

The Baillie Gifford Japan Trust PLC
Half-Yearly Financial Report
28 February 2013

Policy and Objective

The Baillie Gifford Japan Trust aims to achieve long term capital growth principally through investment in medium and smaller sized Japanese companies which are believed to have above average prospects for growth, although it invests in larger companies when considered appropriate.

Benchmark

The portfolio benchmark against which performance is measured is the TOPIX total return (in sterling terms).

Principal Risks and Uncertainties

The principal risks facing the Company relate to the Company's investment activities. These risks are market risk (comprising currency risk, interest rate risk and other price risk), liquidity risk and credit risk. An explanation of these risks and how they are managed is contained in note 19 of the Company's Annual Report and Financial Statements for the year to 31 August 2012. The principal risks and uncertainties have not changed since the publication of the Annual Report and Financial Statements which can be obtained free of charge from Baillie Gifford & Co (see contact details on the back cover of this report) and is available on the Japan Trust page of the Managers' website: www.japantrustplc.co.uk. Other risks facing the Company include the following: regulatory risk (that the loss of investment trust status or a breach of the applicable legal and regulatory requirements could have adverse financial consequences and cause reputational damage); operational/financial risk (failure of service providers' accounting systems could lead to inaccurate reporting or financial loss); the risk that the discount can widen; and gearing risk (the use of borrowing can magnify the impact of falling markets). Further information can be found on page 18 of the Annual Report and Financial Statements.

Responsibility Statement

We confirm that to the best of our knowledge:

- a) the condensed set of financial statements has been prepared in accordance with the Accounting Standards Board's statement 'Half-Yearly Financial Reports';
- b) the Half-Yearly Management Report includes a fair review of the information required by Disclosure and Transparency Rules 4.2.7R (indication of important events during the first six months, their impact on the financial statements and a description of principal risks and uncertainties for the remaining six months of the year); and
- c) the Half-Yearly Financial Report includes a fair review of the information required by Disclosure and Transparency Rules 4.2.8R (disclosure of related party transactions and changes therein).

By order of the Board

Richard A Barfield
Chairman

27 March 2013

Summary of Unaudited Results

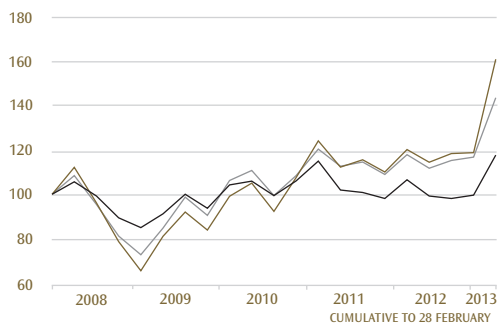
	28 February 2013	31 August 2012	% change
Shareholders' funds	£167.5m	£134.6m	
Net asset value per share (after deducting borrowings at fair value)	270.2p	216.9p	24.6
Net asset value per share (after deducting borrowings at par value)	270.5p	217.3p	24.5
Share price	267.5p	197.0p	35.8
TOPIX total return (in sterling terms)			19.8
Discount (borrowings at fair value)	1.0%	9.2%	
Discount (borrowings at par value)	1.1%	9.3%	

Period's high and low	Six months to 28 February 2013		Year to 31 August 2012	
	High	Low	High	Low
Net asset value (after deducting borrowings at fair value)	270.7p	209.7p	228.7p	200.3p
Net asset value (after deducting borrowings at par value)	271.1p	210.1p	229.3p	201.0p
Share price	267.5p	190.3p	209.5p	178.5p
Discount (borrowings at fair value)	1.0%	12.6%	5.6%	13.8%
Discount (borrowings at par value)	0.9%	12.3%	5.4%	13.4%

Past performance is not a guide to future performance.

5 Year Performance

(figures rebased to 100 at 29 February 2008)



Source: Thomson Reuters Datastream/
Baillie Gifford & Co

— Share price
— NAV (borrowings at par)
— Benchmark*

* On 1 September 2009, the benchmark was changed to TOPIX total return (in sterling terms) from TOPIX capital return (in sterling terms). For the purposes of the graph opposite, the returns on both benchmarks for their respective periods have been linked to form a single benchmark.

Half-Yearly Management Report

The past six months have seen a sharp rise in the Japanese stock market and a modest fall in the value of the yen against sterling. The benchmark, TOPIX total return index, rose 34.9% in yen terms, whilst the yen fell 11.2% against sterling over the period. As a result the NAV per share (after deducting borrowings at fair value) has risen by 24.6% which compares with a gain of 19.8% in the benchmark index (in sterling terms). The yen value of assets has risen sharply whilst the borrowings have remained the same and so the net level of gearing was 14.2% at the end of February. The positive effect of the gearing accounts for all the outperformance, with stock selection a minor negative.

The stock market reached a post-Tsunami, post-financial crisis low last autumn, but started to recover from mid-November as optimism increased that the December Lower House election would herald a significant shift towards a looser monetary policy. The LDP, headed by Shinzo Abe, was elected and an inflation target of 2% has been formally adopted by the new Government, along with other policies together labelled Abenomics. The aim is to stimulate growth with three 'arrows of policy' including significant monetary easing, fiscal stimulus, and structural reform (including deregulation and tax reform). The yen has weakened and as a result earnings estimates have been increased, with 40% growth currently expected for the year to March 2014.

Past performance is not a guide to future performance.

Against this background stocks that did well were those linked to the weaker yen, such as Fuji Heavy Industries our new purchase, Mazda Motors, or those linked to asset reflation such as the newly merged stock exchange, Japan Exchange Group, or Tokyo Tatemono, a property leasing company. Those that did badly were mainly on individual news stories. The turnover within the portfolio remained low overall. We bought new holdings in Softbank, an entrepreneurial telecoms operator which is bidding for Sprint, a US company; Japan Airlines, which relisted after a massive restructuring programme and Mazda Motors which produces the vast majority of its cars in Japan. To fund these we sold Jupiter Telecom and So-Net Entertainment, both subject to take-over bids, and Otsuka Holdings, a drug company with patent expiry concerns.

There is now a uniformity of purpose in Japan from both the Government and the corporate side to try and solve some of the problems that have been intractable since the notorious Japanese bubble of the late 1980s. Although the intervening period has not really been the much written about 'lost decade', much needs to be done to make Japan more internationally competitive in non-manufacturing segments of the economy, as well as to meet the challenges of an ageing society and high levels of government debt. Abenomics may not be the complete answer, but it is at least addressing the problems.

Obviously with the Government in power for only three months and the new governor of the Bank of Japan yet to hold his first policy meeting, hopes are high and achievements few. However there are a number of encouraging signs being seen. The Government has announced that Japan will join the negotiations for both the formation of a major free trade area, the Trans Pacific Partnership as well as an EU Japan Agreement. This is despite the entrenched opposition

of most agricultural interests and will force Japan to become more open. The talk of reflation is itself changing inflation expectations which have now increased. A range of companies are increasing wages and bonuses which should help stimulate consumption. The private investor is becoming more active and the number of IPOs is increasing with successful listings doubling at issue, a welcome return of animal spirits which have been rare in Japan.

On the other hand there remain concerns about regional political tensions and there is also the possibility that inflation leaps rather than reaches the benign level that is targeted. On balance we take the more positive view and are keeping all the gearing invested in the market. The weakening yen has re-priced many Japanese exports and the full economic impact of that will be seen over the next year. Confidence itself breeds confidence and will lead to increased capital spending, particularly in areas where it is long overdue, such as IT systems. The economy in Japan grew 2% in 2012 and is likely to expand further in the current year.

The share price is now at a premium to the net asset value per share and the power to issue shares, at a premium and where there is real demand, is being used.

The principal risks and uncertainties facing the Company are set out on the inside front cover of this report.

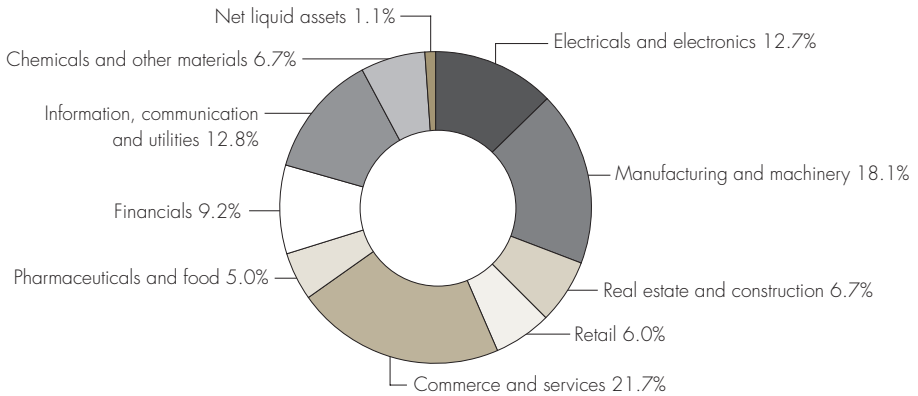
Twenty Largest Holdings at 28 February 2013

Name	Business	Value £'000	% of total assets *
Itochu	Trading conglomerate	7,426	3.9
Fuji Heavy Industries	Niche car brand (Subaru)	6,680	3.5
Don Quijote	Discount store operator	5,570	2.9
Tokyo Tatemono	Property leasing and development	5,467	2.8
Otsuka Corp	IT solutions for companies	5,396	2.8
Japan Tobacco	Tobacco manufacturer	5,121	2.7
KDDI	Mobile telecommunications	4,950	2.6
Systemx	Medical equipment	4,914	2.5
Japan Exchange Group	Stock exchange	4,553	2.4
Industrial & Infrastructure Fund	Logistics REIT	4,283	2.2
Misumi Group	Precision machinery parts distributor	4,153	2.2
Toyo Tire & Rubber	Tyre manufacturer	4,059	2.1
Asics	Sports shoes and clothing	3,951	2.0
Isuzu Motors	Commercial vehicle manufacturer	3,915	2.0
HIS	Travel agency	3,765	2.0
Rakuten	Internet retailer	3,712	1.9
Yaskawa Electric	Robots and factory automation	3,707	1.9
Mitsubishi UFJ Lease & Finance	Leasing company	3,675	1.9
Hamakyorex	Logistics	3,666	1.9
SMC	Pneumatic control equipment	3,353	1.7
		92,316	47.9

*Before deduction of bank loans.

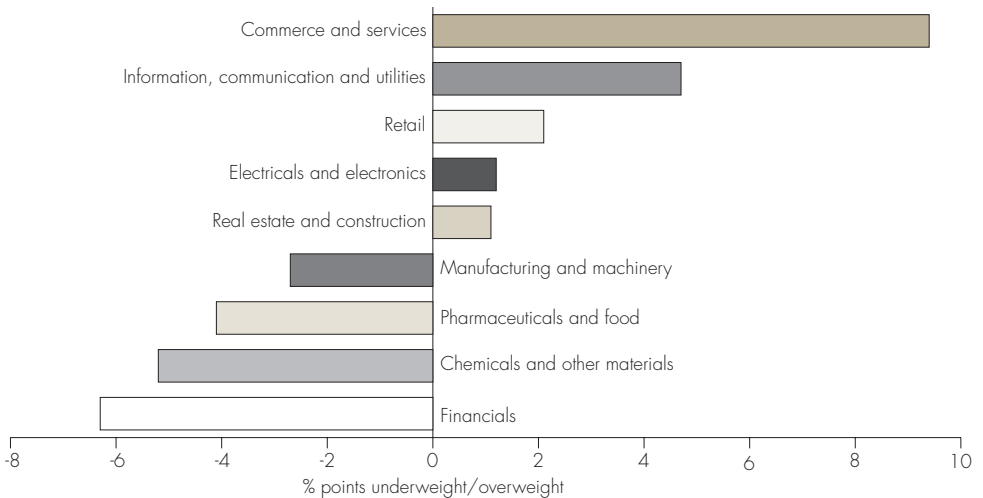
Distribution and Relative Weightings at 28 February 2013

Distribution of Total Assets*



*Before deduction of bank loans.

Equity Weightings Relative to Benchmark



Income Statement (unaudited)

	For the six months ended 28 February 2013		
	Revenue £'000	Capital £'000	Total £'000
Gains on sales of investments	–	383	383
Changes in investment holding gains	–	29,288	29,288
Currency gains/(losses) (note 4)	–	2,982	2,982
Income from investments and interest receivable	1,594	–	1,594
Investment management fee	(761)	–	(761)
Other administrative expenses	(151)	–	(151)
Net return before finance costs and taxation	682	32,653	33,335
Finance costs of borrowings	(280)	–	(280)
Net return on ordinary activities before taxation	402	32,653	33,055
Tax on ordinary activities	(112)	–	(112)
Net return on ordinary activities after taxation	290	32,653	32,943
Net return per ordinary share (note 6)	0.47p	52.72p	53.19p

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.

For the six months ended 29 February 2012

For the year ended 31 August 2012

Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
–	284	284	–	765	765
–	2,565	2,565	–	(554)	(554)
–	900	900	–	(108)	(108)
1,374	–	1,374	3,251	–	3,251
(662)	–	(662)	(1,325)	–	(1,325)
(144)	–	(144)	(279)	–	(279)
568	3,749	4,317	1,647	103	1,750
(323)	–	(323)	(642)	–	(642)
245	3,749	3,994	1,005	103	1,108
(96)	–	(96)	(228)	–	(228)
149	3,749	3,898	777	103	880
0.24p	6.05p	6.29p	1.25p	0.17p	1.42p

Balance Sheet (unaudited)

	At 28 February 2013 £'000	At 29 February 2012 £'000	At 31 August 2012 £'000
Fixed assets			
Investments	190,757	163,200	160,757
Current assets			
Debtors	1,111	5,789	1,702
Cash and short term deposits	1,479	3,986	2,516
	2,590	9,775	4,218
Creditors			
Amounts falling due within one year:			
Bank loans (note 7)	(5,355)	–	(6,030)
Other creditors	(469)	(7,914)	(1,844)
	(5,824)	(7,914)	(7,874)
Net current (liabilities)/assets	(3,234)	1,861	(3,656)
Total assets less current liabilities	187,523	165,061	157,101
Creditors			
Amounts falling due after more than one year:			
Bank loans (note 7)	(19,993)	(27,456)	(22,514)
Total net assets	167,530	137,605	134,587
Capital and reserves			
Called up share capital	3,097	3,097	3,097
Share premium	22,110	22,110	22,110
Capital redemption reserve	203	203	203
Capital reserve	148,309	119,302	115,656
Revenue reserve	(6,189)	(7,107)	(6,479)
Shareholders' funds	167,530	137,605	134,587
Net asset value per ordinary share (after deducting borrowings at fair value)	270.2p	221.6p	216.9p
Net asset value per ordinary share (after deducting borrowings at par)	270.5p	222.2p	217.3p
Ordinary shares in issue (note 8)	61,935,000	61,935,000	61,935,000

Reconciliation of Movements in Shareholders' Funds (unaudited)

For the six months ended 28 February 2013

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Capital reserve * £'000	Revenue reserve £'000	Shareholders' funds £'000
Shareholders' funds at 1 Sept 2012	3,097	22,110	203	115,656	(6,479)	134,587
Net return on ordinary activities after taxation	–	–	–	32,653	290	32,943
Shareholders' funds at 28 February 2013	3,097	22,110	203	148,309	(6,189)	167,530

For the six months ended 29 February 2012

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Capital reserve * £'000	Revenue reserve £'000	Shareholders' funds £'000
Shareholders' funds at 1 Sept 2011	3,097	22,110	203	115,553	(7,256)	133,707
Net return on ordinary activities after taxation	–	–	–	3,749	149	3,898
Shareholders' funds at 29 February 2012	3,097	22,110	203	119,302	(7,107)	137,605

For the year ended 31 August 2012

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Capital reserve * £'000	Revenue reserve £'000	Shareholders' funds £'000
Shareholders' funds at 1 Sept 2011	3,097	22,110	203	115,553	(7,256)	133,707
Net return on ordinary activities after taxation	–	–	–	103	777	880
Shareholders' funds at 31 August 2012	3,097	22,110	203	115,656	(6,479)	134,587

*Capital reserve as at 28 February 2013 includes investment holding gains of £65,083,000 (29 February 2012 – £38,915,000; 31 August 2012 – £35,796,000).

Condensed Cash Flow Statement (unaudited)

	Six months to 28 February 2013 £'000	Six months to 29 February 2012 £'000	Year to 31 August 2012 £'000
Net cash inflow from operating activities	501	387	1,479
Net cash outflow from servicing of finance	(291)	(327)	(641)
Total tax paid	(94)	(85)	(216)
Net cash outflow from financial investment	(998)	(248)	(2,455)
Net cash outflow before financing	(882)	(273)	(1,833)
Decrease in cash	(882)	(273)	(1,833)

Reconciliation of net cash flow to movement in net debt

Decrease in cash in the period	(882)	(273)	(1,833)
Exchange differences on bank loans	3,196	1,055	(33)
Exchange differences on cash	(155)	97	187
Movement in net debt in the period	2,159	879	(1,679)
Net debt at start of the period	(26,028)	(24,349)	(24,349)
Net debt at end of the period	(23,869)	(23,470)	(26,028)

Reconciliation of net return before finance costs and taxation to net cash inflow from operating activities

Net return before finance costs and taxation	33,335	4,317	1,750
Gains on investments	(29,671)	(2,849)	(211)
Realised exchange differences	214	155	75
Unrealised exchange differences on bank loans	(3,196)	(1,055)	33
Changes in debtors and creditors	(181)	(181)	(168)
Net cash inflow from operating activities	501	387	1,479

Notes to the Condensed Financial Statements (unaudited)

- 1 The condensed financial statements for the six months to 28 February 2013 comprise the statements set out on pages 6 to 10 together with the related notes on pages 11 and 12. They have been prepared on the basis of the same accounting policies as set out in the Company's Annual Report and Financial Statements at 31 August 2012 and in accordance with the ASB's Statement 'Half-Yearly Financial Reports' and have not been audited or reviewed by the Auditors pursuant to the Auditing Practices Board Guidance on 'Review of Interim Financial Information'. The Company's assets, the majority of which are investments in quoted securities which are readily realisable, exceed its liabilities significantly. All borrowings require the prior approval of the Board. Gearing levels and compliance with borrowing covenants are reviewed by the Board on a regular basis. In accordance with the Company's Articles of Association, shareholders have the right to vote annually at the Annual General Meeting on whether to continue the Company. The next continuation vote will be in November 2013. The Directors have no reason to believe that the continuation resolution will not be passed at the Annual General Meeting. Accordingly, the Half-Yearly Financial Report has 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.
- 2 The financial information contained within this Half-Yearly Financial Report does not constitute statutory accounts as defined in sections 434 to 436 of the Companies Act 2006. The financial information for the year ended 31 August 2012 has been extracted from the statutory accounts which have been filed with the Registrar of Companies. The Auditors' Report on those accounts was not qualified and did not contain statements under sections 498(2) or (3) of the Companies Act 2006.
- 3 The management agreement with Baillie Gifford & Co is terminable on not less than 6 months' notice, or on shorter notice in certain circumstances. The annual fee to 31 March 2013 was 1.0% of the net assets of the Company, calculated on a quarterly basis. With effect from 1 April 2013 this was reduced to 0.95% on the first £50 million of net assets, 0.65% on net assets above £50 million, also calculated on a quarterly basis.

	Six months to 28 February 2013 £'000	Six months to 29 February 2012 £'000	Year to 31 August 2012 £'000
4 Currency gains/(losses)			
Exchange differences on:			
Cash balances	(155)	97	187
Bank loans	3,196	1,055	(33)
Other items	(59)	(252)	(262)
	2,982	900	(108)

- 5 No interim dividend will be declared.

Notes to the Condensed Financial Statements (unaudited) (continued)

	Six months to 28 February 2013 £'000	Six months to 29 February 2012 £'000	Year to 31 August 2012 £'000
6 Net return per ordinary share			
Revenue return on ordinary activities after taxation	290	149	777
Capital return on ordinary activities after taxation	32,653	3,749	103

Net return per ordinary share is based on the above totals of revenue and capital and on 61,935,000 (29 February 2012 and 31 August 2012 – 61,935,000) ordinary shares, being the weighted average number of ordinary shares in issue during each period.

There are no dilutive or potentially dilutive shares in issue.

- 7 Bank loans of £25.3 million (¥3.6 billion) have been drawn down under yen loan facilities which are repayable between August 2013 and August 2014 (29 February 2012 – £27.5 million (¥3.6 billion); 31 August 2012 – £28.5million (¥3.6 billion)).
- 8 The Company has the authority to issue shares/sell treasury shares at a premium to net asset value as well as to buy back shares at a discount to net asset value. No shares were issued or bought back during the period under review. On 20 March 2013 the Company issued 800,000 ordinary shares at a premium to net asset value. The proceeds were £2.4 million.
- 9 Transaction costs incurred on the purchase and sale of the investments are added to the purchase cost or deducted from the sales proceeds, as appropriate. During the period, transaction costs on purchases amounted to £5,000 (29 February 2012 – £6,000; 31 August 2012 – £13,000) and transaction costs on sales amounted to £5,000 (29 February 2012 – £8,000; 31 August 2012 – £14,000).

None of the views expressed in this document should be construed as advice to buy or sell a particular investment.

Further Shareholder Information

Baillie Gifford Japan Trust's shares are traded on the London Stock Exchange. They can be bought through a stockbroker, by asking a professional adviser to do so, or through the Baillie Gifford savings vehicles.

Baillie Gifford's Investment Trust Share Plan

You can invest from £250 or from £30 per month. The plan is designed to be a cost-effective way of saving on a regular or lump sum basis.

Baillie Gifford's Investment Trust ISA

You can invest in a tax efficient way by investing a minimum of £2,000 or from £100 per month or by transferring an ISA with a value of at least £2,000 from your existing manager.

Baillie Gifford's Children's Savings Plan

A cost-effective plan tailored especially to meet the requirements to save for children. You can invest a minimum of £100 or from £25 per month.

Online Management Service

You can open and manage your Share Plan, Children's Savings Plan* and/or ISA online, through our secure Online Management Service (OMS) which can be accessed through the Baillie Gifford website at www.bailliegifford.com/oms. As well as being able to view the details of your plan online, the service also allows you to:

- get current valuations;
- make lump sum investments;
- switch between investment trusts;
- set up a direct debit to make regular investments; and
- update certain personal details.

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

The information about the ISA, Share Plan and Children's Savings Plan has been approved by Baillie Gifford Savings Management Limited ('BGSML'). BGSML is the ISA Manager, the Manager of the Share Plan and Children's Savings Plan. BGSML is wholly owned by Baillie Gifford & Co. Both are authorised and regulated by the Financial Services Authority. Baillie Gifford only provides information about its products and does not provide investment advice.

Risk Warnings

Past performance is not a guide to future performance.

Baillie Gifford Japan is a listed UK company. As a result, the value of its shares and any income from those shares can fall as well as rise and investors may not get back the amount invested.

As Baillie Gifford Japan 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.

Baillie Gifford Japan 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.

Baillie Gifford Japan can buy back its own shares. The risks from borrowing, referred to above, are increased when the 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.

Investment in smaller companies is generally considered higher risk as changes in their share prices may be greater and the shares may be harder to sell. Smaller companies may do less well in periods of unfavourable economic conditions.

Baillie Gifford Japan invests in Japan and exposure to a single market and currency may increase risk.

Baillie Gifford Japan can make use of derivatives. The use of derivatives may impact on its performance.

The generation of income is less important than the aim of achieving capital growth and it is unlikely that the Company will provide a steady, or indeed any, income.

Shareholders in Baillie Gifford Japan have the right to vote at the Annual General Meeting on whether to continue the Company, or wind it up. If the shareholders decide to wind the Company up, the assets will be sold and you will receive a cash sum in relation to your shareholding.

You should note that tax rates and reliefs may change at any time and their value depends on your circumstances. The favourable tax treatment of ISAs may change.

Investment trusts are UK public listed companies and as such comply with the requirements of the UK Listing Authority. They are not authorised or regulated by the Financial Services Authority.

Details of other risks that apply to investment in the savings vehicles are contained in the product brochures.

The information and opinions expressed in this document are subject to change without notice. This information has been issued and approved by Baillie Gifford & Co and does not in any way constitute investment advice.

Directors

Chairman:
Richard A Barfield

Nick AC Bannerman
Martin Barrow CBE
Paul S Dimond CMG
Martin H Paling

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Managers, Secretaries and Registered Office

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Further Information

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