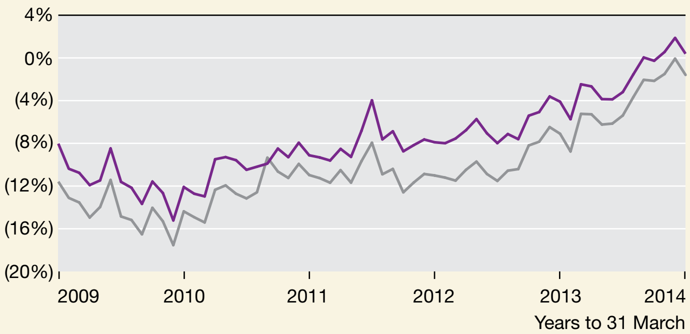
RPI

Scottish Mortgage dividend

The base dividend for March 2009 excludes the special 1.50p dividend from the reimbursement of VAT and associated interest thereon.

Premium/(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)

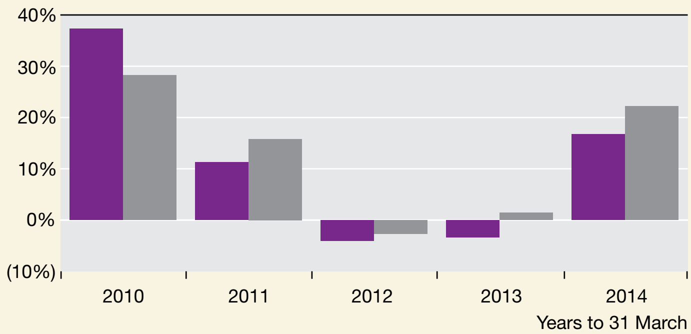
Scottish Mortgage discount (after deducting borrowings at par)

The premium/(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.

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. The Company has obtained approval as an investment trust from HM Revenue & Customs for accounting periods commencing on or after 1 April 2012 and has continued to conduct its affairs in compliance with the ongoing requirements of section 1158.

Investment Objective and Policy

Shareholders' authority is being sought at the forthcoming Annual General Meeting to amend the Company's investment policy to provide greater flexibility in the management of the portfolio. This proposal is explained in the Circular which is being sent to shareholders with this Annual Report. The current investment objective and policy is set out below.

Investment 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 2 to 4 and the Managers' Review on pages 9 to 14. A detailed analysis of the Company's investment portfolio is set out on pages 18 to 20.

Discount/Premium

The Company has powers to buy back its own shares at a discount to net asset value and to hold such shares in treasury as well as to sell treasury shares at a premium to net asset value.

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.

During the year the Company bought back a total of 5,805,000 shares, all of which are held in treasury, increasing net asset value per share by 0.05%. Between 1 April 2014 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.

Key Performance Indicators

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 premium/discount (after deducting borrowings at fair value);
- ongoing charges ratio;
- revenue return; and
- dividend per share.

The one, five and ten year records of the KPIs are shown on pages 5, 6 and 21.

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

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 45 and 51 to 53. In addition, multi-currency loan facilities are in place which are also shown on page 45.

During the year The Bank of New York Mellon loan, which had drawings of US$99 million was repaid and a new one year £100 million loan was drawn down in US$ with State Street Bank and Trust Company.

Since the year end the £100 million loan with State Street Bank and Trust Company has been renewed with a US$165 million facility.

Principal Risks

As explained on page 25 there is an ongoing process for identifying, evaluating and managing the risks faced by the Company. The principal risks associated with the Company are as follows:

Market Risk – 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 48 to 53.

Regulatory Risk – failure to comply with applicable legal and regulatory requirements such as the tax rules for investment companies, the UKLA Listing Rules and the Companies Act could lead to suspension of the Company's Stock Exchange Listing, financial penalties, a qualified audit report or the Company being subject to tax on capital gains. Baillie Gifford's Internal Audit and Compliance 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.

Premium/Discount Volatility – the premium/discount at which the Company's shares trade can change. The Board monitors the level of premium/discount and the Company has authority to sell shares in treasury and 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.

Political Risk – the Board is aware that the Scottish Referendum Vote introduces elements of political uncertainty which may have practical consequences; developments will be closely monitored and considered by the Board and Managers. However, the Referendum is only one of a variety of political risks facing the Company which are considered by the Board on a regular basis.

Employees, Human Rights and Community Issues

The Board recognises the requirement to provide information about employees, human rights and community issues. As the Company has no employees, all its Directors are non-executive and all its functions are outsourced, these requirements do not apply to the Company.

Gender Representation

Following the appointment of Dr Paola Subacchi on 1 April 2014 the Board comprises six Directors, four male and two female. The Company has no employees. The Board's policy on diversity is set out on page 25.

Environmental Social and Governance Policy

Details of the Company's policy on socially responsible investment can be found under Corporate Governance and Stewardship on page 27.

The Strategic Report which includes pages 2 to 21 was approved by the Board of Directors and signed on its behalf on 14 May 2014.

John Scott
Chairman

Managers' Review

We have made few changes to your portfolio. We still own all but one of the 30 largest holdings of last year. Most have been in place for several years. Rather to our surprise markets have seen fit to reward many of these holdings with substantial share price rises in the last year. Six of the current top 30 have seen their share prices more than double in the last 12 months. Two are Chinese technology companies (Tencent and the soon to be quoted Alibaba) whilst three are innovative Californian ventures in the shape of Illumina, Facebook and Tesla. The last, and perhaps most surprising, member of the group is Fiat. Fortunately all of these were large holdings before the surges in their prices occurred with the frustrating exception of Tesla. In truth the conduct and progress of these companies has changed little. It is beyond us to explain, even in retrospect, why markets chose to recognize their achievements in the last 12 months. Previously informed opinion had been markedly hostile to most of these six and several more strong performers. Facebook is perhaps the clearest example of this dramatic change in market sentiment.

As usual we would like to structure our comments around the three themes that we have stressed for several years. These all still appear vital. In order to turn them into our portfolio of individual stocks we operate according to our Core Investment Beliefs that are set out on page 14.

The Underestimated Power of Technological Change

Last year's report included Tom Slater's contribution describing his months spent amongst Northern Californian capitalists. His reflections have been extremely helpful in allowing us to interpret the waves of innovation and disruption that have emanated from the San Francisco Bay area. Our principal preoccupation this year has lain in our attempts to see how far these have spread into new industries and geographies outside their traditional information technology redoubts. For all the remarkable progress that the last two decades have offered in electronics there has been a lingering feeling of disappointment that innovation has predominately been confined to the electronic world. As the acerbic venture capitalists Peter Thiel and Max Levchin have frequently observed 'if you look outside the computer and the internet, there has been 40 years of stagnation' and that the US innovation system is 'near death'. They exaggerate. But more importantly we think that marked improvement is imminent. We believe that this is the single most important contention that we have at present. On its accuracy or otherwise will our future returns depend.


Radical reshaping is apparent in the car and utility industries.

2013–14 appears to have been the year in which structural change began to transform the healthcare landscape. A year ago we noted encouraging developments in genomic science. Since then the sharp falls in sequencing costs and increases in data scope and utility have prompted a transition from academic to practical enthusiasm. Illumina's considerable lead in the provision of sequencing has similarly translated into significant new machines, strong orders and much broader market opportunities. If the clinical benefits that seem likely to follow do come to fruition then the scale and longevity of the investment opportunity in genomic science ought to be very substantial. Presumably even Mr Thiel would accept that making most forms of cancer a manageable disease would count as beneficial progress.

The car and utility industries have been two of the dullest, least innovatory and most uninteresting sectors in the world for several decades. Some would go further than this. The CEO of US generator NRG has described his utility industry as 'the least innovative industry in America, maybe the world, in history.' The power of the incumbents to block real change has been far-reaching. Only major internal corporate mistakes have been threatening. Many have been made, especially in Detroit, to compensate for the lack of external stimulus. But these industries may now be subject to radical re-shaping. Whilst the combination of inertia and offsetting technological improvements are critical the trigger is the effervescent Elon Musk. Between Tesla and Solar City his companies are directly attacking the incumbents. That Tesla has become a realistic competitor to the internal combustion engine's 130 year dominance and to even the better run luxury car companies is remarkable. The next challenges of building a mass market business and solving the storage conundrums are formidable but seem attainable in comparison with the challenges that have already been met. Increasingly our belief is that our previous unsatisfactory forays into alternative energy were premature and flawed in company selection rather than fundamentally doomed.

China and Emerging Markets

Last year we commented on the disdain shown to Chinese equities amidst generalized antipathy to the once beloved emerging markets. Twelve months on the situation appears little different on the surface. Domestic Chinese equity markets continue to lag. Economic commentators and the international media have picked up on the popular hedge fund mantra that China faces a housing bubble and debt crisis. Robert Peston has shifted his attention away from Europe and towards China in the desperate search for economic catastrophe to fill our screens. Brazil, India, Turkey, Indonesia and Russia have regularly swapped places as candidates for imminent crisis. Russia has now taken a deserved and potentially sustainable lead in this race to the bottom.

China moves on at a pace.

But beneath the furore there is evidence of changing perspectives and greater differentiation. Much of this stems from the corporate sector. Whilst we would endorse the economic and political case for optimism over Chinese prospects the argument has been advanced much more powerfully by the remarkable growth and achievements of the Chinese internet companies. Tencent, Alibaba and Baidu have begun to command global respect for their innovation, popular appeal and sheer scale as well as their stock market success. Thus it is hard to know whether to admire Alibaba more for its ability to grow at well-over 50% whilst already producing more traffic than Amazon and eBay combined, to envy their ability to make in-roads into financial services in a manner their western brethren struggle to achieve or to watch in amazement as US analysts compete to come up with the most dramatic sum in potential market capitalization for its forthcoming flotation.

Unfortunately we see little of similar attraction in the other major low income economies. It is a relief to have only modest Brazilian exposure. Sales of once large holdings such as Petrobras seemed painful at the time but sadly now appear thoroughly justified in retrospect. Beyond the economic and political difficulties that Brazil and its peers face our greatest disappointment has been how few individual companies have convinced us of their appeal even at much lower prices and ratings. The modest exceptions to this depressing conclusion have been in building small holdings in Magnit (an impressive grocery chain well-removed from the Putin circle) and BIM (a discount retailer with tentacles well-beyond Turkey's fascinating but puzzling economic and political growth pains). For us China and its great innovative companies stands out from its presumed rivals ever more dramatically.

The Western Financial Systems and its Flaws

Whilst technology and China move on at pace there is little evidence that our financial system is other than stuck. The sad majority of banks remain complex, greedy and unrepentant. Fund managers still appear reluctant to exert their full influence over the managements in question. Hedge funds in aggregate appear ever more impatient and collusive. All too often major companies appear effectively without committed owners.

What is welcome is that piecemeal reform has made the potential returns from investment banking gradually appear less alluring relative to equity requirements. But as with other similarly troubled industries the best hope of serious structural reform must surely come from new competitors from outside the traditional finance industry. We need the help of great and disruptive technology companies in finance as in healthcare and energy.

Conclusion

It is reasonable to expect that after the last year that many of our stocks would experience share price set-backs. This has already been the case in recent weeks. In the long-run it is better that this is so. It is never comfortable to see our holdings in the portfolios of momentum players and hedge fund princes. It is pleasanter to see them reappear amongst their preferred shorts and the objects of the habitual scorn of the Financial Times and Barron's.

Meanwhile, the overall tone of markets has reverted to the nervous jumping at available and imagined shadows that has been so prevalent since 2008. From Cyprus twelve months ago to Ukraine now and from the assumed implosion of the Eurozone to the presumed terrors implied by Federal Reserve monetary tapering anxiety and gloom remains deeply fashionable. This mood has its troubling asset allocation analogy in the ceaseless search for low volatility and the determination to 'de-risk' the future by replacing active equity ownership with such splendid prospective investments as governments bonds, gold and forests. The only consolation is that this makes our own task easier as the competition to assess and own companies for the long-term weakens by the day.

But above all we would like to stress that we are excited by the opportunities available. Excitement is usually perceived to be akin to naivety. If that is so then we plead guilty. We are fascinated by the changes in the transforming global economy and thrilled by the opportunities for rapid, highly-profitable and long-lasting growth that are available to the great companies that it is our responsibility to identify and own.

James Anderson
Tom Slater

Alibaba Group
China's dominant e-commerce enterprise.

Inditex
Flagship store in the Champs-Élysées in Paris.

Baidu
Chinese web services company.

Tencent
Tencent's QQ logo.

Kering
A world leader in fashion.

Whole Foods
Desserts at the Bakery Department.

Our portfolio is built upon the attractions of individual companies.

Berlin Trip Note

You can do anything you want in Berlin. Only crossing empty roads without the permission of the little green electric man with a jaunty hat who is one of the sole survivors of the unlamented East Germany evokes discontent. This observation is hard to avoid and hence unoriginal. Yet it is important. It conveys both the tolerance that is so refreshing a contrast with too much of Berlin's past and the whiff of the 1920's that it still carries. But it also illustrates the marked contrast between Berlin and the bourgeois sensibilities of West Germany's recent centres of power and corporate responsibility. For all that Berlin is the seat of Federal authority and the key to decisions that are central to European politics and economics it is equally and profoundly a metropolis that has little in common with the rest of the country. Perhaps this is also true of London but Berlin has no confidence at all that it is a model, powerhouse and guide for the rest of the country. Such a view would, it scarcely requires saying, be risible in Munich, Stuttgart or Frankfurt even if Berlin was confident enough to propound it.

My plan to work in Berlin for an extended period was initially prompted by the wish to understand better the motivations behind the political power that it carries (often reluctantly). It has long seemed strange and exploitable that markets pay such exorbitant attention to the posturing of the London financial and media establishment whilst barely contemplating or caring what Berlin thinks – or more importantly does. This appears to us to be a practical example of persistent market inefficiency.

Europe seen from Berlin

There still appears to be no evidence that the Berlin government has any intention of deserting the Eurozone. Moreover events in the last year have considerably encouraged the German establishment in adhering to existing European policy. Domestically the two anti-Euro political parties have respectively collapsed (the FDP) and failed to enter the Bundestag (the AfW). Only the Federal Court in Karlsruhe has any significant potential qualms about monetary assistance as even the Bundesbank appears to accept the Merkel, Schauble and Draghi mix of policies.

The dominant view in official Berlin is that the European periphery has begun to see the benefits of its traumatic experiences of recent years. It is generally added that this has been less about inflexible German backing for austerity than about a necessary reform process bringing greater economic flexibility and political honesty to bear on structurally troubled countries.

Inevitably it is the fortunes of Spain and Italy that are of dominant interest. There is little patience for the notion that the problems of either country are primarily the result of Eurozone membership. Global economic crisis would have shown up their serious weaknesses whatever the institutional framework. The question is instead whether that membership gives two critical partners the impetus to make structural reforms that they would otherwise have refused to confront. This is not an obviously unfair critique. If the current policies can be maintained for a reasonable period then sustained growth is thought to be achievable in both countries. The remarkable decline in long-term interest rates in peripheral Europe and the indications of modest economic growth returning in Southern Europe have created confidence that the turmoil has been worthwhile. There are many who would like to see a similar reform dynamic in France and regret that such seems unlikely. Perhaps speculation that Mrs. Merkel would eventually like to move to Brussels might help to advance such a cause.

Berlin does not admire finance. In this it captures both the local ethos and the national consensus. The 2008–9 crisis removed any temptation to emulate the Anglo-American model. There is little appetite to allow its interests to dominate Europe. If there is one policy that unites the different geographical and political strands of the broad German establishment it is that the German economy and its companies must be kept out of the hands of speculators and in those of families and foundations. The return of Deutsche Bank to industrial sense from its unrewarding venture into finance capital is eagerly awaited. This requires the retirement of its Goldman Sachs trained Chairman.

Energy policy has been the most evident failure of the German government in recent years. What probably amounts to over

The complex history of Berlin creates an extraordinarily vibrant and innovative local culture.

The East Side Gallery of the Berlin Wall.

€100bn of solar subsidies have failed to lower overall national emission levels, to sustain a local industry of global value or end Russian gas imports. European energy policy under a feeble German Commissioner has only exacerbated the situation. The domestic decision to ban nuclear power has been the cause of many of these unintended miscalculations.

It is, however, doubtful that major change is imminent. There is full awareness that powerful and successful companies such as BASF must have competitive energy prices. At the same time there is a strong conviction that in the long-term alternative energy sources will be both economically rewarding and environmentally necessary. The required fiscal, industrial and political compromises are to be endured in the meantime. There is little sympathy for Mr. Putin but nor is there much belief that his danger should be equated with that of the Soviet Union. This is hardly surprising in a city that has learnt to differentiate between serious and very present danger and mutual political posturing. Talk about the deteriorating conditions in Ukraine seems less apocalyptic when strolling across what was once the death strip of the Berlin Wall.

The Berlin Economy

Although this is the capital of Europe's most powerful economy there is much local emphasis on the comparative poverty of Berlin. It sees itself as 'poor but sexy' in the words of the long-standing Mayor. This is backed by a deep suspicion of what are perceived as the rich, privileged, conservative, hierarchical and complacent cities of recent German economic leadership. Berlin has very little in common with Munich from wealth to local politics to conceptions of urban beauty. This predates the division of East and West Berlin. An extraordinary surge of manufacturing activity in late 19th century Berlin left a radical political heritage and cramped living conditions more redolent of Glasgow or Philadelphia than princely and agricultural Munich. The aging radicals who fled to West Berlin to avoid military service and to riot in 1968 reinforced an entrenched suspicion of capitalism that Brecht would have been proud of and that the economic collapse of the East only reinforced. This has many admirable consequences. There are audiences of thousands ready to boo Deutsche Bank available at any time of the day or (preferably) night. There is a willingness to think critically and radically that has little in common with the persistent, incremental and successful family capitalism of rich Germany.

The consequences of the complex history of Berlin have combined in an entirely unpredictable manner to create an extraordinarily vibrant and innovative local culture. Here is a city with a population lower than in 1914 but with a dense urban geography dating from before then. Much of the housing stock after the fall of the Wall was far too decrepit to appeal to short-sighted speculators. Nor could they see that ramshackle factories and breweries were ripe to serve as unique artistic spaces, night-clubs and cafes in a manner quite obvious to any aspiring member of the creative class.

Moreover, the anti-capitalist ethos made it inevitable that even newly fashionable areas would still remain stocked with a social mixture unthinkable in more conventional world cities from Shanghai to New York. After all even newly enriched Prenzlauer Berg refuses to let owners add balconies as this would mean that prices would rise too far. But even if Prenzlauer is out of reach for many price is the ingredient that makes Berlin unique. Rental costs are approximately 70% below London levels. Educational costs are low, university standards are rising sharply and opportunities for foreigners to gain admission are pleasingly high. Entertainment is cheap and very plentiful. It has therefore become a haven for the young of almost anywhere, looking for almost anything from a job to social welfare to freedom.

The irony is that this idealistic and ostensibly anti-capitalist brew may well have created the near perfect ingredients for modern economic development. It has translated into a flurry of youthful, quirky, highly skilled and intensely multicultural start-ups that is entirely accidental and much the better for being so. After all the doomed efforts to create alternative Silicon Valleys (or mere Roundabouts) Berlin may just have done so via serendipity. Heavy industry will not return to recreate 19th century Berlin but from software to healthcare the potential replacements are starting to emerge.

As yet this dynamism is comparatively hard to channel into the Scottish Mortgage portfolio. But it is becoming easier. We have a holding in Kinnevik which is a major backer in turn of Rocket Internet and Zalando. Rocket is probably the most interesting venture capital group anywhere outside Silicon Valley. It is turning innovation into an industrial process from a down at heel building in central Berlin whilst Zalando has become one of the world's largest internet clothing retailer from an equally modest communist era structure a mile further east. Over the coming years we would hope and expect that we can find more opportunities of similar pedigree. Some of these may be unquoted ventures. This reflects our belief that from the catastrophes of the 20th century Berlin is rapidly becoming the most important key to understanding European economic, social and political prospects in the 21st century.

James Anderson

The Managers' 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 Growth stock investors.

— 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. 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. 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% falling to 0.30% as of 1 April 2014) and ongoing charges ratio (0.5%) 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 ratio 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 2014

Name	Business	Fair value 31 March 2014 £'000	% of total assets	Absolute † performance %	Contribution to absolute performance %	Fair value 31 March 2013 £'000
Amazon.com	Online retailer	228,053	7.64	15.0	1.7	214,120
Illumina	Biotechnology equipment	202,134	6.77	150.9	5.1	76,518
Baidu	Online search engine	181,226	6.07	58.2	3.9	128,692
Tencent Holdings	Internet services	173,092	5.80	100.0	4.2	94,668
Inditex	International clothing retailer	154,504	5.17	4.8	0.5	125,978
Google	Online search engine	114,128	3.82	27.8	1.2	91,998
Atlas Copco	Engineering	90,343	3.02	(5.1)	(0.5)	134,345
Kering (formerly PPR)	Luxury goods producer and retailer	84,744	2.84	(12.5)	(0.5)	129,785
Banco Santander	Banking	81,129	2.72	43.3	1.0	53,199
Apple	Computer technology	77,629	2.60	12.8	0.4	61,270
Prudential	International insurance	74,351	2.49	22.4	0.7	67,109
Facebook	Social networking site	72,842	2.44	114.5	1.5	29,493
Alibaba Group#	Online retail	69,728	2.33	86.1	1.3	38,064
Fiat	Automobiles	68,871	2.31	99.1	1.5	34,599
Salesforce	Cloud computing and hosting	66,857	2.24	16.1	0.6	81,120
BASF	Chemicals	62,202	2.08	18.9	0.4	49,848
Tesla Motors	Electric cars	54,771	1.83	92.1 *	0.2 *	–
Intuitive Surgical	Surgical robots	50,642	1.70	(18.8)	(0.7)	62,307
Whole Foods Market	Food retailer	47,745	1.60	7.3	0.3	40,351
Novozymes	Enzyme manufacturer	45,570	1.53	19.1	0.4	50,676
Reckitt Benckiser	Consumer goods company	44,345	1.48	6.4	0.1	57,706
Rolls-Royce Group	Aerospace equipment	42,960	1.44	(3.4)	(0.0)	45,200
Brazil CPI Linked 2045	Brazilian government inflation linked bond	42,653	1.43	(34.9)	(1.1)	66,857
New Oriental Education & Technology	Education and training	40,927	1.37	50.6	0.8	35,730
Arm Holdings	Semiconductor and software design company	37,028	1.24	8.7	0.2	24,533
Linkedin Corp	Business-related social networking site	35,297	1.18	(4.1)	0.1	27,475
Porsche	Automobiles	34,812	1.17	31.5	0.4	21,932
Aggreko	Power equipment rental	29,520	0.99	(14.5)	(0.2)	23,532
Telefonica O2 Czech Republic	Fixed and mobile telecoms	28,998	0.97	(0.5)	(0.1)	13,163
Renishaw	Electronic equipment	28,221	0.94	8.3	0.0	26,571
		2,365,322	**79.21**			**1,906,839**

† Absolute performance (in sterling terms) has been calculated on a total return basis over the period 1 April 2013 to 31 March 2014.
* 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.

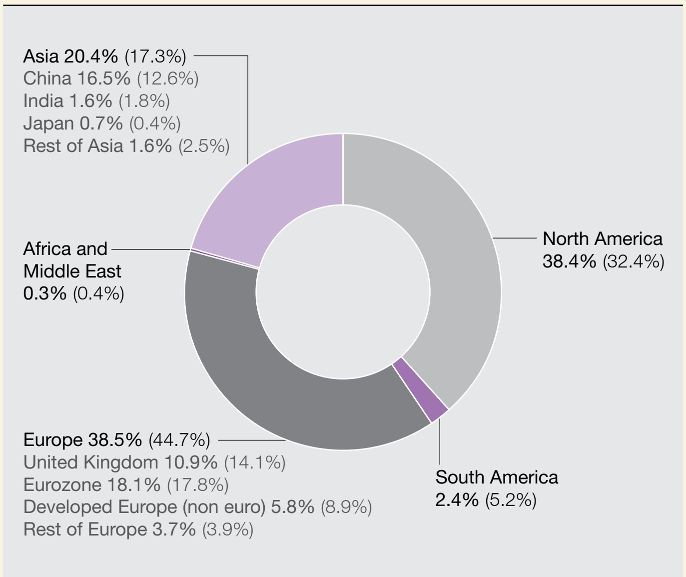
Investment Changes

	Valuation at 31 March 2013 £'000	Net acquisitions/ (disposals) £'000	Appreciation/ (depreciation) £'000	Valuation at 31 March 2014 £'000
Equities*:				
North America	837,571	83,706	227,095	1,148,372
South America	65,410	(10,275)	(28,813)	26,322
Europe				
United Kingdom	360,900	(31,835)	13,607	342,672
Eurozone	461,445	22,262	55,127	538,834
Developed Europe (non euro)	229,824	(67,507)	(5,575)	156,742
Rest of Europe	101,794	27,998	(21,402)	108,390
Africa and the Middle East	10,002	–	(686)	9,316
Asia				
China	325,748	(61,204)	226,166	490,710
India	46,678	–	923	47,601
Japan	11,195	8,921	1,178	21,294
Rest of Asia	64,425	(8,776)	(7,922)	47,727
Total equities	**2,514,992**	**(36,710)**	**459,698**	**2,937,980**
Brazilian bonds	66,857	–	(24,204)	42,653
Total bonds	**66,857**	**–**	**(24,204)**	**42,653**
Total investments	**2,581,849**	**(36,710)**	**435,494**	**2,980,633**
Net liquid assets	11,597	(5,333)	(317)	5,947
Total assets	**2,593,446**	**(42,043)**	**435,177**	**2,986,580**

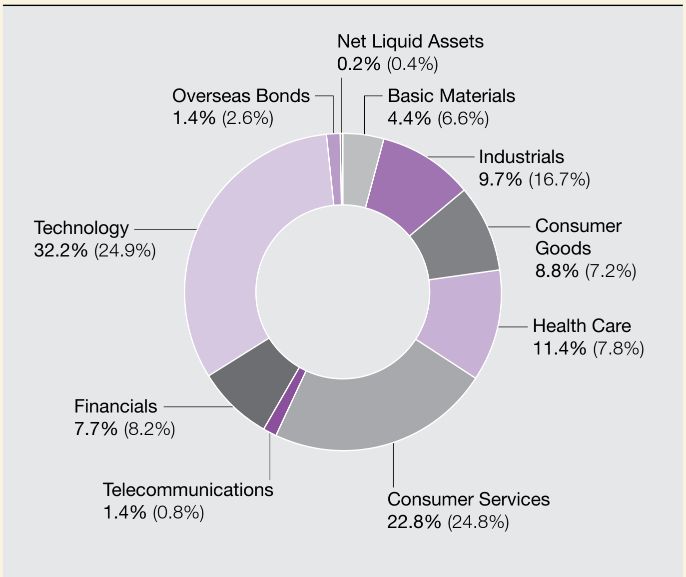
The figures above for total assets are made up of total net assets before deduction of debentures, long and short term borrowings.
* Equities include OEICs.

Distribution of Portfolio

Geographical 2014 (2013)



Sectoral 2014 (2013)



Classification of Investments

Classification Equities*:	North America %	South America %	Europe %	Africa and Middle East %	Asia %	2014 Total %	2013 Total %
Basic Materials	**–**	**0.6**	**3.8**	**–**	**–**	**4.4**	**6.6**
Chemicals	–	–	2.9	–	–	2.9	2.7
Mining	–	0.6	0.9	–	–	1.5	3.9
Industrials	**1.2**	**–**	**8.5**	**–**	**–**	**9.7**	**16.7**
Aerospace and defence	–	–	2.2	–	–	2.2	2.7
Electronic and electrical equipment	–	–	0.5	–	–	0.5	2.0
Industrial engineering	–	–	4.9	–	–	4.9	9.2
Support services	1.2	–	0.9	–	–	2.1	2.8
Consumer Goods	**1.8**	**0.3**	**5.5**	**–**	**1.2**	**8.8**	**7.2**
Automobiles and parts	1.8	–	3.5	–	1.2	6.5	3.6
Household goods and home construction	–	–	1.5	–	–	1.5	2.2
Personal goods	–	0.3	0.5	–	–	0.8	1.4
Health Care	**9.6**	**–**	**1.5**	**–**	**0.3**	**11.4**	**7.8**
Health care equipment and services	1.7	–	–	–	–	1.7	2.4
Pharmaceuticals and biotechnology	7.9	–	1.5	–	0.3	9.7	5.4
Consumer Services	**11.0**	**–**	**9.4**	**–**	**2.4**	**22.8**	**24.8**
Food and drug retailers	1.6	–	1.4	–	–	3.0	2.4
General retailers	9.4	–	8.0	–	1.8	19.2	22.1
Travel and leisure	–	–	–	–	0.6	0.6	0.3
Telecommunications	**–**	**–**	**1.4**	**–**	**–**	**1.4**	**0.8**
Mobile telecommunications	–	–	1.4	–	–	1.4	0.8
Financials	**0.2**	**–**	**6.1**	**0.3**	**1.1**	**7.7**	**8.2**
Banks	–	–	2.7	0.3	–	3.0	3.0
Financial services	0.2	–	2.9	–	1.1	4.2	4.7
Open ended investment companies	–	–	0.5	–	–	0.5	0.5
Technology	**14.6**	**–**	**2.2**	**–**	**15.4**	**32.2**	**24.9**
Software and computer services	12.0	–	1.6	–	15.1	28.7	22.1
Technology hardware and equipment	2.6	–	0.6	–	0.3	3.5	2.8
Total Equities*	**38.4**	**0.9**	**38.4**	**0.3**	**20.4**	**98.4**	
Total Equities* – 2013	32.3	2.5	44.5	0.4	17.3		**97.0**
Bonds	**–**	**1.4**	**–**	**–**	**–**	**1.4**	**2.6**
Net Liquid Assets	**–**	**0.1**	**0.1**	**–**	**–**	**0.2**	**0.4**
Total Assets (before deduction of debentures, long and short term borrowings)	**38.4**	**2.4**	**38.5**	**0.3**	**20.4**	**100.0**	
Total Assets – 2013	32.4	5.2	44.7	0.4	17.3		**100.0**
Debentures, Long and Short Term Borrowings	**(6.3)**	**–**	**(6.7)**	**–**	**–**	**(13.0)**	**(14.5)**
Shareholders' Funds	**32.1**	**2.4**	**31.8**	**0.3**	**20.4**	**87.0**	
Shareholders' Funds – 2013	25.7	5.2	36.9	0.4	17.3		**85.5**
Number of equity investments*	**23**	**2**	**33**	**1**	**13**	**72**	**70**

* Including OEICs.

List of Investments as at 31 March 2014

Classification	Name	Business	Fair value £'000	% of total assets
North America				
Support services	Linkedin Corp	Business-related social networking site	**35,297**	**1.2**
Automobiles and parts	Tesla Motors	Electric cars	**54,771**	**1.8**
Health care equipment and services	Intuitive Surgical	Surgical robots	**50,642**	**1.7**
Pharmaceuticals and biotechnology	Alnylam Pharmaceuticals	Biotechnology	9,508	
	Genomic Health	Genetic testing	9,036	
	Illumina	Biotechnology equipment	202,134	
	Myriad Genetics	Genetic testing	16,042	
			236,720	**7.9**
Food and drug retailers	Whole Foods Market	Food retailer	**47,745**	**1.6**
General retailers	Amazon.com	Online retailer	228,053	
	eBay	Internet trading company	24,266	
	Opentable	Electronic restaurant reservations	11,988	
	Zulily Inc	Specialty retailers	17,223	
			281,530	**9.4**
Financial services	WI Harper Fund*	Venture capital	**4,939**	**0.2**
Software and computer services	Castlight Health Inc	Healthcare information company	5,407	
	Dropbox*	Online storage	24,407	
	Facebook	Social networking site	72,842	
	Google	Online search engine	114,128	
	Rackspace Hosting	Cloud computing and hosting	26,646	
	Salesforce	Cloud computing and hosting	66,857	
	Splunk	Data diagnostics	13,523	
	Twitter	Global platform for real-time conversation	13,353	
	Workday	Enterprise information technology	21,936	
			359,099	**12.0**
Technology hardware and equipment	Apple	Computer technology	**77,629**	**2.6**
Total North American Equities			**1,148,372**	**38.4**
South America				
Mining	Vale (CVRD)	Iron ore and nickel mining – Brazil	**16,210**	**0.6**
Personal goods	Natura	Manufacturer and marketer of skin products – Brazil	**10,112**	**0.3**
Total South American Equities			**26,322**	**0.9**

* Denotes unlisted security.

Classification	Name	Business	Fair value £'000	% of total assets
Europe				
Chemicals	BASF	Chemicals – Germany	62,202	
	Fuchs Petrolub	Manufacturer of lubricants – Germany	22,877	
			85,079	**2.9**
Mining	KGHM	Copper mining – Poland	**26,445**	**0.9**
Aerospace and defence	Meggitt	Aerospace equipment and systems – UK	23,536	
	Rolls-Royce Group	Aerospace equipment – UK	42,960	
			66,496	**2.2**
Electronic and electrical equipment	ABB	Power systems and automation – Switzerland	**14,081**	**0.5**
Industrial engineering	Aggreko	Power equipment rental – UK	29,520	
	Atlas Copco	Engineering – Sweden	90,343	
	Renishaw	Electronic equipment – UK	28,221	
			148,084	**4.9**
Support services	Intertek Group	Business support providers – UK	**25,962**	**0.9**
Automobiles and parts	Fiat	Automobiles – Italy	68,871	
	Porsche	Automobiles – Germany	34,812	
			103,683	**3.5**
Household goods and home construction	Reckitt Benckiser	Consumer goods company – UK	**44,345**	**1.5**
Personal goods	Burberry Group	Clothing and accessories – UK	**14,871**	**0.5**
Pharmaceuticals and biotechnology	Novozymes	Enzyme manufacturer – Denmark	**45,570**	**1.5**
Food and drug retailers	BIM Birlesik Magazalar	Discount food retail – Turkey	14,145	
	Jeronimo Martins	Retailer – Portugal	11,618	
	Magnit OJSC	Retailer – Russia	15,535	
			41,298	**1.4**
General retailers	Inditex	International clothing retailer – Spain	154,504	
	Kering (formerly PPR)	Luxury goods producer and retailer – France	84,744	
			239,248	**8.0**
Mobile telecommunications	Orange Polska (formerly Telekomunikacja Polska)	Fixed and mobile telecoms – Poland	11,555	
	Telefonica O2 Czech Republic	Fixed and mobile telecoms – Czech Republic	28,998	
			40,553	**1.4**
Banks	Banco Santander	Banking – Spain	81,129	
	NBNK	Banking – UK	897	
			82,026	**2.7**
Real estate investment and services	Black Sea Property Fund	Bulgarian property trust	**50**	**–**
Financial services	Kinnevik	Investment company – Sweden	6,748	
	Level E Maya Fund*	Artificial intelligence based algorithmic trading – UK	4,924	
	Prudential	International insurance – UK	74,351	
			86,023	**2.9**
Open ended investment companies	Baillie Gifford Global Discovery Fund	Global growth fund	**16,057**	**0.5**
Software and computer services	Arm Holdings	Semiconductor and software design company – UK	37,028	
	Mail.RU Group	Software and computer services – Russia	11,662	
			48,690	**1.6**
Technology hardware and equipment	Aixtron	LED manufacturing equipment – Germany	5,199	
	ASML Holding	Lithography – Netherlands	12,878	
			18,077	**0.6**
Total European Equities			**1,146,638**	**38.4**

* Denotes unlisted security.

Classification	Name	Business	Fair value £'000	% of total assets
Africa and Middle East				
Banks	Standard Bank Group	Banking – South Africa	**9,316**	**0.3**
Total African and Middle East Equities			**9,316**	**0.3**
Asia				
Automobiles and parts	Astra International	Automotive conglomerate – Indonesia	13,285	
	Hero MotoCorp	Motorcycle and scooter manufacturer – India	22,598	
			35,883	**1.2**
Pharmaceuticals and biotechnology	Celltrion	Biopharmaceutical company – Korea	**8,539**	**0.3**
General retailers	New Oriental Education & Technology	Education and training – China	40,927	
	Rakuten	Online retailer – Japan	13,394	
			54,321	**1.8**
Travel and leisure	Ctrip.com	Travel agent – China	**17,554**	**0.6**
Financial services	Housing Development Finance Corporation	Mortgage bank – India	25,003	
	Innovation Works Development Fund*	Investment company – China	8,183	
			33,186	**1.1**
Software and computer services				
	Alibaba Group†	Online retail – China	69,728	
	Baidu	Online search engine – China	181,226	
	Taiwan Semiconductor Manufacturing	Semiconductor manufacturer – Taiwan	25,903	
	Tencent Holdings	Internet services – China	173,092	
			449,949	**15.1**
Technology hardware and equipment	Advantest	Semiconductors – Japan	**7,900**	**0.3**
Total Asian Equities			**607,332**	**20.4**
Total Equity Investments			**2,937,980**	**98.4**
Fixed Interest				
Brazilian real denominated	Brazil CPI Linked 2045	Brazilian government inflation linked bond	**42,653**	**1.4**
Total Fixed Interest			**42,653**	**1.4**
Total Investments			**2,980,633**	**99.8**
Net Liquid Assets			**5,947**	**0.2**
Total Assets at Fair Value (before deduction of debentures, long and short term borrowings)			**2,986,580**	**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	Premium/ (discount) † (fair) %	Premium/ (discount) † (par) %
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)
2014	**2,986,580**	**388,867**	**2,597,713**	**1,058.8**	**1,039.9**	**1,060.9**	**1,044.0**	**0.4**	**(1.6)**

* 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 53).
† 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 ratio ¶ %
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
2014	**50,385**	**30,209**	**12.14**	**14.50**	**0.50**

Gearing Ratios

Year to 31 March	Gearing § %	Potential gearing ^ %
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
2014	**15**	**15**

‡ 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 42).
¶ 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 2004 as 100)

At 31 March	Net asset value per share (fair)	Net asset value total return (fair) ^^	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
2004	100	100	100	100	100	100	100	100	100
2005	110	109	109	112	109	110	92	105	103
2006	161	164	137	145	171	176	110	121	106
2007	167	174	143	154	178	187	122	136	111
2008	180	190	137	152	197	210	122	147	115
2009	106	114	106	121	116	127	157	176	114
2010	191	212	153	180	200	225	139	161	120
2011	225	254	162	195	243	279	165	171	126
2012	212	243	157	195	232	271	162	186	130
2013	236	276	179	228	270	321	194	200	135
2014	**287**	**341**	**186**	**243**	**342**	**414**	**151**	**207**	**138**
Compound annual returns									
5 year	22.1%	24.5%	11.9%	15.0%	24.2%	26.6%	(0.9%)	3.3%	3.8%
10 year	11.1%	13.1%	6.4%	9.3%	13.1%	15.3%	4.2%	7.6%	3.3%

^^ Source: Thomson Reuters Datastream.
‡‡ On 1 April 2007 the Company changed its benchmark from 50% FTSE All-Share Index and 50% FTSE World ex UK Index (in sterling terms) to 100% FTSE All-World Index (in sterling terms). For the purposes of the above the returns on both benchmarks for their respective periods have been linked to form a single benchmark.

Past performance is not a guide to future performance.

Directors and Managers

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

Directors

JPHS Scott

John Scott, the Chairman, is a former international investment banker. John was appointed a Director in 2001 and became Chairman on 31 December 2009. He is also Chairman of the Nomination Committee. 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 Chairman of Impax Environmental Markets plc and Alpha Insurance Analysts Limited, as well as being a director of various companies including Martin Currie Pacific Trust plc, JPMorgan Claverhouse Investment Trust plc, and Schroder Japan Growth Fund plc.

Professor JA Kay

John Kay has a distinguished record as an economist, academic, author and commentator on business, government and economic issues. John was appointed a Director in 2008, he is a Visiting Professor at the London School of Economics and Investment Officer, St John's College, University of Oxford. He is a director of Value and Income Trust PLC and Audax Properties PLC.

MM Gray

Michael Gray, the Senior Independent Director, joined the Board in 2004 after a successful career in printing and technology industries where he gained valuable global business experience. As chairman and chief executive he led the growth of McQueen International over a 17 year period as it evolved from being a printing company into a global enterprise providing a range of support services to technology companies. On McQueen's acquisition, he became senior vice president of Sykes 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.

FC McBain

Fiona McBain is chief executive of Scottish Friendly Assurance, a Glasgow based and mutually owned financial services group with over 1,000,000 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 and a trustee of Save the Children UK.

WG McQueen

Gordon McQueen, the Chairman of the Audit Committee, brings to the Board first class financial and banking expertise, as a former finance director of the Bank of Scotland. Gordon was appointed a Director in 2001. Until 2003 he was an executive director of HBOS plc, Bank of Scotland and Halifax plc, where his main role was chief executive, Treasury. He is a director of JPMorgan Mid Cap Investment Trust plc and The Edinburgh Investment Trust plc.

Dr P Subacchi

Paola Subacchi is the Director of International Economics Research at Chatham House in London and an expert on the functioning and governance of international financial and monetary systems as well as being an advisor to governments and non-profit organisations. Paola was appointed to the Board on 1 April 2014. Paola's recent publications include "Breaking the Vicious Circle: Restoring Economic Growth and Flexibility in Italy", "The Connecting Dots of China's Renminbi Strategy: London and Hong Kong", and "Shifting Capital: The Rise of Financial Centres in Greater China". Paola, an Italian national, studied at Università Bocconi in Milan and at the University of Oxford. She is a governor of St Marylebone School in London.

All Directors are members of the Nomination and Audit Committees.

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 seven 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 £100 billion at 31 March 2014. Based in Edinburgh, it is one of the leading privately owned investment management firms in the UK, with 39 partners and a staff of over 780.

The Manager of Scottish Mortgage's portfolio is James Anderson, a partner of Baillie Gifford, Head of the Long Term Global Growth team. The Deputy Manager is Tom Slater, also a partner and a member of Baillie Gifford's Long Term 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 was reduced from 0.32% of total assets less current liabilities (excluding short term borrowings for investment purposes) to 0.30% with effect from 1 April 2014. The fee is calculated and payable on a quarterly basis.

Directors' Report

The Directors present their Report together with the financial statements of the Company for the year to 31 March 2014.

Corporate Governance

The Board is committed to achieving and demonstrating high standards of Corporate Governance. This statement outlines how the principles of the June 2012 UK Corporate Governance Code (the 'Code'), which can be found at **www.frc.org.uk** and the principles of the Association of Investment Companies (AIC) Code of Corporate Governance were applied throughout the financial year. The AIC Code provides a framework of best practice for investment companies and can be found at **www.theaic.co.uk**.

Compliance

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 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. The Board appoints the Managers and Secretary and approves the terms of the investment management agreement. 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 appointment of Dr Paola Subacchi on 1 April 2014 the Board comprises six Directors, all of whom are non-executive.

The Chairman is responsible for organising the business of the Board, ensuring its effectiveness and setting its agenda. The executive responsibility for investment management has been delegated to the Company's Managers and Secretaries, Baillie Gifford & Co, and, in the context of a Board comprising only non-executive Directors, there is no chief executive officer. Mr MM Gray is the Senior Independent Director.

The Directors believe that the Board has a balance of skills and experience that enables it to provide effective strategic leadership and proper governance of the Company. Information about the Directors, including their relevant experience, can be found on pages 22 and 23.

There is an agreed procedure for Directors to seek independent professional advice, if necessary, at the Company's expense.

Appointments

The terms and conditions of Directors' appointment are set out in formal letters of appointment which are available for inspection on request.

Under the provisions of the Company's Articles of Association, a Director appointed during the year is required to retire and seek election by shareholders at the next Annual General Meeting. In accordance with the Code all Directors offer themselves for re-election annually.

Independence of Directors

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

Mr JPHS Scott, 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. 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**	**2**
JPHS Scott	6	2	2
MM Gray	5	2	1
Professor JA Kay	6	2	2
Fiona C McBain	6	2	2
WG McQueen	6	2	2

Dr Paola Subacchi was appointed subsequent to the year end on 1 April 2014.

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. 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.

SpencerStuart were engaged during the year to appoint a new Director to fill the vacancy following the resignation of Dr Linda Yueh who resigned on 31 March 2013 and to help identify potential new Directors. SpencerStuart has no other connection with the Company or Directors.

The Committee identified the skills and experience that would be required, having due regard for the benefits of diversity on the Board, and candidates were interviewed from a shortlist of names provided by SpencerStuart. Dr Paola Subacchi was identified as the preferred candidate due to her extensive knowledge and experience of international economic affairs, particularly with respect to China and Europe. She was appointed to the Board on 1 April 2014.

The Committee's 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

The Nomination Committee met to assess the performance of the Chairman, each Director, the Board as a whole and its Committees. Prior to the meeting each Director completed an evaluation form which they discussed individually with the Chairman. The appraisal of the Chairman was led by Mr MM Gray. The appraisals and evaluations considered, amongst other criteria, the balance of skills of the Board, the contribution of individual Directors, the overall competency and effectiveness of the Board and its Committees and the continuing professional development undertaken by Directors during the year.

Following this process it was concluded that the performance of each Director, the Chairman, the Board and its Committees continues to be effective and each Director and the Chairman remains committed to the Company.

A review of the Chairman's and other Directors' commitments was carried out and the Nomination Committee is satisfied that they are capable of devoting sufficient time to the Company. There was no increase in the overall level of the Chairman's other commitments during the year. The evaluation was externally facilitated in the year to 31 March 2013.

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 pages 30 and 31.

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 Internal Audit and Compliance Departments provide the Audit Committee 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 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.

Accountability and Audit

The respective responsibilities of the Directors and the Auditor in connection with the Financial Statements are set out on pages 32 to 34.

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 Report

An Audit Committee has been established consisting of all independent Directors. The members of the Committee consider that they have the requisite financial skills and experience to fulfil the responsibilities of the Committee. Mr WG McQueen, Chairman of the Committee, is a Chartered Accountant. The Committee's authority and duties are clearly defined within its written terms of reference which are available on request from the Company Secretary and at **www.scottishmortgageit.com**. The terms of reference are reviewed annually and were updated during the year to ensure best practice and compliance with the 2012 UK Corporate Governance Code.

The Committee's effectiveness is reviewed on an annual basis as part of the Board's performance evaluation process.

At least once a year the Committee meets with the external Auditor without any representative of the Manager being present.

Main Activities of the Committee

The Committee met twice during the year and KPMG Audit Plc, the external Auditor, attended both meetings. Representatives from the Manager's Internal Audit and Compliance Departments also attended these meetings and provided reports on their monitoring programmes.

The matters considered, monitored and reviewed by the Committee during the course of the year included the following:

- The preliminary results announcement and the annual and half-yearly reports;
- The Company's accounting policies and practices;
- The regulatory changes impacting the Company;
- The fairness, balance and understandability of the Annual Report and Financial Statements and advise the Board whether it provided the information necessary for shareholders to assess the Company's performance, business model and strategy;
- The effectiveness of the Company's internal control environment;
- Reappointment, remuneration and engagement letter of the external Auditor;
- The policy on the engagement of the external Auditor to supply non-audit services;
- The independence, objectivity and effectiveness of the external Auditor;
- The need for the Company to have its own internal audit function;
- Internal controls reports received from the Managers and custodian; and
- The arrangements in place within Baillie Gifford & Co whereby their staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters.

Internal Audit

The Committee continues to believe that the compliance and internal controls systems and the internal audit function in place within the Investment Managers 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.

Financial Reporting

The Committee considers that the most significant area of risk likely to impact the financial statements is the existence and valuation of investments as they represent 99.8% of total assets.

The majority of the investments are in quoted securities and market prices are readily available from independent external pricing sources. The Committee reviewed Baillie Gifford's Report on Internal Controls which details the controls in place regarding recording and pricing of investments.

The Auditor confirmed to the Committee that the investments had been valued in accordance with the stated accounting policies. The value of all the listed investments had been agreed to external price sources and the portfolio holdings agreed to confirmations from the Company's custodian.

The Managers and Auditor confirmed to the Committee that they were not aware of any material misstatements in the context of the financial statements as a whole.

External Auditor

To fulfil its responsibility regarding the independence of the external Auditor, the Committee reviewed:

- The audit plan for the current year;
- A report from the Auditor describing their arrangements to identify, report and manage any conflicts of interest; and
- The extent of non-audit services provided by the external auditors. Non-audit fees for the year to 31 March 2014 were £2,300 and related to the certification of financial information for the debenture trustee and the provision of Indian tax services. The Committee does not believe that this has impaired the Auditor's independence.

To assess the effectiveness of the external auditors, the Committee reviewed and considered:

— The Auditor's fulfilment of the agreed audit plan;

— Responses to the ICAS Annual Audit Assessment questionnaire; and

— The Audit Quality Inspection Report from the FRC.

To fulfil its responsibility for oversight of the external audit process the Committee considered and reviewed:

— The Auditor's engagement letter;

— The Auditor's proposed audit strategy;

— The audit fee; and

— A report from the Auditor on the conclusion of the audit.

Although KPMG Audit Plc has been auditor 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 over two years 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 took 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.

Having carried out the review described above, the Committee is satisfied that the Auditor remains independent and effective and as such, has not considered it necessary to conduct a tender process for the appointment of its Auditor at this stage.

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.

KPMG Audit Plc has instigated an orderly wind down of its business and has proposed that KPMG LLP be appointed as Auditor in succession to KPMG Audit Plc. This change is purely administrative, there is no impact on the terms on which the Auditor will be retained and there will be no adverse impact on investors' interests as a result. On the recommendation of the Committee, the Board has decided to put KPMG LLP forward to be appointed as Auditor and a resolution concerning their appointment will be put to the forthcoming Annual General Meeting of the Company. 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 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 at **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 at **www.scottishmortgageit.com**.

Corporate Governance and Stewardship

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

The Company believes that it is in the shareholders' interests to consider environmental, social and governance ('ESG') factors when selecting and retaining investments and have asked the Managers to take these issues into account as long as the investment objectives are not compromised. The Managers do not exclude companies from their investment universe purely on the grounds of ESG factors but adopt a positive engagement approach whereby matters are discussed with management with the aim of improving the relevant policies and management systems and enabling the Managers to consider how ESG factors could impact long term investment returns. The Managers' Statement of Compliance with the UK Stewardship Code can be found on the Managers' website at **www.bailliegifford.com**. The Managers' policy has been reviewed and endorsed by the Board.

The Managers are signatories of the United Nations Principles for Responsible Investment and the Carbon Disclosure Project.

Greenhouse Gas Emissions

All of the Company's activities are outsourced to third parties. The Company therefore has no greenhouse gas emissions to report from its operations, nor does it have responsibility for any other emissions producing sources under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013.

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

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. With effect from 1 April 2014 the annual management fee was reduced from 0.32% of total assets less current liabilities (excluding short term borrowings for investment purposes) to 0.30%. 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 ongoing charges ratio (total expense ratio) is in the best interests of all shareholders as lower costs mean higher returns, particularly when compounded over long periods. The Board is also of the view that calculating the fee with reference to performance would be unlikely to exert a positive influence over the long term performance. Details of the fee arrangements with Baillie Gifford & Co are shown on page 40.

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

Dr Paola Subacchi, having been appointed to the Board on 1 April 2014, is required to seek election by shareholders at the Annual General Meeting. The Directors believe that the Board will benefit from her extensive knowledge and experience and recommend her election to shareholders.

All other Directors will retire 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 were in force during the year to 31 March 2014 and 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.

Dividends

The Board recommends a final dividend of 7.60p per ordinary share which, together with the interim of 6.90p already paid, makes a total of 14.50p for the year compared with 14.00p for the previous year.

If approved, the recommended final dividend on the ordinary shares will be paid on 7 July 2014 to shareholders on the register at the close of business on 13 June 2014. The ex-dividend date is 11 June 2014.

The Company's Registrars offer a Dividend Reinvestment Plan (see page 55) and the final date for elections for this dividend is 18 June 2014.

Major Interests in the Company's Shares

Name	No. of ordinary 25p shares held at 31 March 2014	% of issue*
BlackRock Inc (Indirect)	21,361,299	8.7
D.C. Thomson & Company Limited (Direct)	12,050,000	4.9
Investec Wealth & Investment Limited (Indirect)	9,934,190	4.0

There have been no changes to the major interests in the Company's shares intimated up to 14 May 2014.

* Ordinary shares in issue excluding treasury shares.

Share Capital

Capital Structure

The Company's capital structure as at 31 March 2014 consists of 284,346,176 ordinary shares of 25p each, of which 245,339,897 are allotted and fully paid and 39,006,279 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 within the Circular which is being sent to shareholders with this Annual Report.

Share Buy-backs and Share Issuances

At the last Annual General Meeting the Company was granted authorities to buy-back shares at a discount to net asset value and sell shares held in treasury at a premium to net asset value.

During the year to 31 March 2014 the Company bought back 5,805,000 ordinary shares (nominal value £1,451,000 representing 2.3% of the called up share capital, excluding treasury shares, at 31 March 2013), on the London Stock Exchange, all of which are held in treasury. The total consideration for these shares was £56,001,000. Between 1 April 2014 and the date of this report no further shares have been bought back. At 31 March 2014 the Company held 39,006,279 treasury shares.

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 0.05%. 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.

The Directors were granted power to sell ordinary shares held in treasury 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 will be seeking authorities to buy-back shares, to sell shares held in treasury and to issue new shares at the forthcoming Annual General Meeting. Details of these resolutions are contained in the Circular sent to shareholders with this Annual Report.

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.

By order of the Board
John Scott
Chairman
14 May 2014

Directors' Remuneration Report

This report has been prepared in accordance with the requirements of the Companies Act 2006.

Statement by the Chairman

The requirements regarding the content of the Directors' Remuneration Report and its approval by shareholders have recently changed. Resolutions will be proposed at the forthcoming Annual General Meeting for the approval of the Directors' Remuneration Policy and the Annual Report on Remuneration as set out below. Thereafter, shareholders will be asked to approve the Annual Report on Remuneration each year and the Directors' Remuneration Policy every three years or sooner if an alteration to the policy is proposed.

The Board reviewed the level of fees during the year and it was agreed that, with effect from 1 April 2014, the Chairman's fee would increase from £43,000 to £45,000, the Directors' fees would increase from £29,000 to £30,000 and the additional fee for the Audit Committee Chairman would be increased from £4,000 to £5,000 per annum.

Directors' Remuneration Policy

An ordinary resolution for the approval of the Remuneration Policy will be put to the members at the forthcoming Annual General Meeting. If approved by shareholders, the Directors' Remuneration Policy will be effective immediately upon the passing of the resolution.

The Board is composed wholly of non-executive Directors, none of whom has a service contract with the Company. 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 comparative information when the Board considers the level of 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. The Board believes that the fees paid to the Directors should 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 and prevailing rates of retail price inflation. Any views expressed by shareholders on the fees being paid to Directors will be taken into consideration by the Board when reviewing the Board's policy on remuneration.

The fees for the Directors are payable six monthly in arrears and are determined within the limit set out in the Company's Articles of Association which is currently £300,000 in aggregate. Any change to this limit requires shareholder approval. Directors are not eligible for any other remuneration or benefits apart from the reimbursement of allowable expenses. There are no performance conditions relating to Directors' fees and there are no long-term incentive schemes or pension schemes. No compensation is payable on loss of office.

The basic and additional fees payable to Directors in respect of the year ended 31 March 2014 and the fees payable in respect of the year ending 31 March 2015 are set out in the table below. The fees payable to the Directors in the subsequent financial periods will be determined following an annual review of the Directors' fees.

	Expected fees for year ending 31 Mar 2015 £	Fees for year ending 31 Mar 2014 £
Chairman's fee	45,000	43,000
Directors' fee	30,000	29,000
Additional fee for Chairman of the Audit Committee	5,000	4,000
Total aggregate annual fees that can be paid to the Directors in any year under the Directors' Remuneration Policy, as set out in the Company's Articles of Association	300,000	300,000

Annual Report on Remuneration

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 in this report. Where disclosures have been audited, they are indicated as such. The Auditor's opinion is included in their report on pages 33 and 34.

Directors' Remuneration for the Year (audited)

The Directors who served during the year received the following remuneration in the form of fees. This represents the entire remuneration paid to the Directors.

Name	2014 £	2013 £
JPHS Scott (Chairman)	43,000	40,000
MM Gray	29,000	27,000
Professor JA Kay	29,000	27,000
Fiona C McBain	29,000	27,000
WG McQueen (Audit Committee Chairman)	33,000	30,000
Dr Linda Yueh (retired 31 March 2013)	–	24,645
	163,000	**175,645**

Directors' Interests

Name	Nature of interest	Ordinary 25p shares held at 31 March 2014	Ordinary 25p shares held at 31 March 2013
JPHS Scott	Beneficial	46,647	43,808
MM Gray	Beneficial	150,000	150,000
	Non-beneficial	12,500	12,500
Professor JA Kay	Beneficial	5,000	5,000
Fiona C McBain	Beneficial	1,176	1,158
WG McQueen	Beneficial	1,500	1,500

The Directors at the year end, and their interests in the Company, were as shown above. Dr Paola Subacchi, who was appointed on 1 April 2014, acquired 1,012 shares on 16 May 2014 in which she has a beneficial interest. There have been no other changes intimated in the Directors' interests up to 16 May 2014.

Statement of Voting at Annual General Meeting

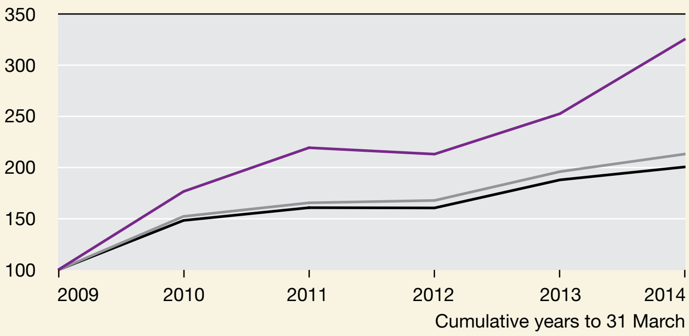
At the last Annual General Meeting, of the proxy votes received in respect of the Directors' Remuneration Report, 99.4% were in favour, 0.4% were against and votes withheld were 0.2%.

Relative Importance of Spend on Pay

As the Company has no employees, the Directors do not consider it appropriate to present a table comparing remuneration paid to employees with distributions to shareholders.

Performance Graph

Scottish Mortgage's Share Price, FTSE All-Share Index and Benchmark*
(figures have been rebased to 100 at 31 March 2009)



Source: Thomson Reuters Datastream.

Scottish Mortgage share price
FTSE All-Share Index
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 pages 30 and 31 was approved by the Board of Directors and signed on its behalf on 14 May 2014.

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 Strategic Report, 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 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;

— the Annual Report and Financial Statements taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy; and

— the Strategic 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
14 May 2014

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’)

Opinions and conclusions arising from our audit

Our opinion on the financial statements is unmodified

We have audited the financial statements of Scottish Mortgage Investment Trust PLC for the year ended 31 March 2014 set out on pages 35 to 53. In our opinion the financial statements:

— give a true and fair view of the state of the Company’s affairs as at 31 March 2014 and of its net return for the year then ended;

— have been properly prepared in accordance with UK Accounting Standards; and

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

Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements, the risks of material misstatement that had the greatest effect on our audit were as follows:

Carrying amount of Listed Equity and Debt Investments

Refer to page 26 (Audit Committee section of the Directors’ Report), page 39 (accounting policy) and pages 40 to 53 (financial disclosures).

— ***The risk:*** The Company’s portfolio of listed equity and debt investments makes up 96% of total assets (by value) and is considered to be a key driver of the Company’s capital and revenue performance. We do not consider these investments to be at high risk of significant misstatement, or to be subject to a significant level of judgement, because they comprise liquid, quoted investments. However, due to their materiality in the context of the financial statements as a whole, they are considered to be the area which had the greatest effect on our overall audit strategy and allocation of resources in planning and completing our audit.

— ***Our response:*** Our procedures over the existence, completeness and valuation of the Company’s portfolio of listed equity and debt investments included, but were not limited to:

  — documenting and assessing the processes in place to record investment transactions and to value the portfolio;

  — agreeing the valuation of 100% of the investments to externally quoted prices; and

  — agreeing 100% of the investment holdings to independently received third party confirmations.

Our application of materiality and an overview of the scope of our audit

The materiality for the financial statements as a whole was set at £45m. This has been determined with reference to a benchmark of total assets (of which it represents 1.5%). The total assets figure, which is primarily composed of the Company’s investment portfolio, is considered the key driver of the Company’s capital and revenue performance and, as such, we consider it to be one of the principal considerations for members of the Company in assessing the financial performance of the Company.

In addition, we applied a materiality of £1.5m to income, investment management fee, and finance costs of borrowings for which we believe misstatements of lesser amounts than materiality as a whole could be reasonably expected to influence the economic decisions of the members of the Company taken on the basis of the financial statements.

We agreed with the Audit Committee to report to it all corrected and uncorrected misstatements we identified through our audit with a value in excess of £2.2m in addition to other audit misstatements below that threshold that we believe warranted reporting on qualitative grounds.

Our audit of the Company was undertaken to the materiality level specified above and was all performed at the head office of the administrator, Baillie Gifford & Co, in Edinburgh.

Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

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 Strategic Report and the Directors’ Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

We have nothing to report in respect of the matters on which we are required to report by exception.

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the Annual Report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

— we have identified material inconsistencies between the knowledge we acquired during our audit and the Directors’ statement that they consider that the Annual Report and Financial Statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company’s performance, business model and strategy; or

— the Audit Committee section of the Directors’ Report does not appropriately address matters communicated by us to the Audit Committee.

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

— adequate accounting records have not been kept by the Company, 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 26, in relation to going concern; and

— the part of the Corporate Governance Statement on pages 24 to 27 relating to the Company's compliance with the nine provisions of the 2010 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

Scope of report and responsibilities

As explained more fully in the Directors' Responsibilities Statement set out on page 32, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. 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**. This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at **www.kpmg.com/uk/auditscopeukco2013a**, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

Catherine Burnet (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
20 Castle Terrace
Edinburgh
EH1 2EG
14 May 2014

Income Statement

For the year ended 31 March

	Notes	2014 Revenue £'000	2014 Capital £'000	2014 Total £'000	2013 Revenue £'000	2013 Capital £'000	2013 Total £'000
Gains on investments	9	–	435,494	**435,494**	–	244,988	**244,988**
Currency gains/(losses)	14	–	18,766	**18,766**	–	(10,396)	**(10,396)**
Income	2	50,385	–	**50,385**	58,950	–	**58,950**
Investment management fee	3	(4,565)	(4,565)	**(9,130)**	(3,836)	(3,836)	**(7,672)**
Other administrative expenses	4	(2,835)	–	**(2,835)**	(2,379)	–	**(2,379)**
Net return before finance costs and taxation		42,985	449,695	**492,680**	52,735	230,756	**283,491**
Finance costs of borrowings	5	(9,174)	(9,174)	**(18,348)**	(9,215)	(9,215)	**(18,430)**
Net return on ordinary activities before taxation		33,811	440,521	**474,332**	43,520	221,541	**265,061**
Tax on ordinary activities	6	(3,602)	–	**(3,602)**	(4,010)	–	**(4,010)**
Net return on ordinary activities after taxation		**30,209**	**440,521**	**470,730**	**39,510**	**221,541**	**261,051**
Net return per ordinary share	7	**12.14p**	**176.96p**	**189.10p**	**15.59p**	**87.42p**	**103.01p**

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 39 to 53 are an integral part of the financial statements.

Balance Sheet

As at 31 March

	Notes	2014 £'000	2014 £'000	2013 £'000	2013 £'000
Fixed assets					
Investments held at fair value through profit or loss	9		2,980,633		2,581,849
Current assets					
Debtors	10	5,093		5,401	
Cash and short term deposits		21,705		13,867	
		26,798		19,268	
Creditors					
Amounts falling due within one year	11	(259,021)		(72,867)	
Net current liabilities			(232,223)		(53,599)
Total assets less current liabilities			2,748,410		2,528,250
Creditors					
Amounts falling due after more than one year	12		(150,697)		(309,882)
			2,597,713		**2,218,368**
Capital and reserves					
Called up share capital	13		71,086		71,086
Capital redemption reserve	14		19,094		19,094
Capital reserve	14		2,429,523		2,045,003
Revenue reserve	14		78,010		83,185
Shareholders' funds	15		**2,597,713**		**2,218,368**
Net asset value per ordinary share (after deducting borrowings at fair value)	22		**1,039.9p**		**857.6p**
Net asset value per ordinary share (after deducting borrowings at par)	16		**1,060.9p**		**885.4p**

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 14 May 2014.

John Scott
Chairman

The accompanying notes on pages 39 to 53 are an integral part of the financial statements.

Reconciliation of Movements in Shareholders' Funds

For the year ended 31 March 2014

	Notes	Share capital £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	Shareholders' funds £'000
Shareholders' funds at 1 April 2013		71,086	19,094	2,045,003	83,185	**2,218,368**
Net return on ordinary activities after taxation	14	–	–	440,521	30,209	**470,730**
Shares bought back	13	–	–	(56,001)	–	**(56,001)**
Dividends paid during the year	8	–	–	–	(35,384)	**(35,384)**
Shareholders' funds at 31 March 2014		**71,086**	**19,094**	**2,429,523**	**78,010**	**2,597,713**

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		–	–	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**

The accompanying notes on pages 39 to 53 are an integral part of the financial statements.

Cash Flow Statement

For the year ended 31 March

	Notes	2014 £'000	2014 £'000	2013 £'000	2013 £'000
Net cash inflow from operating activities	17		39,354		48,335
Servicing of finance					
Interest paid		(18,535)		(18,693)	
Net cash outflow from servicing of finance			(18,535)		(18,693)
Taxation					
Income tax refunded		3		19	
Overseas tax incurred		(3,635)		(4,061)	
Total tax paid			(3,632)		(4,042)
Financial investment					
Acquisitions of investments		(399,505)		(287,065)	
Disposals of investments		436,215		310,571	
Realised currency loss		(319)		(1,088)	
Net cash inflow from financial investment			36,391		22,418
Equity dividends paid	8		(35,384)		(34,239)
Net cash inflow before financing			18,194		13,779
Financing					
Shares bought back	13	(43,486)		(20,767)	
Bank loans repaid		(64,311)		–	
Bank loans drawn down		97,441		–	
Net cash outflow from financing			(10,356)		(20,767)
Increase/(decrease) in cash	18		**7,838**		**(6,988)**

	Notes	2014 £'000	2014 £'000	2013 £'000	2013 £'000
Reconciliation of net cash flow to movement in net debt	18				
Increase/(decrease) in cash in the period			7,838		(6,988)
Increase in bank loans			(33,130)		–
Exchange movement on bank loans			19,085		(9,308)
Other non-cash changes			256		226
Movement in net debt in the year			(5,951)		(16,070)
Net debt at 1 April			(361,211)		(345,141)
Net debt at 31 March			**(367,162)**		**(361,211)**

The accompanying notes on pages 39 to 53 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 2014 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

	2014 £'000	2013 £'000
Income from investments		
Franked investment income*	7,180	7,361
UK unfranked investment income*	2	3
Overseas dividends	40,346	46,629
Overseas interest	2,818	4,927
	50,346	**58,920**
Other income		
Deposit interest	39	30
Total income	**50,385**	**58,950**
Total income comprises:		
Dividends from financial assets designated at fair value through profit or loss	47,528	53,993
Interest from financial assets designated at fair value through profit or loss	2,818	4,927
Deposit interest from financial assets not at fair value through profit or loss	39	30
	50,385	**58,950**

* Includes OEIC income.

3 Investment Management Fee

	2014 Revenue £'000	2014 Capital £'000	2014 Total £'000	2013 Revenue £'000	2013 Capital £'000	2013 Total £'000
Investment management fee	4,565	4,565	**9,130**	3,836	3,836	**7,672**

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. For the year to 31 March 2014 Baillie Gifford's annual remuneration was calculated at 0.08% of total assets less current liabilities (excluding short term borrowings for investment purposes) per quarter). 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.

The management fee was reduced to 0.075% of total assets less current liabilities (excluding short term borrowings for investment purposes) per quarter with effect from 1 April 2014.

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

	2014 £'000	2013 £'000
General administrative expenses	2,645	2,176
Directors' fees (see Directors' Remuneration Report page 30)	163	176
Auditor's remuneration for audit services	24	24
Auditor's remuneration for non-audit services – certification of results for the debenture trustees	1	1
– provision of Indian tax services	2	2
	2,835	**2,379**

5 Finance Costs of Borrowings

	2014 Revenue £'000	2014 Capital £'000	2014 Total £'000	2013 Revenue £'000	2013 Capital £'000	2013 Total £'000
Financial liabilities not at fair value through profit or loss						
Bank loans and overdrafts repayable within five years	2,309	2,309	**4,618**	2,334	2,334	**4,668**
Debentures repayable wholly or partly in more than five years	6,865	6,865	**13,730**	6,881	6,881	**13,762**
	9,174	**9,174**	**18,348**	**9,215**	**9,215**	**18,430**

6 Tax on Ordinary Activities

	2014 Revenue £'000	2014 Capital £'000	2014 Total £'000	2013 Revenue £'000	2013 Capital £'000	2013 Total £'000
Overseas taxation	**3,602**	**–**	**3,602**	**4,010**	**–**	**4,010**

	2014 £'000	2013 £'000
The tax charge for the year is lower than the standard rate of corporation tax in the UK of 23% (2013 – 24%)		
The differences are explained below:		
Net return on ordinary activities before taxation	474,332	265,061
Net return on ordinary activities before taxation multiplied by the standard rate of corporation tax in the UK of 23% (2013 – 24%)	109,096	63,615
Capital returns not taxable	(104,480)	(56,302)
Income not taxable (franked investment income)	(1,651)	(1,767)
Income not taxable (overseas dividends)	(8,551)	(10,683)
Adjustment to income received from OEICs for tax purposes	–	1
Taxable expenses in the year not utilised	5,586	5,136
Overseas withholding tax	3,602	4,010
Current tax charge for the year	**3,602**	**4,010**

At 31 March 2014 the Company had surplus management expenses and losses on non-trading loan relationships of £129 million (2013 – £100 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

	2014 Revenue	2014 Capital	2014 Total	2013 Revenue	2013 Capital	2013 Total
Net return per ordinary share	**12.14p**	**176.96p**	**189.10p**	**15.59p**	**87.42p**	**103.01p**

Revenue return per ordinary share is based on the net revenue on ordinary activities after taxation of £30,209,000 (2013 – £39,510,000), and on 248,939,459 (2013 – 253,421,883) 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 £440,521,000 (2013 – net capital gain of £221,541,000), and on 248,939,459 (2013 – 253,421,883) 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

	2014	2013	2014 £'000	2013 £'000
Amounts recognised as distributions in the year:				
Previous year's final (paid 1 July 2013)	7.30p	6.80p	18,261	17,246
Interim (paid 29 November 2013)	6.90p	6.70p	17,123	16,993
	14.20p	**13.50p**	**35,384**	**34,239**

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 £30,209,000 (2013 – £39,510,000).

	2014	2013	2014 £'000	2013 £'000
Dividends paid and payable in respect of the year:				
Interim dividend per ordinary share (paid 29 November 2013)	6.90p	6.70p	17,123	16,993
Proposed final dividend per ordinary share (payable 7 July 2014)	7.60p	7.30p	18,646	18,334
Adjustment to provision for previous year's final dividend re shares bought back	–	–	(73)	–
	14.50p	**14.00p**	**35,696**	**35,327**

9 Fixed Assets – Investments

As at 31 March 2014	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Listed equities/funds	2,825,799	4,924	–	**2,830,723**
Listed debt securities	–	42,653	–	**42,653**
Unlisted equities	–	–	107,257	**107,257**
Total financial asset investments	**2,825,799**	**47,577**	**107,257**	**2,980,633**

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**

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.

	Equities* £'000	Bonds £'000	Total £'000
Cost of investments at 1 April 2013	1,665,395	22,070	**1,687,465**
Investment holding gains at 1 April 2013	849,597	44,787	**894,384**
Value of investments at 1 April 2013	2,514,992	66,857	**2,581,849**
Movements in year:			
Purchases at cost	399,505	–	**399,505**
Sales – proceeds	(436,215)	–	**(436,215)**
– gains on sales	116,763	–	**116,763**
Changes in investment holding gains and losses	342,935	(24,204)	**318,731**
Value of investments at 31 March 2014	**2,937,980**	**42,653**	**2,980,633**
Cost of investments at 31 March 2014	1,745,448	22,070	**1,767,518**
Investment holding gains at 31 March 2014	1,192,532	20,583	**1,213,115**
Value of investments at 31 March 2014	**2,937,980**	**42,653**	**2,980,633**

* Includes funds.

The purchases and sales proceeds figures above include transaction costs of £339,000 (2013 – £238,000) and £325,000 (2013 – £188,000) respectively.

Of the gains on sales during the year of £116,763,000 (2013 – gains of £105,854,000) a net gain of £131,305,000 (2013 – gain of £95,418,000) 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 2013 £'000	Purchases £'000	Sales proceeds £'000	Change in listing £'000	Gains/ (losses) on sales £'000	Holding gains/ (losses) £'000	Value at 31 March 2014 £'000
Equities	47,342	18,436	(1,476)	–	–	42,955	**107,257**

	Value at 1 April 2012 £'000	Purchases £'000	Sales proceeds £'000	Change in listing £'000	Gains/ (losses) on sales £'000	Holding gains/ (losses) £'000	Value at 31 March 2013 £'000
Equities	6,684	33,243	–	–	–	7,415	**47,342**

The gains and losses included in the above tables have all been recognised in the income statement on page 35. 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.

	2014 £'000	2013 £'000
Net gains on investments designated at fair value through profit or loss on initial recognition		
Gains on sales	116,763	105,854
Changes in investment holding gains/(losses)	318,731	139,134
	435,494	**244,988**

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:

	2014 C income shares held	2014 Value £'000	2014 % of fund held	2013 C income shares held	2013 Value £'000	2013 % of fund held
Baillie Gifford Global Discovery Fund	**2,554,821**	**16,057**	**10.8**	**2,554,821**	**12,148**	**40.1**

10 Debtors

	2014 £'000	2013 £'000
Amounts falling due within one year:		
Income accrued	4,068	4,776
Sales for subsequent settlement	–	–
UK taxation recoverable	–	3
Other debtors and prepayments	1,025	622
	5,093	**5,401**

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

	2014 £'000	2013 £'000
State Street Bank and Trust Company loan	89,971	–
The Royal Bank of Scotland plc loan	50,430	–
National Australia Bank Limited multi-currency loan	97,769	–
The Bank of New York Mellon multi-currency loan	–	65,196
Purchases for subsequent settlement	–	–
Share buybacks payable	15,607	3,092
Other creditors and accruals	5,244	4,579
	259,021	**72,867**

Included in other creditors is £1,639,000 (2013 – £1,325,000) in respect of the investment management fee.

Borrowing facilities

A 1 year £100 million multi-currency loan facility has been arranged with State Street Bank and Trust Company.
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 2014 drawings were as follows:

State Street Bank and Trust Company	US$150 million at an interest rate of 1.0491% 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 Bank of New York Mellon multi-currency loan, which had drawings of US$99 million was repaid and a new one year £100 million facility was entered into with State Street Bank and Trust Company.

12 Creditors – Amounts falling due after more than one year

	Nominal rate	Effective rate	2014 £'000	2013 £'000
Debenture stocks:				
£20 million 8–14% stepped interest debenture stock 2020	14.0%	12.3%	21,476	21,619
£75 million 6.875% debenture stock 2023	6.875%	6.9%	74,673	74,636
£50 million 6–12% stepped interest debenture stock 2026	12.0%	10.8%	53,873	54,023
£675,000 4½% irredeemable debenture stock			675	675
Bank loans:				
National Australia Bank Limited multi-currency loan			–	107,343
The Royal Bank of Scotland plc loan			–	51,586
			150,697	**309,882**

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 £5,022,000 (2013 – £5,278,000) over nominal value. The debenture stocks are secured by a floating charge over the assets of the Company.

Borrowing Limits

Under the terms of the Articles of Association and 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

	2014 Number	2014 £'000	2013 Number	2013 £'000
Allotted, called up and fully paid ordinary shares of 25p each	245,339,897	61,335	251,144,897	62,786
Treasury shares of 25p each	39,006,279	9,751	33,201,279	8,300
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 2014 a total of 5,805,000 (2013 – 2,475,000) ordinary shares with a nominal value of £1,451,000 (2013 – £619,000) were bought back at a total cost of £56,001,000 (2013 – £20,767,000) and held in treasury. At 31 March 2014 the Company had authority to buy back a further 33,308,042 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 2013	71,086	19,094	2,045,003	83,185	**2,218,368**
Gains on sales	–	–	116,763	–	**116,763**
Changes in investment holding gains and losses	–	–	318,731	–	**318,731**
Exchange differences	–	–	(319)	–	**(319)**
Exchange differences on multi-currency loans	–	–	19,085	–	**19,085**
Shares bought back	–	–	(56,001)	–	**(56,001)**
Investment management fee charged to capital	–	–	(4,565)	–	**(4,565)**
Finance costs of borrowings charged to capital	–	–	(9,174)	–	**(9,174)**
Dividends paid in year	–	–	–	(35,384)	**(35,384)**
Revenue return on ordinary activities after taxation	–	–	–	30,209	**30,209**
At 31 March 2014	**71,086**	**19,094**	**2,429,523**	**78,010**	**2,597,713**

The capital reserve includes investment holding gains of £1,213,115,000 (2013 – gains of £894,384,000) as disclosed in note 9. The revenue reserve is distributable by way of dividend.

15 Shareholders' Funds

	2014 £'000	2013 £'000
Total shareholders' funds are attributable as follows:		
Equity shares	**2,597,713**	**2,218,368**

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:

	2014	2013
Shareholders' funds attributable to ordinary shares (as above)	£2,597,713,000	£2,218,368,000
Number of ordinary shares in issue at the year end*	245,339,897	251,144,897
Shareholders' funds per ordinary share	1,058.8p	883.3p
Additions/(deductions) – expenses of debenture issue	(0.4p)	(0.5p)
– allocation of interest on borrowings	2.5p	2.6p
Net asset value per ordinary share	**1,060.9p**	**885.4p**

* 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:

	2014	2013	2014 £'000	2013 £'000
Ordinary shares	**1,060.9p**	**885.4p**	**2,602,735**	**2,223,646**

	2014 £'000	2013 £'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	2,223,646	2,017,827
Total recognised gains and losses for the year	470,730	261,051
Dividends paid in the year	(35,384)	(34,239)
Adjustment to debentures	(256)	(226)
Shares bought back	(56,001)	(20,767)
Total net assets at 31 March	**2,602,735**	**2,223,646**

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 245,339,897 (2013 – 251,144,897) 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

	2014 £'000	2013 £'000
Net return on ordinary activities before finance costs and taxation	492,680	283,491
Gains on investments	(435,494)	(244,988)
Currency (gains)/losses	(18,766)	10,396
Decrease in accrued income	742	1,116
(Increase)/decrease in debtors	(403)	130
Increase/(decrease) in creditors	595	(1,810)
Net cash inflow from operating activities	**39,354**	**48,335**

18 Analysis of Change in Net Debt

	At 1 April 2013 £'000	Cash flows £'000	Other non-cash changes £'000	Exchange movement £'000	At 31 March 2014 £'000
Cash at bank and in hand	13,867	7,838	–	–	21,705
Loans due within one year	(65,196)	(33,130)	(158,929)	19,085	(238,170)
Loans due in two to five years	(158,929)	–	158,929	–	–
Debenture stocks	(150,953)	–	256	–	(150,697)
	(361,211)	**(25,292)**	**256**	**19,085**	**(367,162)**

19 Related Party Transactions

The Directors' fees for the year are detailed in the Directors' Remuneration Report on page 30.

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$7,519,800 (2013 – US$11,319,400) 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 2014 US$10.55 million and US$6.93 million (2013 – US$6.75 million and US$6.93 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 43 to 44.

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 2014	Investments £'000	Cash and deposits £'000	Loans and debentures £'000	Other debtors and creditors * £'000	Net exposure £'000
US dollar	1,535,300	1,646	(187,740)	(412)	**1,348,794**
Euro	538,834	–	(50,430)	856	**489,260**
Hong Kong dollar	173,092	–	–	–	**173,092**
Swedish krona	97,091	17,177	–	–	**114,268**
Brazilian real	52,765	–	–	1,344	**54,109**
Indian rupee	47,601	–	–	–	**47,601**
Danish krone	45,570	–	–	–	**45,570**
Polish zloty	38,000	–	–	–	**38,000**
Czech koruna	28,998	–	–	–	**28,998**
Japanese yen	21,294	35	–	32	**21,361**
Turkish lira	14,145	–	–	–	**14,145**
Swiss franc	14,081	–	–	–	**14,081**
Indonesian rupiah	13,285	–	–	–	**13,285**
Other overseas currencies	17,855	–	–	–	**17,855**
Total exposure to currency risk	**2,637,911**	**18,858**	**(238,170)**	**1,820**	**2,420,419**
Sterling	342,722	2,847	(150,697)	(17,578)	**177,294**
	2,980,633	**21,705**	**(388,867)**	**(15,758)**	**2,597,713**

* Includes net non-monetary assets of £35,000.

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**
Hong Kong dollar	103,779	–	–	–	**103,779**
Swedish krona	149,675	–	–	–	**149,675**
Brazilian real	82,806	–	–	1,578	**84,384**
Indian rupee	46,678	–	–	–	**46,678**
Danish krone	50,676	–	–	69	**50,745**
Polish zloty	60,200	–	–	–	**60,200**
Czech koruna	13,163	–	–	–	**13,163**
Japanese yen	11,195	33	–	–	**11,228**
Turkish lira	18,305	–	–	–	**18,305**
Swiss franc	29,473	–	–	–	**29,473**
Indonesian rupiah	18,149	–	–	–	**18,149**
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.

22 Financial Instruments (continued)

Currency Risk Sensitivity

At 31 March 2014, 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 2013.

	2014 £'000	2013 £'000
US dollar	67,440	48,727
Euro	24,463	20,513
Hong Kong dollar	8,655	5,189
Swedish krona	5,713	7,484
Brazilian real	2,705	4,219
Indian rupee	2,380	2,334
Danish krone	2,279	2,537
Polish zloty	1,900	3,010
Czech koruna	1,450	658
Japanese yen	1,068	561
Turkish lira	707	915
Swiss franc	704	1,474
Indonesian rupiah	664	908
Other overseas currencies	893	1,592
	121,021	**100,121**

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

	2014 Fair value £'000	2014 Weighted average interest rate	2014 Weighted average period until maturity *	2013 Fair value £'000	2013 Weighted average interest rate	2013 Weighted average period until maturity *
Floating rate:						
Brazilian bonds (index linked)	42,653	11.2%	31 years	66,857	8.8%	32 years
Cash and short term deposits:						
Other overseas currencies	18,858	–	n/a	3,783	–	n/a
Sterling	2,847	0.5%	n/a	10,084	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 Interbank market rates.

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:

		2014 £'000	2013 £'000
Floating rate	– US$ denominated	89,971	65,196
Fixed rate	– Sterling denominated	150,697	150,953
	– Euro denominated	50,430	51,586
	– US$ denominated	97,769	107,343
		388,867	**375,078**

Maturity Profile

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

	2014 Within 1 year £'000	2014 Between 1 and 5 years £'000	2014 More than 5 years £'000	2013 Within 1 year £'000	2013 Between 1 and 5 years £'000	2013 More than 5 years £'000
Repayment of loans and debentures	238,170	–	145,675 *	65,196	158,929	145,675 *
Accumulated interest on loans and debentures to maturity date	15,200	55,947	70,782	17,776	57,067	84,738
	253,370	**55,947**	**216,457**	**82,972**	**215,996**	**230,413**

* Includes £675,000 irredeemable debenture stock.

Interest Rate Risk Sensitivity

An increase of 100 basis points in bond yields as at 31 March 2014 would have decreased total net assets and total return on ordinary activities by £5,298,000 (2013 – £10,442,000) and would have increased the net asset value per share (with borrowings at fair value) by 3.40p (2013 – increased by 2.93p). 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 18 to 20. 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 Strategic Report.

108.8% (2013 – 111.0%) of the Company's net assets are invested in quoted equities. A 3% increase in quoted companies equity valuations at 31 March 2014 would have increased total assets and total return on ordinary activities by £84,774,000 (2013 – £73,895,000). 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:

	2014 £'000	2013 £'000
Fixed interest investments	42,653	66,857
Cash and short term deposits	21,705	13,867
Debtors and prepayments	5,093	5,401
	69,451	**86,125**

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:

	2014 Par/nominal £'000	2014 Book £'000	2014 Fair £'000	2013 Par/nominal £'000	2013 Book £'000	2013 Fair £'000
8–14% stepped interest debenture stock 2020	20,000	21,476	30,140	20,000	21,619	33,618
6.875% debenture stock 2023	75,000	74,673	87,968	75,000	74,636	92,287
6–12% stepped interest debenture stock 2026	50,000	53,873	78,145	50,000	54,023	87,430
4½% irredeemable debenture stock	675	675	540	675	675	565
Total debentures	**145,675**	**150,697**	**196,793**	**145,675**	**150,953**	**213,900**
Fixed rate loans		148,199	148,414		158,929	160,461
Floating rate loans		89,971	89,971		65,196	65,196
Total borrowings		**388,867**	**435,178**		**375,078**	**439,557**

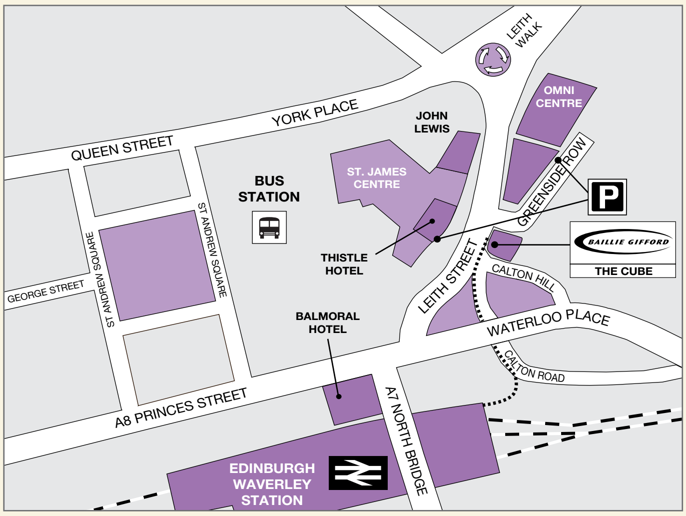
All short term floating rate borrowings are stated at fair value, which is considered to be equal to their par value.

Deducting long term borrowings at fair value would have the effect of reducing the net asset value per share from 1,060.9p to 1,039.9p. Taking the market price of the ordinary shares at 31 March 2014 of 1,044.0p, this would have given a premium to net asset value of 0.4% as against a discount of 1.6% on a debt at par basis. At 31 March 2013 the effect would have been to reduce the net asset value 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.

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 7. 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 29) 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.

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 main entrance on Greenside Row) on Thursday, 26 June 2014 at 4.30pm. Details of the resolutions are contained in the Circular sent to shareholders with this Annual Report.

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.

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

Further Shareholder Information

How to Invest

The Company's shares are traded on the London Stock Exchange. They can be bought by placing an order with a stockbroker, by asking a professional adviser to do so, or through the Baillie Gifford savings vehicles (see page 56). 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.

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.

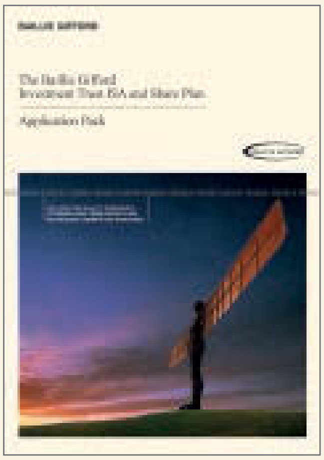
These accounts have been approved by the Directors of Scottish Mortgage Investment Trust PLC.

Analysis of Shareholders at 31 March

	2014 Number of shares held	2014 %	2013 Number of shares held	2013 %
Institutions	68,206,325	27.8	73,783,850	29.4
Intermediaries	126,425,367	51.5	125,583,801	50.0
Individuals	22,897,764	9.3	25,449,053	10.1
Baillie Gifford Share Plans/ISA	26,899,933	11.0	25,399,029	10.1
Marketmakers	910,508	0.4	929,164	0.4
	245,339,897	**100.0**	**251,144,897**	**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 £11,880 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. 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 the 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. With effect from 1 April 2014 the management fee and the borrowing costs will be charged 25% against revenue and 75% against capital.

— You should note that tax rates and reliefs may change at any time and their value depends on your circumstances.

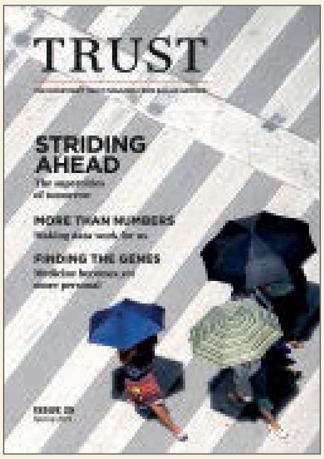
— Details of other risks that apply to investment in the savings vehicles shown on page 56 are contained in the product brochures.

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 the Directors of Scottish Mortgage may hold shares in Scottish Mortgage or may buy or sell shares from time to time.

Communicating with Shareholders



Trust Magazine

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

Promoting Scottish Mortgage

Baillie Gifford carries out extensive marketing activity to promote Scottish Mortgage to institutional, intermediary and direct investors. The Board warmly supports the promotion of the plans described on page 56 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 page 56.

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 917 2112
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.

Glossary of Terms

Total Assets
Total assets less current liabilities, before deduction of all borrowings.

Net Asset Value
Net Asset Value (NAV) is the value of total assets less liabilities (including borrowings). The NAV per share is calculated by dividing this amount by the number of ordinary shares in issue.

Net Asset Value at Fair
Borrowings are valued at an estimate of their market worth.

Net Asset Value at Book
Borrowings are valued at adjusted net issue proceeds.

Discount/Premium
As stockmarkets and share prices vary, an investment trust's share price is rarely the same as its NAV. When the share price is lower than the NAV per share it is said to be trading at a discount. The size of the discount is calculated by subtracting the share price from the NAV per share and is usually expressed as a percentage of the NAV per share. If the share price is higher than the NAV per share, this situation is called a premium.

Total Return
The total return is the return to shareholders after reinvesting the net dividend on the date that the share price goes xd.

Ongoing Charges Ratio
The total expenses (excluding borrowing costs) incurred by the Company as a percentage of the average net asset value (with debt at fair value).

Gearing
At its simplest, gearing is borrowing. Just like any other public company, an investment trust can borrow money to invest in additional investments for its portfolio. The effect of the borrowing on the shareholders' assets is called 'gearing'. If the Company's assets grow, the shareholders' assets grow proportionately more because the debt remains the same. But if the value of the Company's assets falls, the situation is reversed. Gearing can therefore enhance performance in rising markets but can adversely impact performance in falling markets.

Gearing represents borrowings at par less cash and cash equivalents expressed as a percentage of shareholders' funds.

Potential gearing is the Company's borrowings expressed as a percentage of shareholders' funds.

Equity gearing is the Company's borrowings adjusted for cash and bonds expressed as a percentage of shareholders' funds.

Directors

Chairman:
JPHS Scott FCII FCSI DL

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

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No. SC007058