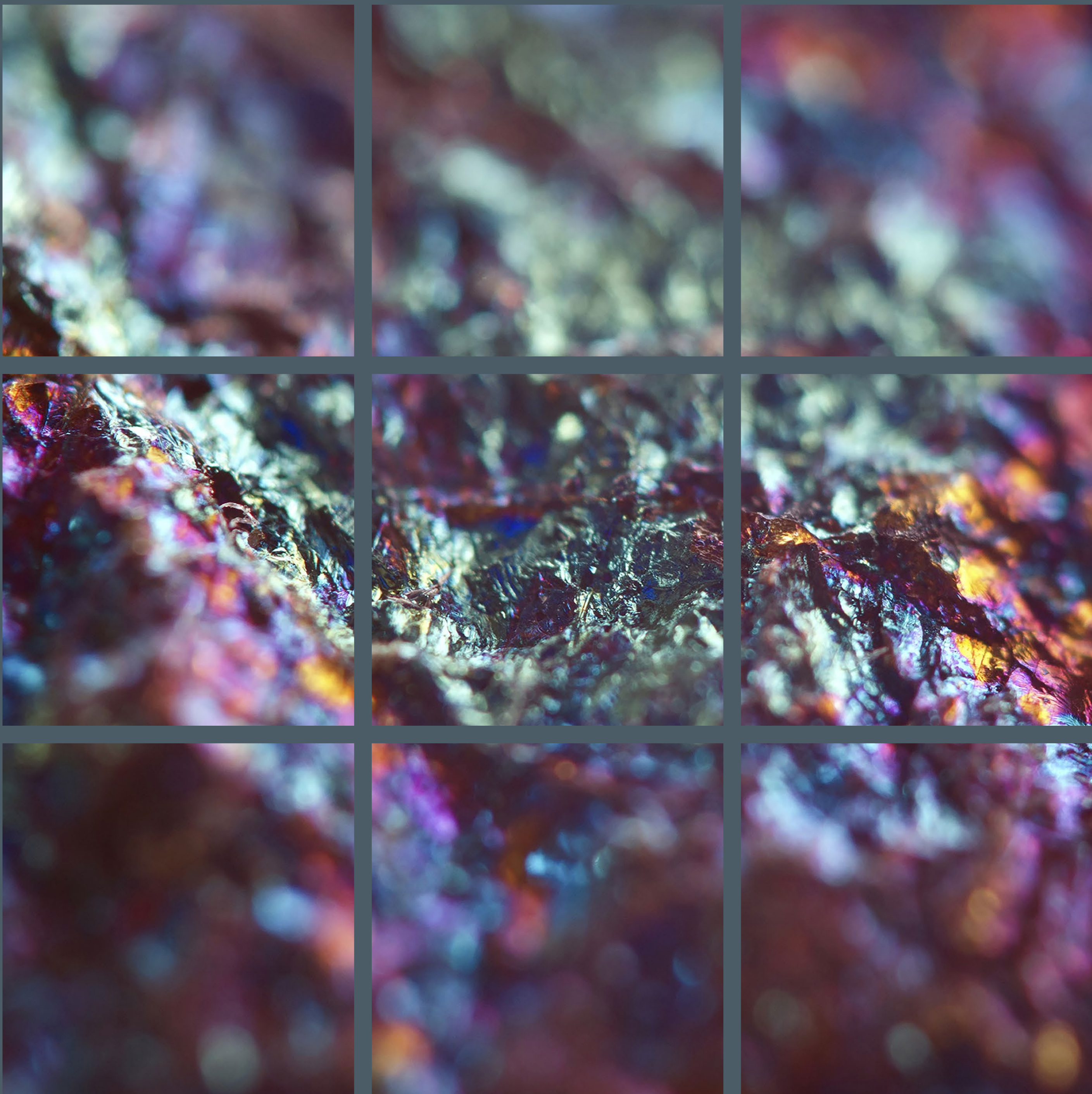
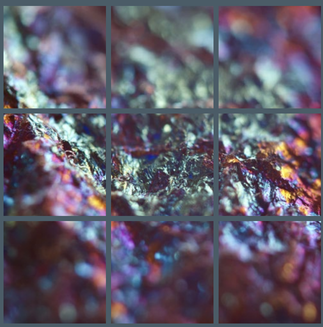
SCOTTISH MORTGAGE INVESTMENT TRUST PLC

Your low cost choice for global investment



Annual Report and Financial Statements
31 March 2018

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 high conviction and actively managed portfolio. It invests globally, looking for strong businesses with above-average returns.

Contents

Investor Disclosure Document

The EU Alternative Investment Fund Managers Directive requires certain information to be made available to investors prior to their investment in the Company. The Company's Investor Disclosure Document is available for viewing at www.scottishmortgageit.com.

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 qualify to be considered as a mainstream investment product and can be recommended by Independent Financial Advisers to ordinary retail investors in accordance with the rules of the Financial Conduct Authority in relation to non-mainstream investment products.

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

If you are in any doubt as to the action you should take you should consult your stockbroker, bank manager, solicitor, accountant or other independent financial advisor authorised under the Financial Services and Markets Act 2000 immediately if you are in the United Kingdom or, if not, another appropriately authorised financial adviser.

If you have sold or otherwise transferred all of your ordinary shares in Scottish Mortgage Investment Trust PLC, please forward this document and the accompanying form of proxy as soon as possible to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was or is being effected for delivery to the purchaser or transferee.

Fiona McBain, Chairman

Message from the Chairman

This has been another good year for Scottish Mortgage with the share price up 22% in the year to 31 March, as compared, for example, to the FTSE All World Index up by 3% (in total return terms).

However the emphasis must continue to be on long term performance. Short term performance (whether good or bad) is a poor way to judge the success or otherwise of the Company's long-term strategy and I would remind investors that Scottish Mortgage is best suited to those who share the Managers' more patient approach of investing over periods of at least 5 years.

I am therefore particularly pleased to report that total returns for shareholders from the Company's shares over five and ten years remain very strong, at 185% and 335% respectively. The long term performance record and steady share issuance that took us into the FTSE 100 last year have continued, with net issuances of £145 million and a market capitalisation now standing at over £6 billion.

The Managers, with the full encouragement of the Board, continue to focus on investing in the best growth businesses with extraordinary potential over the coming years. The rationale for this is set out in detail in the Managers Review and in the statement of the Managers' Core Beliefs on pages 11 to 17; please do take the time to read these. The longer-term track record suggests that Scottish Mortgage is on the right path but neither the Board nor the Managers are complacent. We will not stop trying to improve all aspects of what we do for our shareholders.

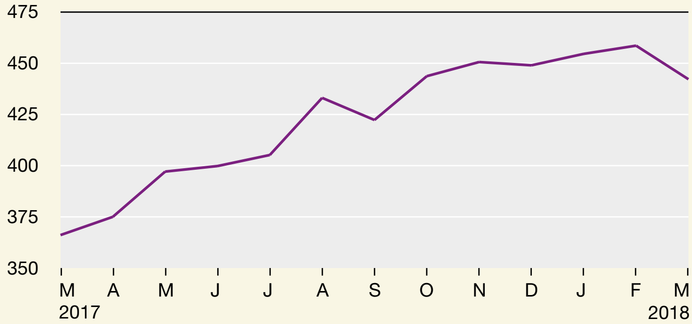
Financial Highlights – Year to 31 March 2018

Share Price* 21.6%	NAV* 24.5% (borrowings at book value#)	NAV* 25.0% (borrowings at fair value#)	Benchmark*† 2.9%

* Source: Morningstar/Baillie Gifford, total return. See Glossary of Terms on page 74 and comparatives for 2017 on page 5.

Share Price (pence)

—— Share price

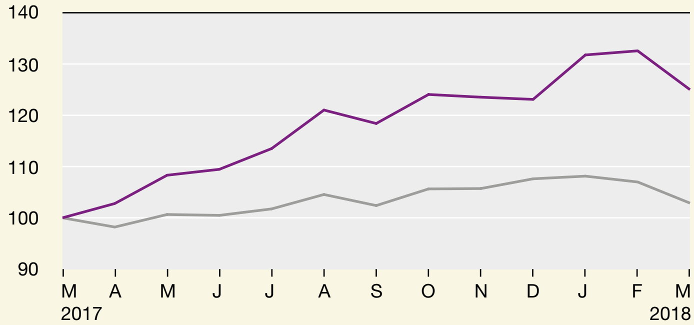


NAV and Benchmark

(figures rebased to 100 at 31 March 2017)

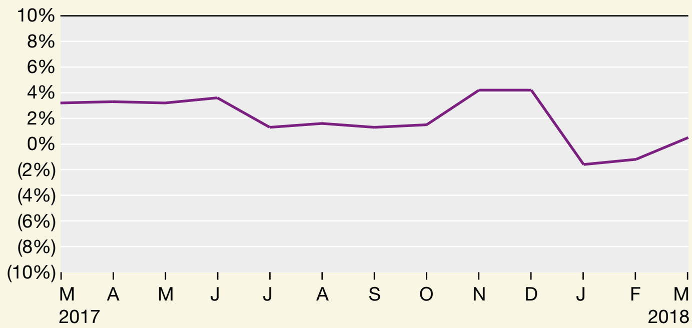
—— NAV total return (after deducting borrowings at fair value#)

—— Benchmark† total return



Premium/(Discount#)

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



Source: Thomson Reuters/Baillie Gifford.

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

See Glossary of Terms on page 74.

Past performance is not a guide to future performance.

See disclaimer on page 73.

Strategic Report

This Strategic Report, which includes pages 2 to 25 and incorporates the Chairman's Statement, has been prepared in accordance with the Companies Act 2006.

Chairman's Statement

It is my great privilege to write to you for the first time as Chairman of Scottish Mortgage having taken up the role on 29 June 2017. I joined the Board in 2009 in the fall out of the Global Financial Crisis, when the share price stood at a discount of some 12%. 'Challenging' but valuable experience that has informed my contribution over the years (albeit a scenario I hope will not be replicated in the foreseeable future!).

My experience at Scottish Mortgage has also included serving under two Chairmen – the late Sir Donald MacKay and John Scott; that too has been valuable experience for which I am very grateful. I hope that the current Board and the Managers can do justice to the legacy we have inherited for the continuing benefit of all shareholders.

Long term performance continues to be the yardstick by which the Board measures the results of the Managers' endeavours for Scottish Mortgage. I would encourage all shareholders to focus on these figures and it is a pleasure to report that Scottish Mortgage's long term performance record, measured over the last five and ten years, remains very strong and amongst the best in the investment trust sector and beyond. This is true both of the share price and net asset value (NAV) returns.

For more than a decade now, the Managers have remained steadfast in their approach. Their consistency and clarity of purpose has proved its value to shareholders over time, despite some exceptionally challenging phases in global financial markets over that same period.

The table below shows the five and ten year total returns for the Company to 31 March 2018, alongside the Association of Investment Companies (AIC) Global Sector average for comparison.

Total Return (%)	Five years	Ten years
NAV	171.6	287.8
Share price	184.5	334.7
FTSE All-World Index	73.3	159.4
Global Sector Average – NAV	94.1	178.1
Global Sector Average – share price	111.6	218.1

Source: AIC/Morningstar. NAV after deducting borrowings at fair value for five years. NAV after deducting borrowings at par for ten years.

Earnings and Dividends

The Board firmly supports the Managers in the single-minded pursuit of the investment philosophy to maximise total return from a portfolio of long term investments chosen on a global basis, enabling the Company to provide capital and dividend growth. They have created a portfolio of the very best long term growth companies from around the world, both listed and unlisted. One common characteristic of many of these businesses is the retention and investment of most if not all of their earnings to support future growth. This tends to result in a relatively low level of dividend income for your Company. Whilst for this financial year our income has seen a rise compared with the previous one, it remains low overall; this year's earnings per share were 1.20 pence, up just over 12% on last year (1.07 pence).

The portfolio's earnings would be insufficient to pay a dividend equivalent to last year's 3.00 pence per share, even taken together with our remaining revenue reserves (0.47 pence per share). Scottish Mortgage's aim is defined in terms of total return. Shareholders gave overwhelming support at the 2014 AGM for the Company's stated intention to be able to supplement the dividend from its distributable capital reserves. These reserves are predominantly the realised investment gains.

The Board understands that many shareholders value the income from Scottish Mortgage's dividend and it has set out its policy and intentions in this area very clearly in recent years. The Board has highlighted that, while returns for Scottish Mortgage's shareholders will predominantly come through capital appreciation, a modest and growing dividend will also be paid. The Board will continue to keep the position under review. The 2017 Interim Report made clear that the Board would use the power to supplement the Company's earnings from capital once the revenue reserve was exhausted, in order to do this.

Given the strength of the long run capital returns and the Company's investment objective, together with the clear guidance given in the past, the Board has decided that a modestly increased dividend would be appropriate this year. This will be paid from a combination of earnings, the remainder of the revenue reserve and the capital reserve. The Board is therefore recommending a final dividend of 1.68 pence per share, providing a total distribution for the year of 3.07 pence per share, a year-on-year increase of just over 2%.

Low Cost

Put simply, lower charges directly translate into shareholders keeping more of the returns generated from the investment of their capital. Ensuring that Scottish Mortgage has one of the lowest cost ratios in the sector remains an important objective of the Board, supported by the Managers. In addition to using its growing scale to progressively reduce costs for shareholders for many years now, the management fee has also been revised – most recently at the start of this accounting period. The introduction of a new tiered annual management charge (AMC) from 1 April 2017 helps to ensure that shareholders will continue to reap additional benefits from the Company's growth. The previous AMC of 0.3% only applies on the first £4 billion of assets under management and thereafter it falls to 0.25%. I am delighted to report that as a result, for the financial year to 31 March 2018, Scottish Mortgage's 'Ongoing Charges Ratio' (OCR) fell to 0.37%, down from 0.44% the previous year. This is an almost 16% reduction on what was already one of the lowest cost ratios in the sector.

Past performance is not a guide to future performance.
See disclaimer on page 73.

The Board has also decided that it would be appropriate to revise the allocation of the management and borrowing costs to reflect better the split of returns between capital and income. From 1 April 2018, all of these costs will be allocated to capital. This is a change from the current allocation of 75 per cent to capital and 25 per cent to revenue. The total costs will not be affected by this change in accounting treatment and the distinction is somewhat arbitrary given the changing nature of investment returns, as discussed in recent years and above.

Investment Strategy

As I highlighted at the start, two distinctive aspects of Scottish Mortgage are the clarity of its investment proposition and the consistency with which it has been applied. The Board continues to believe that these clearly differentiate Scottish Mortgage in a crowded field, where many 'talk a good game' but where far fewer have consistently lived up to the inherent challenges of long term investment. The statement of the Managers' Core Investment Beliefs has been included within the Annual Report and Financial Statements, (on page 17) for the last 5 years. This year, Tom Slater has also reviewed this in his section of the report. I would urge all shareholders and those considering making an investment to read both these pieces and James Anderson's report.

Opportunities to Learn More About Scottish Mortgage

The Board and Managers believe it is important that all shareholders and prospective investors are able to develop a clear understanding of the investment approach taken for the Company.

One of the best ways to do this is to hear directly from those responsible for the management of your investment. The Company's Annual General Meeting (AGM) is held in Edinburgh and this year it will be at the Merchants' Hall, at 4.30pm on 28 June 2018. As is always the case, not only will shareholders be able to vote on the resolutions for the management of the Company and question the Directors, but the joint managers will present on the portfolio and also take shareholders' questions. I hope as many of you as possible will be able to attend.

Recognising that not everyone will be able to attend the AGM, the Managers have invested considerable resources in developing other opportunities for investors to hear their views and learn about the investment approach taken. There is a large amount of information on the Company and the portfolio available through the Company's website: www.scottishmortgageit.com.

More recently, the Managers have created an additional site, www.resoluteoptimism.com which looks at the broader context around the portfolio companies and explores issues around the responsible use of investment capital and the financial industry. There is a related Resolute Optimism twitter feed (@SMTOptimism) which flags new articles on the Resolute Optimism site and also highlights interesting external pieces of news and information, thought-provoking commentaries and events.

Further, in recent years the Managers have hosted a series of Scottish Mortgage Investor Forums around the country to ensure that more investors have the opportunity to hear from them directly. The 2017 Forums in Birmingham, York and London were all very well attended. The first Forum of 2018 has already been held in Brighton and there are two more to come, in London in June and in Manchester in October. Further details can be found at the back of this Report, on page 73, and on the Company's website: www.scottishmortgageit.com.

Gearing and Borrowing Policy

The Board of Scottish Mortgage remains committed to the strategic use of borrowings for the Company, in the belief that gearing the portfolio in this way will enhance the long term returns for shareholders. The Board views this as a significant advantage of the investment trust structure.

As previously announced, in April 2017 the Board took the opportunity to lock in borrowings of £125 million in long term, fixed rate, senior, unsecured private placement notes, denominated in sterling through the private placement debt market. This was achieved at a blended rate of a little over 3 per cent.

As a result of the continued strength of the portfolio's performance, particularly of the publicly listed companies, the gearing level continued to fall over this financial year. The impact of growth on the level of gearing is clearly illustrated in the table on the ten year record of Capital on page 25. The level of debt has increased by only 10% as compared to a three-fold increase in assets. Given current market costs of borrowing, the Board is of the view that the appropriate level of gearing is higher than the current level (as at the end of March 2018). The Board has therefore taken steps to increase the Company's borrowings. These have included organising to borrow further funds in the private placement market, once again to lock in attractive long term borrowing rates. Further announcements will be made when arrangements have been finalised.

Liquidity

The Company's shares continue to benefit from a good level of liquidity on the London Stock Exchange. In addition, the Company has continued to support this liquidity in normal market conditions through the operation of its long standing liquidity policy, which is set out on page 7.

Over the twelve months to 31 March 2018, the company issued 50.8 million shares from Treasury and bought back 14.0 million shares resulting in a net inflow of £145 million. The level of net issuance was illustrative of the strength of demand for Scottish Mortgage over the period.

Corporate Brokers

The corporate brokers are instrumental in applying the liquidity policy, and the new arrangements which took effect from the start of this financial year have been very effective, which is testimony to Cenkos Securities plc and Jefferies Hoare Govett operating well as joint brokers.

Outlook

In considering the outlook at the start of this financial year, my predecessor John Scott noted, "*a number of political risks, from President Trump's unpredictable approach to policy making, to questions over North Korea's true intentions, to the escalation of the troubles in the Middle East..*". Sadly those political risks remain the same today. However the task of the Board also remains the same, as John noted: "*to consider the outlook in the context of the portfolio of Scottish Mortgage...*"

To have been unduly focused on the headline topics 12 months ago might have led an investor to miss the importance of the extraordinary operational growth which was taking place at a number of the world's largest companies.

The Board believes the following areas to be amongst the most relevant considerations for the long term prospects for Scottish Mortgage:

1. The continual rise and development of China, in particular of its world leading digital economy.
2. The spread across all industries of the gathering and computer-facilitated use of data.
3. The structural shifts in the global healthcare industry and the industrialisation of biology.
4. The long run shift in much of the transportation infrastructure to electric and autonomous vehicles.
5. Shifts in energy generation to renewable sources and the proliferation of energy storage solutions for domestic and commercial use.
6. Greater social, political and regulatory scrutiny of large corporations.

The approach of the Managers, focused on the long term fundamental characteristics of businesses, favours the selection of companies which are adopting the advances in technology to enable them to provide what their customers want or need. This should offer the potential for durable growth in the long run. However, the above should not be taken to suggest that the path to any success will be smooth. Progress is almost always bumpy and stock markets tend to exacerbate these swings. There will be times when share prices diverge from company fundamentals and during such periods the companies in Scottish Mortgage's portfolio may fall out of favour. No attempt will be made to mitigate short-term volatility and the Board will continue to stand resolutely behind the Managers during such times.

Whatever the precise trajectory of stock markets turns out to be over the coming years, the Board and the Managers strongly believe that attractive long term returns continue to be available to those who can turn time to their advantage. Scottish Mortgage offers investors the potential to share in the value created by some of the best growth businesses in the world over the coming decade, in new or old industries and whether they be public or private companies.

Finally, in addition to thanking my Board colleagues for their diligence over the year and James Anderson and Tom Slater for their insight and continuing success for shareholders, I would like to thank our professional advisers and the teams at Baillie Gifford that provide the support necessary to best look after your interests, and you, the shareholders, for your continued support.

Fiona McBain
Chairman
22 May 2018

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 2018.

	31 March 2018	31 March 2017	% change
Total assets (before deduction of debentures, long and short term borrowings)*	£6,673.5m	£5,383.2m	
Borrowings	£485.7m	£509.6m	
Shareholders' funds	£6,187.8m	£4,873.6m	
Net asset value per ordinary share (after deducting borrowings at fair value)*	439.9p	354.6p	24.1
Net asset value per ordinary share (after deducting borrowings at par)*	443.7p	359.0p	23.6
Net asset value per ordinary share (after deducting borrowings at book)*	443.5p	358.7p	23.6
Share price	442.2p	366.1p	20.8
FTSE All-World Index (in sterling terms)			0.4
Dividends paid and proposed per ordinary share	3.07p	3.00p	2.3
Revenue earnings per ordinary share	1.20p	1.07p	12.1
Ongoing charges ratio*	0.37%	0.44%	
Premium (after deducting borrowings at fair value)*	0.5%	3.2%	
Active share*	94%	96%	

Year to 31 March	2018	2017
Total returns (%)*		
Net asset value per ordinary share (after deducting borrowings at fair value)	25.0	38.1
Net asset value per ordinary share (after deducting borrowings at book)	24.5	37.6
Share price	21.6	40.9
FTSE All-World Index (in sterling terms)	2.9	33.1

Year to 31 March	2018	2018	2017	2017
Year's high and low	**High**	**Low**	**High**	**Low**
Share price	477.80p	361.50p	367.20p	246.90p
Net asset value per ordinary share (after deducting borrowings at fair value)*	480.08p	349.81p	357.44p	246.89p
Premium/(discount) (after deducting borrowings at fair value)*	5.5%	(5.6%)	5.0%	(2.9%)
Average sector discount (AIC Global Sector)	(2.1%)	(4.4%)	(4.3%)	(9.0%)

	31 March 2018	31 March 2017
Net return per ordinary share		
Revenue return	1.20p	1.07p
Capital return	85.80p	97.31p
Total return	**87.00p**	**98.38p**

* See Glossary of Terms on page 74.

Source: Morningstar/Baillie Gifford and relevant underlying index providers. See disclaimer on page 73.

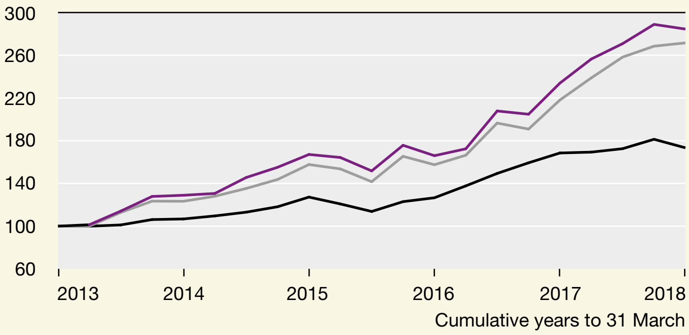
Past performance is not a guide to future performance.

Five Year Summary

The following charts indicate how Scottish Mortgage has performed relative to its benchmark* and the dividend against the retail price index (RPI) over the five year period to 31 March 2018.

Five Year Total Return Performance†

(figures rebased to 100 at 31 March 2013)



Source: Thomson Reuters#.

Share price total return

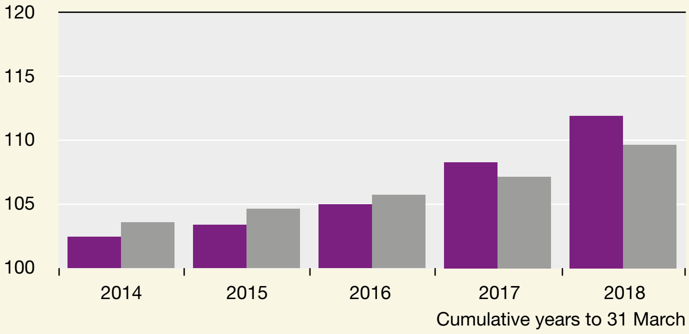
NAV (after deducting borrowings at fair value) total return

Benchmark* total return

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

Dividend and RPI Growth

(figures rebased to 100 at 31 March 2013)



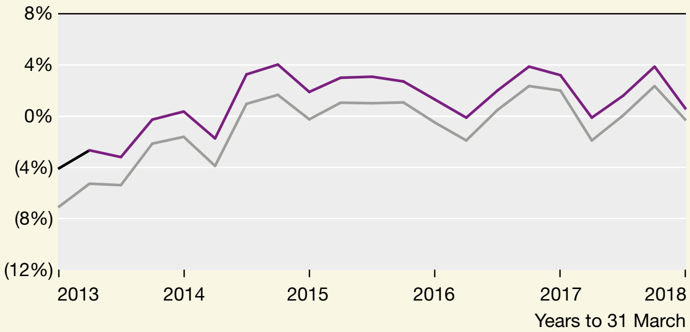
Source: Thomson Reuters/Baillie Gifford#.

RPI

Scottish Mortgage dividend

Premium/(Discount) to Net Asset Value†

(plotted on a monthly basis)



Source: Thomson Reuters/Baillie Gifford#.

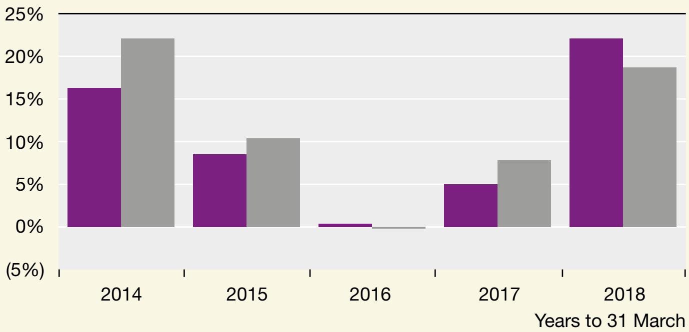
Scottish Mortgage (discount)/premium (after deducting borrowings at fair value)

Scottish Mortgage (discount)/premium (after deducting borrowings at par)

The (discount)/premium 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 any resultant discount but increases any resultant premium.

Annual Net Asset Value and Share Price Total Returns†

(relative to the benchmark total returns)



Source: Thomson Reuters#.

NAV (fair) return

Share price return

Past performance is not a guide to future performance.

† See Glossary of Terms on page 74.

See disclaimer on page 73.

Business Review

Business Model

Business and Status

The Company is an investment company within the meaning of section 833 of the Companies Act 2006 and carries on business as an investment trust. Investment trusts are UK public listed companies and their shares are traded on the London Stock Exchange. They invest in a portfolio of assets in order to spread risk. The Company has a fixed amount of share capital although, subject to shareholder approval sought annually, it may purchase its own shares or issue shares. The price of the Company's shares is determined, like other listed shares, by supply and demand.

The Company has been approved as an investment trust by HM Revenue & Customs subject to the Company continuing to meet the eligibility conditions. The Directors are of the opinion that the Company has continued to conduct its affairs so as to enable it to comply with the ongoing requirements of section 1158 of the Corporation Tax Act 2010 and the Investment Trust (Approved Company) Regulations 2011.

The Company is an Alternative Investment Fund (AIF) for the purposes of the EU Alternative Investment Fund Managers Directive.

Investment Objective

Scottish Mortgage carries on business as an investment trust. The objective is to maximise total return from a portfolio of long term investments chosen on a global basis enabling the Company to provide capital and dividend growth.

Investment Policy

Investment is predominantly in equities. The number of equity holdings will typically range between 50 and 100 and the portfolio can be relatively concentrated. 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. Portfolio concentration and levels of diversity are monitored by the Board on a regular basis. The maximum investment in any one holding is limited to 8% of total assets at the time of purchase.

A long term investment horizon is observed and little attention is paid to short term market trends when deciding strategy. 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.

The major part of the portfolio will be held in quoted equities with good liquidity. Investment may also be made in fixed interest securities, convertible securities, funds, unquoted entities and other assets based on the individual investment case. The maximum amount which may be invested in companies not listed on a public market shall not exceed 25 per cent of the total assets of the Company, measured at the time of purchase.

With prior approval of the Board, the Company may use derivatives for the purpose of efficient portfolio management (for the purpose of reducing, transferring or eliminating investment risk in its investment portfolio, including protection against currency risk) and for investment purposes. The maximum permitted investment in other UK listed investment companies in aggregate is 15% of gross assets.

The Company aims to achieve a greater return than the FTSE All-World Index (in sterling terms) over a five year rolling period or longer. This benchmark is a reference point for considering 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.

Borrowings are invested in equity markets when it is believed that long term investment considerations merit the Company taking a geared position. Apart from in exceptional market conditions the Company will not take out additional borrowings if, at the time of borrowing, this takes the level of gearing beyond 30% calculated in accordance with the Association of Investment Companies (AIC) guidelines. In any event, the Company will not exceed the limit on borrowings set out in its Articles of Association, which provide that the amount of all the Company's borrowings shall not, without the previous sanction of an ordinary resolution of shareholders, exceed one half of the aggregate issued and fully paid share capital and capital reserves of the Company and, in addition, that the Company may from time to time borrow for temporary purposes sums not exceeding 20% of the Company's issued and fully paid share capital.

The Managers' Core Investment Beliefs with respect to the Company are set out on page 17.

Details of investment strategy and activity this year can be found in the Chairman's Statement on pages 2 to 4 and in the Managers' Review on pages 11 to 16. A detailed analysis of the Company's investment portfolio is set out on pages 18 to 24.

Liquidity Policy

The Board recognises that it is in the long term interests of shareholders to manage discount/premium volatility. Whilst the Board believes that the primary driver of discounts over the longer term is performance, the relationship between the Company's NAV and share price can be impacted in the shorter term by an imbalance of buyers and sellers in the market.

The Board does not have formal discount or premium targets at which shares will be bought back or sold respectively, as it believes that the announcement of specific targets is likely to hinder rather than help the successful execution of a buyback/issuance policy. However it will undertake to aid the efficient functioning of the market in its shares in normal market conditions, to act when such a significant imbalance in supply and demand for the Company's shares exists.

In furtherance of this policy, during the year the Company bought back a total of 14,006,276 shares into treasury. Between 1 April and 9 May 2018, no further shares were bought back. During the year the Company sold 50,800,000 shares from treasury at a premium to the net asset value. Between 1 April and 9 May 2018, a further 8,800,000 shares were sold from treasury at a premium to net asset value.

In order to implement this strategy again over the coming year, the Directors will seek the relevant authorities from shareholders at the forthcoming AGM.

To prevent substantial demand for the Company's shares pushing them to trade at a significant premium to the underlying NAV, the Board will again seek shareholder authority to allot equity securities, or sell treasury shares, for cash without having to offer such shares to existing shareholders pro-rata to their existing holdings, up to a total amount representing approximately 10 per cent. of the Company's total issued Ordinary Share capital.

Having regard to guidance previously received from the UKLA and consistent with the approach adopted in previous years, the Directors wish to ensure that any such sale of Ordinary Shares held in treasury or issue of new Ordinary Shares will not result in an inadvertent breach of the Listing Rules by virtue of the UKLA determining that 'net asset value' should be calculated on the basis of debt valued at par value, instead of the general market understanding that net asset value is determined on the basis of debt valued at fair value. The Directors will therefore also seek to renew the authority previously granted to issue shares at a discount to net asset value with debt at par value, in order to continue to protect against any such inadvertent breach. The Directors wish to stress that they will in no circumstances seek to issue Ordinary Shares (including Ordinary Shares held in treasury) for cash at a price below the net asset value per share on the basis of debt valued at fair value.

The Directors are further seeking shareholders' approval at the Annual General Meeting to renew the authority to purchase up to 14.99 per cent. of the Ordinary Shares in issue from the date of grant of the authority to the date of the Annual General Meeting in 2019. Such purchases will only be made at a discount to the prevailing net asset value. Any such shares which are bought back may be held in treasury and may subsequently then either be sold for cash or cancelled.

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.

An explanation of these measures can be found in the Glossary of Terms on page 74.

The one, five and ten year records of the KPIs are shown on pages 5, 6 and 25.

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 55, 61 to 64. In addition, loan facilities are in place which are also shown on page 55.

During the year the US$165 million one year revolving loan with The Royal Bank of Scotland plc ('RBS') was repaid and replaced with a US$40 million one year revolving loan with RBS and the US$85 million three year fixed rate loan with RBS was re-financed with a two year revolving US$85 million loan with RBS.

During the year the Company issued the following private placement unsecured loan notes:

— £45 million at a coupon of 3.05% maturing on 7 April 2042

— £30 million at a coupon of 3.30% maturing on 6 April 2044

— £30 million at a coupon of 3.12% maturing on 6 April 2047

A further unsecured loan note was agreed for funding on 30 September 2020 to refinance the £20 million 8–14% stepped interest debenture stock maturing on 30 September 2020:

— £20 million at a coupon of 3.65% maturing on 6 April 2044

Additionally, following the year end, the RBS US$40 million one year revolving loan was refinanced on 11 April 2018 with a US$80 million three year revolving loan with RBS.

Principal Risks

As explained on page 33 there is a process for identifying, evaluating and managing the risks faced by the Company on a regular basis. The Directors have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity. A description of these risks and how they are being managed or mitigated is set out below:

Financial Risk – the Company's assets consist mainly of listed securities and its principal financial 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 19 to the Financial Statements on pages 58 to 64. To mitigate these risks, the Board considers at each meeting various metrics including portfolio concentration, regional and industrial sector weightings, top and bottom stock contributors to performance and contribution to performance by industrial sector. The Managers provide the rationale for stock selection decisions and both the investment strategy and portfolio risk are formally considered in detail at least annually.

Unlisted Investments – the Company's risk could be increased by its investment in unlisted investments. These assets may be more difficult to buy or sell, so changes in their prices may be greater than for listed investments.

To mitigate this risk, the Board considers the unlisted investments in the context of the overall investment strategy and provides guidance to the Managers on the maximum exposure to unlisted investments. The investment policy limits the amount which may be invested in unlisted companies to 25 per cent of the total assets of the Company, measured at time of purchase.

Investment Strategy Risk – pursuing an investment strategy to fulfil the Company's objective which the market perceives to be unattractive or inappropriate, or an ineffective implementation of an attractive or appropriate strategy, may lead to reduced returns for shareholders and, as a result, a decreased demand for the Company's shares. This may lead to the Company's shares trading at a widening discount to their net asset value. To mitigate this risk, the Board regularly reviews and monitors the Company's objective and investment policy and strategy, the investment portfolio and its performance, the level of discount/premium to Net Asset Value at which the shares trade and movements in the share register.

Discount Risk – the discount/premium at which the Company's shares trade relative to its net asset value can change. The risk of a widening discount is that it may undermine investor confidence in the Company. To manage this risk, the Board monitors the level of discount/premium at which the shares trade and the Company has authority to buy back its existing shares when deemed by the Board to be in the best interests of the Company and its shareholders.

Regulatory Risk – failure to comply with applicable legal and regulatory requirements such as the tax rules for investment trust 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. To mitigate this risk, Baillie Gifford's Business Risk, 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. Shareholder documents and announcements, including the Company's published Interim and Annual Report and Financial Statements, are subject to stringent review processes, and procedures are in place to ensure adherence to the Transparency Directive and the Market Abuse Directive with reference to inside information.

Custody and Depositary Risk – safe custody of the Company's assets may be compromised through control failures by the Depositary, including cyber security incidents. To mitigate this risk, the Board receives six monthly reports from the Depositary confirming safe custody of the Company's assets held by the Custodian. Cash and portfolio holdings are independently reconciled to the Custodian's records by the Managers. The Custodian's audited internal controls reports are reviewed by Baillie Gifford's Internal Audit Department and a summary of the key points is reported to the Audit Committee and any concerns investigated. In addition, the existence of assets is subject to annual external audit.

Operational Risk – failure of Baillie Gifford's 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. To mitigate this risk, Baillie Gifford has 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 Baillie Gifford's Report on Internal Controls and the reports by other key third party providers are reviewed by Baillie Gifford on behalf of the Board.

Leverage Risk – the Company may borrow money for investment purposes. If the investments fall in value, any borrowings will magnify the impact of this loss. If borrowing facilities are not renewed, the Company may have to sell investments to repay borrowings. To mitigate this risk, all borrowings require the prior approval of the Board and leverage levels are discussed by the Board and Managers at every meeting. Covenant levels are monitored regularly. The majority of the Company's investments are in quoted securities that are readily realisable. Further information on leverage can be found on page 69 and the Glossary of Terms on page 74.

Political Risk – Political developments are closely monitored and considered by the Board. The Board has noted the Government's intention that the UK should leave the European Union on 29 March 2019. Whilst there is considerable uncertainty at present, the Board will continue to monitor developments as they occur and assess the potential consequences for the Company's future activities.

Viability Statement

In accordance with provision C2.2 of the UK Corporate Governance Code that the Directors assess the prospects of the Company over a defined period, the Directors have elected to do so over a period of 10 years. The Directors continue to believe this period to be appropriate as the investment objective of the Company is aimed at investors with a 5 to 10 year investment horizon and, subject to the assumptions detailed below, the Directors do not expect there to be any significant change to the current principal risks facing Scottish Mortgage nor to the adequacy of the controls in place to effectively mitigate those risks. Furthermore, the Directors do not reasonably envisage any change in strategy or any events which would prevent the Company from operating over a 10 year period.

Assumption 1

There is no significant adverse change to the regulatory environment and tax treatment enjoyed by UK investment trusts.

Assumption 2

The Company does not suffer sustained inadequate relative investment performance with the current or any successor fund managers such that the Company fails to maintain a supportive shareholder base.

Using the long term expectations of shareholders as the main determinant of the chosen assessment period, the Directors have conducted a robust assessment of the principal risks and uncertainties facing the Company (as detailed on pages 8 and 9) and in particular the impact of market risk where a significant fall in global equity markets would adversely impact the value of the investment portfolio. In reviewing the viability of the Company, the Directors have considered the key characteristics of the Company which include an investment portfolio that takes account of different degrees of liquidity, with moderate levels of debt and a business model where substantially all of the essential services required are outsourced to third party providers; this outsourcing structure allows key service providers to be replaced at relatively short notice where necessary.

The Directors have also considered the Company's leverage and liquidity in the context of fixed term debentures, the private placement loan notes issued during the year and short term bank loans, the revenue projections, the readily realisable nature of the listed portfolio which could be sold to provide funding if necessary and its stable closed ended structure. Specific leverage and liquidity stress testing was conducted during the year. The Directors have concluded that these sustainable long term characteristics provide a high degree of flexibility to the Company and afford an ability to react so as to mitigate both controllable and most external uncontrollable risks and events in order to ensure the long term prosperity of the business.

Based upon the Company's processes for monitoring operating costs, share price premium/discount, the Managers' compliance with the investment objective, the portfolio risk profile, leverage, counterparty exposure, liquidity risk and financial controls, the Board believes that the prospects of the Company are sound and the Directors are able to confirm that they have a reasonable expectation that it will continue in operation and meet its liabilities as they fall due over a period of at least 10 years.

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, there are no disclosures to be made in respect of employees, human rights and community issues. Further information on the Company's approach to environmental, social and governance (ESG) matters is provided on page 34.

Gender Representation

The Board comprises five Directors, three male and two female. The Company has no employees. The Board's policy on diversity is set out on page 33.

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 34.

The Company considers that it does not fall within the scope of the Modern Slavery Act 2015 and it is not, therefore, obliged to make a slavery and human trafficking statement. In any event, the Company considers its supply chains to be of low risk as its suppliers are typically professional advisers. A statement by the Managers under the Act has been published on the Managers' website at www.bailliegifford.com.

Future Developments of the Company

The outlook for the Company is set out in the Chairman's Statement on pages 2 to 4 and the Managers' Report on pages 11 to 16.

The Strategic Report which includes pages 2 to 25 was approved by the Board of Directors and signed on its behalf on 22 May 2018.

Fiona McBain
Chairman

Managers' Review

As the late, great Hans Rosling wrote "*It is not a question of intelligence. Everyone seems to get the world devastatingly wrong. Not only devastatingly wrong but systematically wrong.*" We agree. Therefore highly educated but deluded human beings believe the world to be far worse than it is given the advances in global health, wealth and well-being that 'are too slow, too fragmented, or too small one-by-one to ever qualify as news'. It's this 'secret silent miracle of human progress' that convinces us to remain optimistic about the investment opportunities despite the understandably lurid headlines of our age.

But the investment world is devastatingly and systematically wrong in quite another manner. It does not understand the nature of investment returns, their origins or what may predict their occurrence. Investment returns are not generated by surveying the entire available field and adjusting correlations to the index by overweighting and underweighting according to marginal advantages and disadvantages, perceived risk of volatility, macroeconomic trends or comparative valuation.

Investment is a far more dramatic and extreme universe than that. It's not a well-behaved machine that cranks out returns to owners of all equities merely pausing to reflect the supposed laws of asset pricing relative to cash and bonds. Instead quite extraordinary returns flow to a tiny fraction of the companies in existence. This is articulated in more detail by Tom Slater later in this Report.

The companies that have the opportunity to deliver exceptional returns tend to share initial characteristics. They address potentially huge markets at early stages, they are run for the long-term by founders or their descendants, and they zig and zag to adjust to developing circumstances rather than imposing a spread sheet on reality. It's these sort of companies that we need to identify.

Moreover, great results are only attainable if patience is the mantra for investors as well as for founders. It's the persistent compounding of exponential returns that matters. So our task is not just to identify companies that possess extraordinary characteristics. It's to own them for a prolonged period. All too often excessive fear of events and headlines and a misguided desire to lock in past profits lead investors to chop down trees when they are but saplings. All great companies endure through periods of struggle. All great shares endure periods of dramatic underperformance. It is only in retrospect that success appears smooth and inevitable.

What is so remarkable about this era for growth investors is that we have been offered the chance to own a set of compelling companies that have the characteristics that denote the potential for greatness at extreme scale. The combination of digitalisation and globalisation has led to hitherto unimaginable opportunities for a cadre of founder led companies of the utmost ambition. It's therefore natural enough that the corporate trees can continue to grow at previously incomprehensible scale. It's appropriate yet again to cite Amazon in all of these regards. It's not normal for a company of its size to achieve 43% sales growth, it's abnormal to have a cloud computing business with accelerating growth as it hits a $20 billion run rate or to see the Prime subscription service exceed 100m customers. These are all opportunities that Amazon invented.

Not Just Silicon Valley

Silicon Valley attracts headlines. Its companies have also contributed disproportionately to the returns enjoyed by global investors over recent years. But for Scottish Mortgage shareholders the focus on this area can become a little too intense. This isn't just a reference to the rather different culture nurtured by Seattle's Amazon or San Diego's Illumina but also to much wider considerations.

We should stress that our major investments are not confined to the West Coast of America – let alone to Silicon Valley. We go wherever any companies demonstrate the characteristics that offer the potential for greatness at scale. More often than not such companies herd together in clusters of mutual emulation.

Amazon e-commerce.

© Bloomberg/Getty Images.

Amazon Web Services.

© Getty Images Europe.

Hangzhou, China.

Eastern China

Over the next twenty years we consider it likely that Chinese companies will create the most value. It seems equally likely that almost all of these will be found in the hubs of Eastern China. Shenzhen, Hangzhou (not Shanghai) and Beijing appear the epicentres of potential. As in America, the concentration of returns will be notable not just geographically but in the rise of a small number of remarkable companies.

This has certainly been the pattern of the last twelve months. During the period under review Alibaba and Tencent came to be recognised for what they are – dominant, thoughtful and highly sophisticated network companies with the technological and managerial abilities to extend their leadership into most segments of the Chinese economy and increasingly into international markets.

We think these two behemoths are at least the overall equal of their American peers in vision and abilities. They are both more at ease with their home society and government than is the case in America. Unlike most of their US counterparts both Alibaba and Tencent are prepared to reinvest in their businesses in order to redeploy their extraordinary cash flows. We far prefer this policy to the passive generation of vast cash piles. Only Amazon of the US internet giants has a similar attitude. Tencent and Alibaba share with Amazon the ability to grow at 40–50% over long periods of time. So this is no longer geographically confined to America but it is historically unprecedented.

As elsewhere the recent pattern has been for the next generation of Chinese companies to grow up in private. But privacy should not be mistaken for lack of ambition. Given that funding at scale is available from Tencent, Alibaba and Baidu as well as a vigorous venture capital system, remaining unquoted is no obstacle to scale and, as elsewhere, allows investment to occur without the impatience of public markets. We can only reflect on the comparative appeal of the frequently hysterical and always opinionated daily news gauntlet that Tesla endures versus the quiet progress of its Chinese equivalent NIO (in which we now have a holding). We would expect our exposure to Chinese unquoted companies to grow over the coming year.

We see no evidence that the Chinese economic and corporate miracle is fading – indeed rather the reverse. The increasing scale, wealth, education and sophistication of the domestic market are likely to mean that the opportunities will become more, rather than less, alluring. Just as Scottish Mortgage 100 years ago had to confront America becoming the leading economy and the stock market with the most opportunities so we must acknowledge a similar transition today. It would be no surprise if China replaces the United States as the leading geographical location for Scottish Mortgage's assets. 100 years ago there was much murmuring in the Annual Reports that Canada or Argentina might be more appealing. We are more single minded.

Surprising Successes

Our commitment to China and to the beneficiaries of exponential change has been consistent and frequently discussed in these pages. What may be less well-known to shareholders is that we've been fortunate enough to own a group of European companies that have delivered quite excellent business and share price performance over a prolonged period. Sometimes the degree of success has surprised the Managers.

Such is the case in our ownership of first Fiat Chrysler and then its Ferrari spin-off. Given the economics and maturity of the internal combustion engine this may seem unlikely territory for growth investors – so much so that we acknowledge that we may have been the beneficiaries of luck rather than good judgment. But we have believed for many years that Fiat Chrysler has outstanding leadership. It is prepared to be radical in thinking about the auto industry from first principles. This led to a preparedness to abandon the search for volumes to focus instead on a limited number of special brands. Ferrari itself is the lodestar of this approach with a mere 8,398 cars translating into operating earnings of €775m in 2017. Both figures have the potential to grow in the decades ahead.

Similar excellence in luxury brand development has been the driving force behind the progress of Kering. The growth of its Gucci division has been exceptional. But behind this rests a patient and thoughtful approach that has created a luxury clothing group that should endure into future generations. It is tribute to the sustained efforts of the Pinault family.

It is often assumed that whilst Europe retains historic brands, it lacks technology expertise and is bereft of businesses of the scale of America and China. This is an exaggeration. The most impressive European technological and commercial feat of the last thirty years has been the emergence of ASML, from a near bankrupt affiliate of Philips, to global leadership and now dominance of the lithography industry. Without ASML's achievements Moore's Law would have stumbled. Without Moore's Law the transformation of communications and the internet would have withered away.

But though ASML enabled the rise of the global platform companies, until now Europe could not boast such a company of its own. But it is possible that Spotify may fill this void. We have been investors in Spotify as a private company during a phase of intense and challenging work to establish music streaming with consumers and as a business model in the face of the entrenched interests of labels and competition from Apple, Amazon and Tencent. We suspect that Spotify would not have succeeded in becoming the global leader if it had been a quoted company during this period. But we are happy that it has now emerged into public markets. We have purchased more shares since the Scottish Mortgage year end.

Ferrari GTC4 Lusso.

Tesla Model 3.

NIO ES8.

Current Challenges

We regard it as inevitable that there will always be major holdings in your portfolio that are topics of either popular concern or intense investment discussion in our own minds. Sometimes these categories overlap. In recent months, we have found that external questioning has been almost exclusively focussed on just two stocks – Facebook and Tesla – which have generated headline after headline. Thus far this attention has generated little reaction in stock prices but some comments on each may be worthwhile.

We have reduced our holding in Facebook. This was initially provoked by a concern dating to last summer that Facebook was too focussed on monetising its astonishing reach solely through advertising. We thought this was both unduly limiting and potentially mistaken. We did not expect this anxiety to be translated into public drama so rapidly. We continue to discuss the relevant ethical and financial issues with management but for now we are content to be shareholders but at a lower level.

Tesla is a rather different case. We need to be clear that the ‘production hell’ that Elon Musk spoke of entering has been both more persistent and at a lower circle of hell than we thought likely. But we do not believe that it is likely to fundamentally endanger the intense brand loyalty that has been built. We still believe that the business model is intact. We cannot be certain in these opinions but we think the rewards for shareholders if they prove to be justified considerably outweigh the risks. As ever we do not want to interrupt the potential for exponential compounding. We therefore believe it appropriate to resist the temptation to give into hysterical headlines and storm of hedge fund criticism that is the daily round at present. We intend to endure.

Future Challenges

We are fully aware that Scottish Mortgage has enjoyed the rewards of an uncommonly long bull market. Although we remain delighted at the progress and prospects of our portfolio it would be unrealistic to exclude the possibility of market setbacks. Indeed it would be foolish to rule out such an occurrence at any time.

But beyond the compulsion to take profits that most shareholders exhibit we do not share the presumption that Scottish Mortgage is doomed to suffer unduly in a bear market. To us the underlying cause of the next market retreat is most likely to be the dawning realisation that broad swathes of the stock market that have been assumed to be strong and stable in difficult market conditions are instead acutely vulnerable to severe setbacks. From consumer staples, to traditional retailers to TV moguls to oil and utility behemoths to traditional pharmaceuticals and back to banks and insurance companies we see long-standing business models that are already showing signs of intense strain. In the next decade we fear that strain will morph into permanent collapse.

It seems to us that this is a far greater cause for concern than the perennial and excessive angst that the valuation of the great global growth companies that we are invested may be ahead of some traditional metrics. We believe that Scottish Mortgage is insurance against a world utterly changed just as much as it is the beneficiary of extraordinary corporate achievements.

James Anderson

Evolution of Core Beliefs

We first stated our Core Beliefs in the Annual Report of 2013 and we've included this statement in our reports ever since. It still accurately captures how we approach investment. This year I've updated it for the developments in our thinking and evolution of our investment philosophy over the intervening years. The original stands. What follows is an addendum.

We are optimists. In a world where limiting volatility and avoiding downside is the dominant investor mentality, we focus unashamedly on the drivers and implications of corporate success. Limiting volatility can make sense for an overall investment portfolio but we doubt the benefits of using equities to meet this objective. The asymmetric payoff structure (you can make far more if you're right about a stock than you can lose if you're wrong) is the fundamental attraction of investing in equity markets. Whilst we have long believed in the impact of a small number of exceptional companies, even we are surprised by how narrowly returns have been shown to extend within the market. Our own research demonstrates that in the past thirty years approximately five per cent. of stocks have returned at least five-fold in any five-year period. Over longer time horizons, this power law is even more dramatic. Academic work on the past ninety years of US data shows that over half of the excess return from equities came from just 90 companies. Investors enjoy little (if any) reward for taking the risk of owning the median stock in the market. Instead it is the outsized impact of a small number of exceptional companies that dominate the payoff structure.

In this context we have defined our core task more narrowly: to identify companies that have sufficient opportunity to deliver such outlying returns and to own them for long enough without interference so that the return accrues to our shareholders. We previously noted our investment time horizon to be at least five years. In practice, for businesses where our conviction has remained steadfast and our difference from the market view is clear, we have held the shares for far longer. Today all of our top ten holdings have been held for more than five years and two have been held for more than ten.

Whilst listed equity markets currently remain the principle focus of our investments, the nature of capital markets has changed and our search for outliers has moved with it. Some of our most successful investee companies have benefited from (and indeed created) new growth models with dramatically lower financing requirements than has been the case historically. Access to online distribution has grown the addressable market for breakthrough businesses by an order of magnitude. The ability to harness third party infrastructure has drastically reduced the capital intensity of growth. This has made new companies less dependent on external financing. As a consequence, their boardrooms are not dominated by early financial investors looking to realise their gains and these companies are remaining private longer. They are being selective about their shareholders and they are reluctant to accept the burdens that accompany public status.

We are determined to own the most promising Growth companies in the world. To maintain our opportunity set we have expanded our operations in private markets. This has little impact on our investment process. Access to fluctuating daily quotations for our holdings is more often a distraction than an advantage for a fund with permanent capital. We are preoccupied with company fundamentals and increasingly indifferent to a company's private or public status. As access to the most promising private companies is dependent on relationships and reputation our task becomes more important, as it is much harder for our shareholders to invest directly. Our scale and commitment to low costs allows us to do this without changing our fee structure.

As we make these investments we are providing more primary capital to businesses and directly funding investment in future economic growth. The role of public equity markets in providing such investment capital has diminished. Declining holding periods and frenzied speculation around newsflow is the norm. More insidiously, the demand for immediate returns pressures companies to pay out their cashflows to shareholders rather than investing in their future. Professional management teams incentivised to maximise share prices have been happy to oblige, resulting in a declining proportion of cash flow being devoted to research and development or capital expenditure across the market. Such investments are needed more than ever in a world that is experiencing rapid change. Our holdings in public markets are heavily focused on companies whose ownership or management structure allows them to ignore such demands.

Whilst we expressed our scepticism of the value of routine information in our original document, we didn't articulate where more useful counsel might lie or suggest that we ought to play our part in ensuring its existence. Some of you may have attended the book festivals we sponsor or read some of the shortlisted titles for the Baillie Gifford Prize for Non-fiction. We have invested in supporting interesting authors and sought to enhance our investment thinking with their insight. We have built relationships with academics and universities. We are funding research which we hope will inform our long run thinking on companies. At the same time, our time horizon is facilitating a different type of relationship with the management teams with whom we invest. They find little of value or interest in the endless cycle of quarterly updates. They delight in having less frequent and more in-depth discussion about the longer-term development of their business. Getting to listen to the entrepreneurs and visionaries that have built some of these outstandingly successful franchises is a hugely valuable input to our investment approach.

In turn, this is challenging us to re-evaluate our long-held belief that there is no opportunity for informational advantage in markets. Such inputs seem largely neglected in a world where 'colour on the quarter's numbers' is the main preoccupation of so-called investors. For instance, we first invested in Alibaba back in 2012 as a private company. Through our patient ownership and ongoing support, we have earned the opportunity to speak with the company's senior management. We believe the growth of the Chinese consumer economy is a transformational force in the global economy and there is no one better placed to help us understand its implications.

Dialogue with management is a valuable input but the relationship extends in both directions. The investment management industry has ceded much of its role in the governance of companies to the vested interests of activist investors. We must do better. Ensuring strong governance and engaging with our holdings on matters of substance is our responsibility. More than that, it is essential if we are to be seen as attractive shareholders by our investee companies and if we are to maximise the returns we can generate on your behalf.

Tom Slater

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 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 become 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 111 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 capitalisation 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 capitalisation) 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 (0.30% on the first £4 billion of assets, and 0.25% thereafter – please see page 28) and ongoing charges ratio (0.37% as at 31 March 2018) 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 an ongoing charges ratio of 0.37% 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% then this is the difference between removing approximately 4% 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 2018

Name	Business	Fair value 31 March 2018 £'000	% of total assets	Absolute performance † %	Contribution to absolute performance # %	Fair value 31 March 2017 £'000
Amazon.com	Online retailing and cloud computing	661,339	9.9	45.5	3.7	510,086
Tencent Holdings	Internet services	500,986	7.5	62.7	3.7	308,730
Alibaba Group	Online retailing and financial services	497,643	7.5	51.5	2.9	273,626
Illumina	Biotechnology equipment	433,312	6.5	23.5	1.4	318,103
Tesla Inc	Electric cars, autonomous driving and solar energy	324,503	4.9	(14.8)	(0.5)	366,984
Baidu	Online search engine	265,268	4.0	15.4	1.0	237,505
Inditex	Global clothing retailer	239,840	3.6	(19.6)	(0.7)	297,098
Kering	Luxury goods producer and retailer	231,740	3.5	66.8	1.7	104,970
ASML	Lithography	207,437	3.1	33.1	0.7	110,439
Ferrari	Luxury automobiles	195,553	2.9	44.6	1.4	148,851
Netflix	Subscription service for TV shows and movies	195,159	2.9	78.1	1.4	98,605
Zalando	International online clothing retailer	151,205	2.3	19.8	0.5	108,578
Nvidia	Visual computing	143,346	2.2	90.3	1.2	51,904
Ctrip.com	Travel agent	137,095	2.1	(15.4)	(0.4)	131,093
Facebook	Social networking site	130,886	2.0	0.5	0.6	257,167
Alphabet	Holding company for Google and associated ventures	128,777	1.9	11.1	0.6	199,136
Bluebird Bio Inc	Provider of biotechnological products and services	124,535	1.9	67.4	0.8	68,486
Kinnevik	Investment company	108,283	1.6	23.2	0.4	90,981
Atlas Copco	Engineering	106,975	1.6	10.6	0.2	107,723
Workday	Enterprise information technology	93,244	1.4	36.2	0.5	60,431
Intuitive Surgical	Surgical robots	89,464	1.3	44.1	0.7	75,393
Housing Development Finance Corporation	Indian mortgage provider	84,710	1.3	9.1	0.2	78,537
Delivery Hero	Online food delivery service	67,124	1.0	53.8 *	0.4	–
Renishaw	Electronic equipment	65,218	1.0	46.4	0.5	45,076
BASF	Chemicals	62,695	0.9	(6.2)	(0.2)	118,852
Spotify Technology SA ⓤ	Online music streaming service	62,505	0.9	71.2	0.4	22,428
Rocket Internet	Internet start-up factory	61,456	0.9	59.3	0.4	38,422
Uptake Technologies Inc Series D Pref. ⓤ	Designs and develops enterprise software	60,814	0.9	(4.7) *	–	–
Svenska Handelsbanken	Banking	55,543	0.8	(13.6)	(0.1)	48,280
Grail Inc Series B Pref. ⓤ	Clinical stage biotechnology company	53,485	0.8	(10.8)	(0.1)	59,978
		5,540,140	**83.1**			

† Absolute performance (in sterling terms) has been calculated on a total return basis over the period 1 April 2017 to 31 March 2018.

Contribution to absolute performance (in sterling terms) has been calculated to illustrate how an individual stock has contributed to the overall return. It is influenced by both share price performance and the weighting of the stock in the portfolio, taking account of any purchases or sales over the period.

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

ⓤ Denotes unlisted investment.

Source: Baillie Gifford/StatPro and underlying data providers. See disclaimer on page 73.

Past performance is not a guide to future performance.

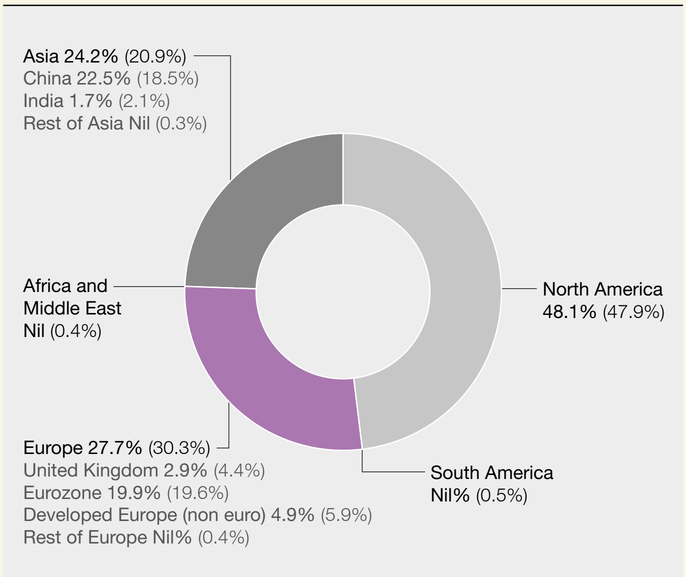
Investment Changes

	Valuation at 31 March 2017 £'000	Net acquisitions/ (disposals) £'000	Appreciation/ (depreciation) £'000	Valuation at 31 March 2018 £'000
Equities:				
North America	2,511,686	71,834	592,363	3,175,883
Europe				
United Kingdom	218,562	(62,601)	41,819	197,780
Eurozone	1,055,008	102,864	177,366	1,335,238
Developed Europe (non euro)	316,516	(24,741)	41,531	333,306
Rest of Europe	24,054	(22,534)	(1,520)	–
Africa and the Middle East	19,465	(18,938)	(527)	–
Asia				
China	997,187	146,736	348,155	1,492,078
India	110,924	(5,136)	5,942	111,730
Rest of Asia	17,659	(17,079)	(580)	–
Total equities	**5,271,061**	**170,405**	**1,204,549**	**6,646,015**
Brazilian bonds	27,277	(26,076)	(1,201)	–
Total bonds	**27,277**	**(26,076)**	**(1,201)**	–
Total investments	**5,298,338**	**144,329**	**1,203,348**	**6,646,015**
Net liquid assets	84,819	(50,903)	(6,460)	27,456
Total assets	**5,383,157**	**93,426**	**1,196,888**	**6,673,471**

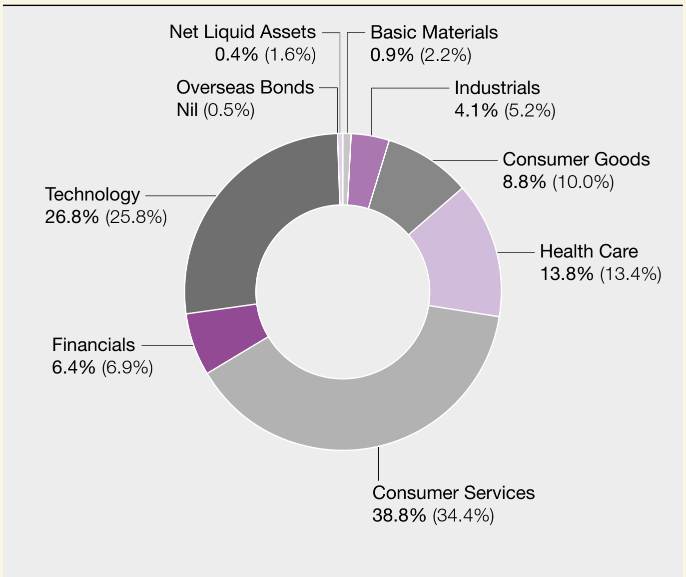
The figures above for total assets are made up of total net assets before deduction of debentures, long and short term borrowings.

Distribution of Total Assets†

Geographical 2018 (2017)



Sectoral 2018 (2017)



† Total assets represents total net assets before deduction of debentures, long and short term borrowings.

Holding Period of Investments as at 31 March 2018

More Than 5 Years

Name		% of total assets
Amazon.com	❿	9.9
Tencent Holdings		7.5
Alibaba Group		7.5
Illumina		6.5
Baidu		4.0
Inditex		3.6
Kering	❿	3.5
ASML		3.1
Ferrari		2.9
Ctrip.com		2.1
Facebook		2.0
Alphabet	❿	1.9
Atlas Copco	❿	1.6
Workday		1.4
Intuitive Surgical		1.3
Housing Development Finance Corporation	❿	1.3
Renishaw		1.0
BASF	❿	0.9
Prudential		0.3
Rolls-Royce Group	❿	0.3
Innovation Works Development Fund	ⓤ	0.3
WI Harper Fund VII	ⓤ	0.1
Level E Maya Fund		0.1
Total		**63.1**

2–5 Years

Name		% of total assets
Tesla Inc		4.9
Netflix		2.9
Zalando		2.3
Bluebird Bio Inc		1.9
Kinnevik		1.6
Spotify Technology SA	ⓤ	0.9
Rocket Internet		0.9
Dropbox		0.7
HelloFresh		0.7
TransferWise	ⓤ	0.6
You & Mr Jones	ⓤ	0.5
JAND Inc (Warby Parker)	ⓤ	0.5
Home24	ⓤ	0.4
Essence Healthcare	ⓤ	0.4
Alnylam Pharmaceuticals		0.4
Flipkart	ⓤ	0.4
Internet Plus Holdings	ⓤ	0.4
Funding Circle	ⓤ	0.4
Thumbtack	ⓤ	0.4
Palantir Technologies	ⓤ	0.3
CureVac	ⓤ	0.3
Airbnb	ⓤ	0.3
ZocDoc	ⓤ	0.3
Anaplan	ⓤ	0.2
SurveyMonkey	ⓤ	0.2
Flatiron Health	ⓤ	0.2
Udacity	ⓤ	0.2
Sinovation Fund III	ⓤ	0.1
WI Harper Fund VIII	ⓤ	0.1
Total		**23.4**

Less Than 2 Years

Name		% of total assets
Nvidia		2.2
Delivery Hero		1.0
Uptake Technologies	ⓤ	0.9
Svenska Handelsbanken		0.8
Grail	ⓤ	0.8
Ginkgo Bioworks	ⓤ	0.6
Denali Therapeutics		0.6
HeartFlow	ⓤ	0.6
Lyft	ⓤ	0.5
Tableau Software		0.5
Rubius Therapeutics	ⓤ	0.4
Carbon	ⓤ	0.4
Unity Biotechnology	ⓤ	0.4
Bolt Threads	ⓤ	0.4
Indigo Agriculture	ⓤ	0.4
Auto1	ⓤ	0.3
Mobike	ⓤ	0.3
Clover Health	ⓤ	0.3
NIO	ⓤ	0.3
Eventbrite	ⓤ	0.3
Under Armour		0.3
Intarcia Therapeutics	ⓤ	0.3
Marketaxess Holdings		0.2
Orchard Therapeutics	ⓤ	0.2
Vir Biotechnology	ⓤ	0.1
ARCH Ventures Fund IX	ⓤ	<0.1
Total		**13.1**

ⓤ Denotes unlisted security.

❿ Denotes security held for more than 10 years.

Net liquid assets represent 0.4% of total assets. See Glossary of Terms on page 74.

List of Investments as at 31 March 2018

Name	Business	Fair value 31 March 2018 £'000	% of total assets	Contribution to absolute performance* %	Notes†	Fair value 31 March 2017 £'000
Amazon.com	Online retailing and cloud computing	661,339	9.9	3.7		510,086
Tencent Holdings	Internet services	500,986	7.5	3.7		308,730
Alibaba Group	Online retailing and financial services	497,643	7.5	2.9	Significant addition	273,626
Illumina	Biotechnology equipment	433,312	6.5	1.4		318,103
Tesla Inc	Electric cars, autonomous driving and solar energy	324,503	4.9	(0.5)		366,984
Baidu	Online search engine	265,268	4.0	1.0		237,505
Inditex	Global clothing retailer	239,840	3.6	(0.7)		297,098
Kering	Luxury goods producer and retailer	231,740	3.5	1.7	Significant addition	104,970
ASML	Lithography	207,437	3.1	0.7	Significant addition	110,439
Ferrari	Luxury automobiles	195,552	2.9	1.4		148,851
Netflix	Subscription service for TV shows and movies	195,159	2.9	1.4		104,970
Zalando	International online clothing retailer	151,205	2.3	0.5		108,578
Nvidia	Visual computing	143,346	2.2	1.2	Significant addition	51,904
Ctrip.com	Travel agent	137,095	2.1	(0.4)	Significant addition	131,093
Facebook	Social networking site	130,886	2.0	0.6	Significant reduction	257,167
Alphabet	Holding company for Google and associated ventures	128,777	1.9	0.6	Significant reduction	199,136
Bluebird Bio Inc	Provider of biotechnological products and services	124,535	1.9	0.8		68,486
Kinnevik	Investment company	108,283	1.6	0.4		90,981
Atlas Copco	Engineering	106,975	1.6	0.2		107,723
Workday	Enterprise information technology	93,244	1.4	0.5		60,431
Intuitive Surgical	Surgical robots	89,464	1.3	0.7	Significant reduction	75,393
Housing Development Finance Corporation	Indian mortgage provider	84,710	1.3	0.2		78,537
Delivery Hero	Online food delivery service	67,124	1.0	0.4	New purchase	–
Renishaw	Electronic equipment	65,218	1.0	0.5		45,076
BASF	Chemicals	62,695	0.9	(0.2)	Significant reduction	118,852
Spotify Technology SAⓤ	Online music streaming service	62,505	0.9	0.4	Increase in fair valuation and significant addition	22,428
Rocket Internet	Internet start-up factory	61,456	0.9	0.4		38,422
Uptake Technologies Inc Series D Pref.ⓤ	Designs and develops enterprise software	60,814	0.9	–	New purchase	–
Svenska Handelsbanken	Banking	55,543	0.8	(0.1)	Significant addition	48,280
Grail Inc Series B Pref.ⓤ	Clinical stage biotechnology company	53,485	0.8	(0.1)		59,978
Dropbox	Online storage	49,008	0.7	0.4		23,731
HelloFresh	Grocery retailer	44,416	0.7	(0.1)	Significant addition	40,095
Gingko Bioworks Inc Series C Pref.ⓤ	Bio-engineering company	21,444	0.3	0.2		10,191
Gingko Bioworks Inc Series D Pref.ⓤ	Bio-engineering company	20,853	0.3	–	Participated in additional funding round	–
		42,297	0.6	0.2		10,191

* Contribution to absolute performance has been calculated on a total return basis over the period 1 April 2017 to 31 March 2018.

† Significant additions and reductions to investments have been noted where the change is at least a 20% movement from the value of the holding at 31 March 2017. The change in value over the year also reflects the share price performance and the movement in exchange rates.

ⓤ Denotes unlisted security.

Past performance is not a guide to future performance.

Name	Business	Fair value 31 March 2018 £'000	% of total assets	Contribution to absolute performance* %	Notes†	Fair value 31 March 2017 £'000
Transferwise Ltd Series D Pref.ⓤ	Online money transfer	20,238	0.3	0.1		13,091
Transferwise Ltd Series Ordinaryⓤ	Online money transfer	8,602	0.1	–		–
Transferwise Ltd Series A Pref.ⓤ	Online money transfer	4,707	0.1	–		–
Transferwise Ltd Series B Pref.ⓤ	Online money transfer	4,281	0.1	–		–
Transferwise Ltd Series E Pref.ⓤ	Online money transfer	2,448	<0.1	–		–
Transferwise Ltd Series Seed Pref.ⓤ	Online money transfer	1,145	<0.1	–		–
Transferwise Ltd Series C Pref.ⓤ	Online money transfer	180	<0.1	–		–
		41,601	0.6	0.1	Increase in fair valuation and significant addition	13,091
Denali Therapeutics	Biotechnology	40,800	0.6	–	Significant addition	20,093
Heartflow Inc Series E Pref.ⓤ	Develops software for cardiovascular disease diagnosis and treatment	37,423	0.6	–	New purchase	–
Lyft Inc Series G Pref.ⓤ	Ridesharing services	26,441	0.4	–		–
Lyft Inc Series H Pref.ⓤ	Ridesharing services	9,267	0.1	–		–
		35,708	0.5	–	New purchase	–
You & Mr Jones Class A Unitsⓤ	Digital advertising	34,538	0.5	(0.2)		45,064
Tableau Software	Analytics software	33,609	0.5	0.2		23,117
JAND Inc (Warby Parker) Series D Pref.ⓤ	Online and physical glasses retailer	16,844	0.3	0.1	Increase in fair valuation	12,780
JAND Inc (Warby Parker) Series A Commonⓤ	Online and physical glasses retailer	10,862	0.2	–	Increase in fair valuation and significant addition	5,686
JAND Inc (Warby Parker) Series E Pref.ⓤ	Online and physical glasses retailer	4,094	<0.1	–	Participated in additional funding round	–
		31,800	0.5	0.1		18,466
Home24 AG Series D Pref.ⓤ	Online furniture retailer	16,003	0.2	(0.1)	Decrease in fair valuation	19,869
Home24 AG Series E Pref.ⓤ	Online furniture retailer	13,933	0.2	–	Participated in additional funding round	8,554
		29,936	0.4	(0.1)		28,423
Rubius Therapeutics Inc Series B Pref.ⓤ	Biotechnology	21,734	0.3	0.1		–
Rubius Therapeutics Inc Series C Pref.ⓤ	Biotechnology	7,129	0.1	–		–
		28,863	0.4	0.1	New purchase	–
Carbon Inc Series D Pref.ⓤ	Manufactures and develops 3D printers	28,514	0.4	–	New purchase	–
Essence Healthcare Series 3 Pref.ⓤ	Cloud-based health provider	27,837	0.4	0.1		22,126
Alnylam Pharmaceuticals	Biotechnology	27,763	0.4	0.3		13,400
Flipkart Series G Pref.ⓤ	Indian e-commerce	27,020	0.4	–	Increase in fair valuation and reduction	32,387

* Contribution to absolute performance has been calculated on a total return basis over the period 1 April 2017 to 31 March 2018.

† Significant additions and reductions to investments have been noted where the change is at least a 20% movement from the value of the holding at 31 March 2017. The change in value over the year also reflects the share price performance and the movement in exchange rates.

ⓤ Denotes unlisted security.

Past performance is not a guide to future performance.

Name	Business	Fair value 31 March 2018 £'000	% of total assets	Contribution to absolute performance * %	Notes †	Fair value 31 March 2017 £'000
Internet Plus Holdings Ltd Series B Pref.ⓤ	Local services aggregator	26,774	0.4	0.1		19,993
Unity Biotechnology Inc Series B Pref.ⓤ	Clinical stage biotechnology company	22,536	0.4	–	Increase in fair valuation	19,993
Unity Biotechnology Inc Series C Pref.ⓤ	Clinical stage biotechnology company	3,300	<0.1	–	Participated in additional funding round	–
		25,836	0.4	–		19,993
Funding Circle Ltd Series E Pref.ⓤ	Facilitates loans to small and medium enterprises	16,596	0.3	–		15,790
Funding Circle Ltd Series F Pref.ⓤ	Facilitates loans to small and medium enterprises	8,622	0.1	–		8,219
		25,218	0.4	–		24,009
Thumbtack Inc Series G Pref.ⓤ	Online directory service for local businesses	24,963	0.4	(0.2)		39,610
Bolt Threads Inc Series D Pref.ⓤ	Natural silk fibres and fabrics manufacturer	24,950	0.4	–	New purchase	–
Indigo Agriculture Inc Series D Pref.ⓤ	Analyses plant microbiomes to increase crop yields	24,950	0.4	–	New purchase	–
Palantir Technologies Inc Series J Pref.ⓤ	Data integration software and service provider	22,573	0.3	(0.3)		38,142
Prudential	International insurance	22,468	0.3	0.1	Significant reduction	51,845
Rolls-Royce Group	Aerospace equipment	22,025	0.3	0.3	Significant reduction	63,002
Auto1 Group GmbH Series Eⓤ	Online retailer of used cars	21,918	0.3	–		21,384
CureVac AG Series Bⓤ	Biotechnology	21,918	0.3	–		21,383
Mobike Ltd Series F Pref.ⓤ	Operator of dockless bike sharing services	21,386	0.3	–	New purchase	–
Airbnb Inc Series E Pref.ⓤ	Online market place for travel accommodation	20,750	0.3	–		22,550
Clover Health Investments Series D Pref.ⓤ	Healthcare insurance provider	20,714	0.3	–	New purchase	–
Innovation Works Development Fundⓤ	Venture capital	19,784	0.3	–		24,292
NIO Inc Series D Pref.ⓤ	Designs and manufactures electric and autonomous vehicles	17,822	0.3	–	New purchase	–
Eventbrite Inc Series G Pref.ⓤ	Online ticketing service	17,822	0.3	–	New purchase	–
Under Armour	Develops, markets and distributes branded performance products	17,651	0.3	(0.1)	Significant addition	7,378
ZocDoc Inc Series D-2 Pref.ⓤ	Online platform for searching for doctors and booking appointments	16,900	0.3	–		18,752
Intarcia Therapeutics Inc Series EE Pref.ⓤ	Biotechnology	16,705	0.3	(0.1)		19,993
Marketaxess holdings	Electronic bond trading platform	16,271	0.2	–	New purchase	–
Orchard Therapeuticsⓤ	Gene therapy for rare diseases	16,076	0.2	–		16,076
Anaplan Inc Series E Pref.ⓤ	Enterprise planning software	11,647	0.2	–		11,996
Anaplan Inc Series F Pref.ⓤ	Enterprise planning software	3,030	<0.1	–	Participated in additional funding round	–
		14,677	0.2	–		11,996

* Contribution to absolute performance has been calculated on a total return basis over the period 1 April 2017 to 31 March 2018.

† Significant additions and reductions to investments have been noted where the change is at least a 20% movement from the value of the holding at 31 March 2017. The change in value over the year also reflects the share price performance and the movement in exchange rates.

ⓤ Denotes unlisted security.

Name	Business	Fair value 31 March 2018 £'000	% of total assets	Contribution to absolute performance * %	Notes †	Fair value 31 March 2017 £'000
SurveyMonkey ⓤ	Online surveys	10,920	0.2	–		9,723
Flatiron Health Series C Pref. ⓤ	Software and data aggregation for oncology	10,271	0.2	–		9,359
Udacity Inc Series D Pref. ⓤ	Online education	10,155	0.2	–		11,996
WI Harper Fund VII ⓤ	Venture capital	7,806	0.1	–	Additional investment and decrease in fair valuation	9,067
Vir Biotechnology Inc Series A Pref. ⓤ	Biotechnology company developing anti-infective therapies	7,200	0.1	–	New purchase	–
Sinovation Fund III ⓤ	Venture capital	5,320	0.1	–	Significant addition and increase in fair valuation	1,949
Level E Maya Fund	Artificial intelligence based algorithmic trading	5,174	0.1	–		5,463
WI Harper Fund VIII ⓤ	Venture capital	5,171	0.1	–	Significant addition and increase in fair valuation	3,737
ARCH Ventures Fund IX ⓤ	Venture Capital Fund to invest in biotech start-ups	2,575	<0.1	–	Additional investment and decrease in fair valuation	705
Total Investments		**6,646,015**	**99.6**			
Net liquid assets#		27,456	0.4			
Total Assets#		**6,673,471**	**100.0**			

	Listed equities %	Unlisted securities %	Bonds %	Net liquid assets %	Total %
31 March 2018	**84.6**	**15.0**	**–**	**0.4**	**100.0**
31 March 2017	84.9	13.0	0.5	1.6	100.0

* Contribution to absolute performance has been calculated on a total return basis over the period 1 April 2017 to 31 March 2018.

† Significant additions and reductions to investments have been noted where the change is at least a 20% movement from the value of the holding at 31 March 2017. The change in value over the year also reflects the share price performance and the movement in exchange rates.

See Glossary of Terms on page 74.

ⓤ Denotes unlisted security.

Source: Baillie Gifford/StatPro.

The following investments were sold out of during the period: Astra International, Brazil CPI Linked 2045, Castlight Health Inc, Jeronimo Martins, Juno Therapeutics, Magnit OJSC, Novozymes, Salesforce and Souq Group Ltd.

Ten Year Record

Capital

At 31 March	Total assets £'000	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) %
2008	2,276,071	439,627	1,836,444	134.1	130.3	134.5	120.0	(7.9)	(10.8)
2009	1,398,270	317,933	1,080,337	79.4	76.8	79.9	70.6	(8.0)	(11.6)
2010	2,154,585	314,677	1,839,908	141.8	138.6	142.2	121.8	(12.1)	(14.4)
2011	2,502,278	369,984	2,132,294	166.2	163.3	166.7	148.4	(9.1)	(11.0)
2012	2,378,319	365,996	2,012,323	158.7	153.7	159.1	141.6	(7.9)	(11.0)
2013	2,593,446	375,078	2,218,368	176.7	171.5	177.1	164.5	(4.1)	(7.1)
2014	2,986,580	388,867	2,597,713	211.8	208.0	212.2	208.8	0.4	(1.6)
2015	3,820,439	487,221	3,333,218	267.6	262.4	268.0	267.2	1.8	(0.3)
2016	3,955,398	497,954	3,457,444	263.4	259.2	263.8	262.5	1.3	(0.5)
2017	5,383,157	509,566	4,873,591	358.7	354.6	359.0	366.1	3.2	2.0
2018	**6,673,471**	**485,715**	**6,187,756**	**443.5**	**439.9**	**443.7**	**442.2**	**0.5**	**(0.3)**

Source: Thomson Reuters/Baillie Gifford. See disclaimer on page 73.

* Net asset value per ordinary share has been calculated after deducting long term borrowings at either par value or fair value (see note 19, page 64 and Glossary of Terms on page 74).

† Premium/(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. See Glossary of Terms on page 74.

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 ‡ %
2008	49,575	27,043	1.96	2.06	0.51
2009	57,470	34,571	2.53 ^	2.46 ^	0.54
2010	49,174	30,200	2.24	2.26	0.52
2011	53,703	34,374	2.66	2.40	0.51
2012	52,689	33,473	2.61	2.60	0.51
2013	58,950	39,510	3.12	2.80	0.51
2014	50,385	30,209	2.43	2.90	0.50
2015	38,964	27,540	2.24	2.93	0.48
2016	32,910	21,428	1.66	2.96	0.45
2017	27,796	14,136	1.07	3.00	0.44
2018	**30,663**	**16,701**	**1.20**	**3.07**	**0.37**

Gearing Ratios

Year to 31 March	Gearing ¶ %	Potential gearing § %
2008	23	24
2009	26	29
2010	16	17
2011	17	17
2012	17	18
2013	16	17
2014	15	15
2015	12	15
2016	13	14
2017	9	10
2018	**7**	**8**

Source: Baillie Gifford.

\# 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 52).

‡ Calculated as total operating costs divided by average net asset value (with debt at fair value) in accordance with AIC guidelines. See Glossary of Terms on page 74.

¶ Total assets (including all debt used for investment purposes) less all cash and cash equivalents divided by shareholders' funds. See Glossary of Terms on page 74.

§ Total assets (including all debt used for investment purposes) divided by shareholders' funds. See Glossary of Terms on page 74.

^ Includes a non-recurring 0.3p per share from the reimbursement of previous years' VAT and associated interest thereon.

Cumulative Performance (taking 2008 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
2008	100	100	100	100	100	100	100	100	100
2009	59	60	77	80	59	60	129	119	100
2010	106	112	112	118	102	107	114	110	104
2011	125	134	118	128	124	133	136	117	110
2012	118	128	115	128	118	129	134	126	114
2013	132	145	130	150	137	153	159	136	117
2014	160	179	136	160	174	197	124	141	120
2015	201	229	158	190	223	255	114	142	121
2016	199	229	153	189	219	254	85	144	123
2017	272	317	198	252	305	357	55	146	127
2018	**338**	**399**	**199**	**259**	**369**	**435**	**61**	**149**	**131**
Compound annual returns									
5 year	20.7%	22.3%	8.9%	11.5%	21.9%	23.3%	(17.4%)	1.9%	2.3
10 year	12.9%	14.8%	7.1%	10.0%	13.9%	15.8%	(4.8%)	4.1%	2.8

Source: Thomson Reuters/Baillie Gifford and relevant underlying providers. See disclaimer on page 73.

†† Benchmark: 100% FTSE All-World Index (in sterling terms). See disclaimer on page 73.

All per share figures have been restated for the five for one share split on 30 June 2014.

Past performance is not a guide to future performance.

Directors and Management

The members of the Board come from a broad variety of backgrounds. The Board can draw on a very extensive pool of knowledge and experience.

Directors

FC McBain

Fiona McBain is the former chief executive of Scottish Friendly Assurance, a mutually owned financial services group with over 1,000,000 policyholders. Fiona was appointed a Director in 2009 and became Chairman on 29 June 2017. She is also chairman of the Nomination Committee. 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 trustee of Save the Children UK and non-executive director of the Humanitarian Leadership Academy and Dixons Carphone 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 fellow of St John's College, University of Oxford and Investment Officer of the College and he is a director of Value and Income Trust PLC.

LJ Dowley

Justin Dowley is a former international investment banker and was appointed a Director in 2015. He qualified as a chartered accountant at Price Waterhouse in 1980. Subsequently he was a director of Morgan Grenfell & Co. Limited, Head of Investment Banking at Merrill Lynch Europe and a founder partner of Tricorn Partners LLP. Formerly the Chairman of Intermediate Capital Group plc he is currently a Deputy Chairman of The Takeover Panel, the senior independent director of Melrose Industries plc and a non-executive director of a number of private companies.

Professor PH Maxwell

Patrick Maxwell is the Regius Professor of Physic and Head of the School of Clinical Medicine at Cambridge University. He was appointed a Director in 2016. Patrick has extensive knowledge and experience of the biotechnology sector and holds a Wellcome Trust senior investigator award for his research on oxygen sensing. He was elected a Fellow of the Academy of Medical Sciences in 2005. He is currently a director of the Global Medical Excellence Cluster (GMEC) and a member of the boards of MedCity, Cambridge University Health Partners (CUHP) and Cambridge University Hospitals NHS Foundation Trust.

Dr P Subacchi

Paola Subacchi is an economist, writer and commentator on the functioning and governance of the international and monetary system. Paola was appointed to the Board in 2014. She is the author of *The People's Money*: *How China is building a global currency* (Columbia University Press, 2017) and is a regular contributor to *Project Syndicate*. She is a senior fellow at Chatham House (The Royal Institute of International Affairs) in London, a visiting professor at the University of Bologna, and is a non-executive director of BlackRock Greater Europe Investment Trust PLC. She is also a governor of St Marylebone School in London and a member of Wilton Park Advisory Council. An Italian national, she studied at Universitá Bocconi in Milan and at the University of Oxford. In 2016 she received the honour Cavaliere dell'Ordine della Stella d'Italia.

The chairman is chair of the Nomination Committee and is not a member of the Audit Committee. All other Directors are members of the Nomination and Audit Committees with the exception of Professor John Kay who is not a member of the Audit Committee.

Managers and Secretaries

The Company has appointed Baillie Gifford & Co Limited, a wholly owned subsidiary of Baillie Gifford & Co, as its Alternative Investment Fund Manager and Company Secretary. Baillie Gifford & Co Limited has delegated portfolio management services to Baillie Gifford & Co. Baillie Gifford & Co is 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 is one of the largest investment trust managers in the UK and currently manages eight investment trusts. Baillie Gifford also manages 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 around £187 billion. Based in Edinburgh, it is one of the leading privately owned investment management firms in the UK, with 44 partners and a staff of around 1,000.

The Managers of Scottish Mortgage's portfolio are James Anderson and Tom Slater. James Anderson is a partner of Baillie Gifford & Co and Head of the Long Term Global Growth team. Tom Slater is also a partner and Head of the North American equities team.

Baillie Gifford & Co and Baillie Gifford & Co Limited are both authorised and regulated by the Financial Conduct Authority.

Directors' Report

The Directors present their Report together with the Financial Statements of the Company for the year to 31 March 2018.

Corporate Governance

The Corporate Governance Report is set out on pages 32 to 34 and forms part of this Report.

Manager and Company Secretaries

Baillie Gifford & Co Limited, a wholly owned subsidiary of Baillie Gifford & Co, has been appointed as the Company's Alternative Investment Fund Manager ('AIFM') and Company Secretaries. Baillie Gifford & Co Limited has delegated portfolio management services to Baillie Gifford & Co. Dealing activity and transaction reporting has been further sub-delegated to Baillie Gifford Overseas Limited.

The Investment Management Agreement 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 Investment Management Agreement is terminable on not less than six months' notice. The annual management fee for the year to 31 March 2018 was 0.30% on the first £4 billion of total assets less current liabilities (excluding short term borrowings for investment purposes) and 0.25% on the remaining assets.

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 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.

The Board as a whole fulfils the functions of the Management Engagement Committee. The Board considers the Company's investment management and secretarial arrangements on a continuing basis and a formal review is conducted at least 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 Limited as Alternative Investment Fund Manager and the delegation of investment management services to Baillie Gifford & Co, on the terms agreed, is in the interests of shareholders as a whole.

Depositary

In accordance with the Alternative Investment Fund Managers Directive, the AIFM must appoint a Depositary to the Company. Following the year end, on 3 April 2018 the legal entity of the Depositary changed from BNY Mellon Trust and Depositary (UK) Limited (who had acted as Depositary throughout the year to 31 March 2018) to The Bank of New York Mellon (International) Limited following an internal reorganisation at the Bank of New York.

The Depositary's responsibilities include cash monitoring, safe keeping of the Company's financial instruments, verifying ownership and maintaining a record of other assets and monitoring the Company's compliance with investment limits and leverage requirements. Following the internal reorganisation at The Bank of New York, the custody function is now also undertaken by The Bank of New York Mellon (International) Limited ('the Custodian') (having previously been delegated to The Bank of New York Mellon SA/NV).

Directors

Information about the Directors, including their relevant experience, can be found on pages 26 and 27.

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

Following a 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.

The Board also considers that FC McBain and Professor JA Kay remain independent notwithstanding having served on the Board for more than nine years (see page 32).

Director Indemnification and Insurance

The Company has entered into qualifying third party deeds of indemnity in favour of each of its Directors. The deeds cover any liabilities that may arise to a third party, other than the Company, for negligence, default or breach of trust or duty. The Directors are not indemnified in respect of liabilities to the Company, any regulatory or criminal fines, any costs incurred in connection with criminal proceedings in which the Director is convicted or civil proceedings brought by the Company in which judgement is given against him or her. In addition, the indemnity does not apply to any liability to the extent that it is recovered from another person. The indemnities were in force during the year to 31 March 2018 and up to the date of approval of this report.

The Company maintains Directors' and Officers' Liability Insurance.

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.

Dividends

The Board recommends a final dividend of 1.68p per ordinary share which, together with the interim dividend of 1.39p per ordinary share already paid, makes a total of 3.07p for the year compared with 3.00p per ordinary share for the previous year.

If approved, the recommended final dividend on the ordinary shares will be paid on 2 July 2018 to shareholders on the register at the close of business on 8 June 2018. The ex-dividend date is 7 June 2018.

The Company's Registrars offer a Dividend Reinvestment Plan (see page 68) and the final date for elections for this dividend is 11 June 2018.

Share Capital

Capital Structure

The Company's capital structure as at 31 March 2018 consists of 1,421,730,880 ordinary shares of 5p each, of which 1,395,363,209 are allotted and fully paid and 26,367,671 are held in treasury. There are no restrictions concerning the holding or transfer of the Company's ordinary shares and there are no special rights attached to any of the shares.

Dividends

The ordinary shares carry a right to receive dividends. Interim dividends are determined by the Directors, whereas the proposed final dividend is subject to shareholder approval.

Capital Entitlement

On a winding up, after meeting the liabilities of the Company, the surplus assets will be paid to ordinary shareholders in proportion to their shareholdings.

Voting

Each ordinary shareholder present in person or by proxy is entitled to one vote on a show of hands and, on a poll, to one vote for every share held.

Information on the deadlines for proxy appointments can be found on pages 66 and 67.

Major Interests Disclosed in the Company's Shares

Name	No. of ordinary 5p shares held at 31 March 2018	% of issue*
BlackRock Inc (Indirect)	127,945,039	9.2

There have been no changes to the major interests in the Company's shares disclosed to the Company up to 9 May 2018.

* Ordinary shares in issue excluding treasury shares.

Share Issuances and Share Buy-backs

At the last Annual General Meeting the Directors were granted power to allot equity securities or sell ordinary shares held in treasury for cash up to a maximum nominal amount of £6,861,847.40.

During the year to 31 March 2018 the Company sold 50,800,000 shares from treasury on a non-pre-emptive basis (nominal value £2,540,000, representing 3.7% of the called up share capital, excluding treasury shares, at 31 March 2017) at a premium to net asset value (on the basis of debt valued at fair value) on 59 separate occasions at an average price of 407.14 pence per share raising net proceeds of £207,559,000. At 31 March 2018 the Company held 26,367,671 treasury shares. Between 1 April and 9 May 2018 the Company sold a further 8,800,000 shares from treasury raising proceeds of £41,768,000.

During the year to 31 March 2018 the Company bought back 14,006,276 ordinary shares (nominal value £700,000 representing 1.0% of the called up share capital, excluding treasury shares, at 31 March 2017), on the London Stock Exchange, all of which were added to shares held in treasury. The total consideration for these shares was £62,951,000. Between 1 April and 9 May 2018 no further shares were bought back into treasury.

The Directors will again be seeking authorities at the forthcoming Annual General Meeting to buy back shares and to sell shares held in treasury and allot new shares at a premium to the net asset value per share with debt valued at a fair value. Details of these resolutions are set out below.

Annual General Meeting

Resolution 11 – Authority to allot shares

Section 551 of the Companies Act 2006 provides that the Directors may not allot new shares without shareholder approval. Resolution 11 seeks to renew the Directors' authority to allot shares up to a maximum amount of £7,020,816, representing approximately 10 per cent. of the Company's total issued ordinary share capital (excluding treasury shares) as at 9 May 2018, being the latest practicable date prior to publication of this document.

The Directors presently intend to exercise this power only once the number of shares held by the Company in treasury is not sufficient to support share issuance by the Company in accordance with its stated liquidity policy. As at 9 May 2018, the Company held 17,567,671 ordinary shares in treasury, representing approximately 1.3 per cent. of the Company's issued share capital (excluding treasury shares) as at 9 May 2018, being the latest practicable date prior to publication of this document. The authority will expire on 28 September 2019 or, if earlier, at the end of the Annual General Meeting of the Company to be held in 2019, unless previously cancelled or varied by the Company in general meeting.

Resolution 12 – Disapplication of pre-emption rights

Resolution 12, which is being proposed as a special resolution, seeks to renew the Directors' authority to allot equity securities, or sell treasury shares, for cash without having to offer such shares to existing Shareholders pro-rata to their existing holdings, up to a total nominal amount of £7,020,816, representing approximately 10 per cent. of the Company's total issued ordinary share capital as at 9 May 2018, being the latest practicable date prior to publication of this document.

The Directors consider that the authority proposed to be granted by Resolution 12 continues to be advantageous when the Company's shares trade at a premium to net asset value and the level of natural liquidity in the market is unable to meet demand. The Directors do not intend to use this authority to sell or issue ordinary shares on a non-pre-emptive basis at a discount to net asset value on the basis of debt valued at fair value. The attention of Shareholders is drawn to information set out under Resolution 13 below.

While the level of the authority being sought is greater than the 5 per cent. recommended by the Pre-Emption Group in their Statement of Principles on disapplying pre-emption rights, it is specifically recognised in the Statement of Principles that, where an investment trust is seeking authority to issue shares at a premium to the underlying net asset value per share, this should not normally raise concerns and the Directors consider the greater flexibility provided by this authority to be justified in the circumstances.

Resolution 13 – Authority to issue shares at a discount to net asset value

As noted above, the Directors do not intend to sell ordinary shares held in treasury or to issue new ordinary shares on a non-pre-emptive basis at a discount to net asset value on the basis of debt valued at fair value. The Directors are aware that LR 15.4.11 of the Listing Rules prohibits the issue of ordinary shares (including ordinary shares held in treasury) for cash at a price below the net asset value per share of those shares without such shares first being offered to existing Shareholders pro rata to their existing holdings.

It is a general market understanding in this context that 'net asset value' is determined on the basis of debt valued at fair value, but, for the purposes of LR 15.4.11, the term 'net asset value' is not specifically defined. As a result, having regard to guidance previously received from the UKLA and consistent with the approach adopted last year, the Directors wish to ensure that any sale of ordinary shares held in treasury or issue of new ordinary shares will not result in an inadvertent breach of the Listing Rules by virtue of the UKLA determining that 'net asset value' should be calculated on the basis of debt valued at par value. Resolution 13 seeks to renew the authority granted to the Company at the 2017 Annual General Meeting to issue shares at a discount to net asset value, in order to continue to protect against any such inadvertent breach. The Directors wish to reiterate that they will in no circumstances seek to issue ordinary shares (including ordinary shares held in treasury) for cash at a price below the net asset value per share on the basis of debt valued at fair value.

Resolution 14 – Market purchase of own shares by the Company

The Directors are seeking Shareholders' approval (by way of a Special Resolution) at the Annual General Meeting to renew the authority to purchase up to 14.99 per cent. of the Ordinary Shares in issue (excluding treasury shares) as at 9 May 2018, being the latest practicable date prior to publication of this document (or, if less, up to 14.99 per cent. of the ordinary shares in issue (excluding treasury shares) on the date on which the Resolution is passed). This authority will expire at the end of the Annual General Meeting of the Company to be held in 2019. Such purchases will only be made at a discount to the prevailing net asset value. The Company may hold bought back shares in treasury and then:

(a) sell such shares (or any of them) for cash (or its equivalent under the Companies Act 2006); or

(b) cancel such shares (or any of them).

Shares will only be re-sold from treasury at (or at a premium to) the net asset value per ordinary share on the basis of debt valued at fair value, in accordance with Resolution 13.

Treasury shares do not receive distributions and the Company will not be entitled to exercise the voting rights attaching to them.

Under the Listing Rules, the maximum price (exclusive of expenses) that may be paid on the exercise of the authority shall be an amount equal to the higher of:

(i) 5 per cent. above the average closing price on the London Stock Exchange of an ordinary share over the five business days immediately preceding the date of the purchase; and

(ii) the higher of the price of the last independent trade and the highest current independent bid as stipulated by Article 5(1) of Commission Regulation (EC) 22 December 2003 implementing the Market Abuse Directive as regards exemptions for buy back programmes and stabilisation of financial instruments (No. 2273/2003).

The minimum price (again exclusive of expenses) that may be paid will be the par value of an ordinary share. Purchases of ordinary shares will be made within guidelines established, from time to time, by the Board. The Company does not have any warrants or options in issue.

The Directors intend that this authority, if conferred, will be exercised only if to do so would result in an increase in net asset value per ordinary share for the remaining Shareholders and if it is in the best interest of Shareholders generally.

Recommendation

The Board considers that all the Resolutions to be proposed at the Annual General Meeting are in the best interests of the Company and its Shareholders as a whole. Accordingly, the Board unanimously recommends that you vote in favour of all of the Resolutions, as the Directors intend to do where possible in respect of their own beneficial shareholdings which amount in aggregate to 277,681 shares, representing 0.02% of the current issued share capital of the Company.

Financial Instruments

The Company's financial instruments comprise its investment portfolio, cash balances, borrowings and debtors and creditors that arise directly from its operations such as sales and purchases awaiting settlement and accrued income. The financial risk management objectives and policies arising from its financial instruments and the exposure of the Company to risk are disclosed in note 19 to the accounts.

Articles of Association

The Company's Articles of Association may only be amended by special resolution at a general meeting of shareholders.

Disclosure of Information to Auditor

The Directors confirm that, so far as each of the Directors is aware, there is no relevant audit information of which the Company's Auditor is unaware and the Directors have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

Independent Auditor

The Auditor, KPMG LLP, is willing to continue in office and, in accordance with section 489 and section 491(1) of the Companies Act 2006, resolutions concerning KPMG LLP's reappointment and remuneration will be submitted to the Annual General Meeting.

Post Balance Sheet Events

The Directors confirm that there have been no post Balance Sheet events up to 11 May 2018 other than those noted in note 20 on page 64.

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.

Criminal Finances Act 2017

The Company has a commitment to zero tolerance towards the criminal facilitation of tax evasion.

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.

By order of the Board
Fiona McBain
11 May 2018

Subsequent Note

AGM Resolution 15 supporting the dividend

At the Annual General Meeting in 2014, Shareholders voted overwhelmingly (98.9%) in favour of an amendment to the Company's Articles of Association to remove an express prohibition on the distribution by the Company of any surplus arising from the realisation of any investment. This was to reflect the repeal of former statutory rules to that effect which had previously governed investment trusts. The purpose of Resolution 15 is to make additional changes so as to provide the Company with the full flexibility which Shareholders supported in 2014. The requirement for this resolution was identified after the Company's annual results announcement on 14 May 2018 and is therefore reported here separately. No other changes to the Articles of Association are proposed.

The new Articles of Association showing the changes to the existing Articles of Association are available for inspection, as noted on page 67.

Corporate Governance Report

The Board is committed to achieving and demonstrating high standards of Corporate Governance. This statement outlines how the principles of the 2016 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 was a member of the Audit Committee until she stood down from the Audit Committee on 25 January 2018. The Company was in compliance with the relevant provisions of the Code for the remainder of the year under review. The Code includes provisions relating to the role of the chief executive, executive directors' remuneration and the need for an internal audit function. Given that the Company is an externally managed investment trust, the Board considers these provisions are not relevant to the Company (the need for an internal audit function specific to the Company has been addressed on page 35).

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 Secretaries 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 retirement of Mr JPHS Scott at the Annual General Meeting last year, the Board comprises five Directors, all of whom are non-executive.

The Chairman is responsible for organising the business of the Board, ensuring its effectiveness and setting its agenda. The executive responsibility for investment management has been delegated to the Company's Alternative Investment Fund Manager ('AIFM'), Baillie Gifford & Co Limited and, in the context of a Board comprising only non-executive Directors, there is no chief executive officer. Professor JA Kay 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 26 and 27.

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' appointments 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 the Directors will retire at each Annual General Meeting and, if appropriate, offer themselves for re-election.

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.

Professor JA Kay and FC McBain 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, Professor JA Kay and FC McBain continue to demonstrate independence of character and judgement and their skill 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 core Board and Committee Meetings held during the year (various additional meetings were also held). The Annual General Meeting was attended by all Directors serving at that date.

Directors' Attendance at Meetings

	Board	Audit Committee	Nomination Committee
Number of meetings	**6**	**2**	**1**
Fiona McBain	6	2	1
Justin Dowley	6	2	1
Professor John Kay	6	2	1
Professor Patrick Maxwell	6	2	1
John Scott (retired 29 June 2017)	2	1	–
Dr Paola Subacchi	6	2	1

Nomination Committee

The Nomination Committee consists of the independent non-executive Directors and the Chairman of the Board is Chairman of the Committee. The Committee meets on an annual basis and at such other times as may be required. The Committee has written terms of reference which include reviewing the Board, identifying and nominating new candidates for appointment to the Board,

Board appraisal, Board independence, 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 or apply a diversity policy.

Board Composition

The Board reviewed its composition during the year, with regard to the depth and breadth of experience. The Board has determined that the five Directors continue to provide sufficient resource at present.

The Committee's terms of reference are available on request from the Company and on the Company's pages of the Managers' 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 considered an evaluation form which they discussed individually with the Chairman. The appraisal of the Chairman was led by Professor JA Kay. 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.

Lintstock, a company which assists companies with the design and execution of board evaluations, facilitated the performance evaluation in 2016. It is intended that the evaluation will again be externally facilitated in 2019.

Induction and Training

New Directors are provided with an induction programme which is tailored to the particular circumstances of the appointee. Regular 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 37 and 38.

Audit Committee

The report of the Audit Committee is set out on pages 35 and 36.

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 FRC guidance 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting' issued in September 2014.

The practical measures in relation to the design, implementation and maintenance of control policies and procedures to safeguard the Company's assets and to manage its affairs properly, including the maintenance of effective operational and compliance controls, have been delegated to the Managers and Secretaries.

The Board oversees the functions delegated to the Managers and Secretaries and the controls managed by the AIFM in accordance with the Alternative Investment Fund Managers Directive (as detailed below). Baillie Gifford & Co's Internal Audit and Compliance Departments and the AIFM's permanent risk function 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.

A report identifying the material risks faced by the Company and the key controls employed to manage these risks is reviewed by the Audit Committee.

These procedures ensure that consideration is given regularly to the nature and extent of 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 these risks.

The Directors confirm that they have reviewed the effectiveness of the Company's risk management and internal controls systems, which accord with the FRC 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting' and they have procedures in place to review their effectiveness on a regular basis. No significant weaknesses were identified in the year under review and up to the date of this Report.

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.

To comply with the Alternative Investment Fund Managers Directive, BNY Mellon Trust & Depositary (UK) Limited acted as the Company's Depositary for the year under review (see page 28) and Baillie Gifford & Co Limited as its AIFM.

The Depositary's responsibilities include cash monitoring, safe keeping of the Company's financial instruments, verifying ownership and maintaining a record of other assets and monitoring the Company's compliance with investment limits and leverage requirements. The Depositary is liable for the loss of financial instruments held in custody. The Depositary will ensure that any delegate segregates the assets of the Company. For the year under review, the custody function was delegated to The Bank of New York Mellon SA/NV London Branch (see page 28). The Custodian prepares a report on its key controls and safeguards which is independently reviewed by KPMG LLP. The reports are reviewed by Baillie Gifford's Business Risk Department and a summary of the key points is reported to the Audit Committee and any concerns investigated.

The Depositary provides the Audit Committee with a report on its monitoring activities.

The AIFM has established a permanent risk management function to ensure that effective risk management policies and procedures are in place and to monitor compliance with risk limits. The AIFM has a risk management policy which covers the risks associated with the management of the portfolio, and the adequacy and effectiveness of this policy is reviewed and approved at least annually. This review includes the risk management processes and systems and limits for each risk area.

The risk limits, which are set by the AIFM and approved by the Board, take into account the objectives, strategy and risk profile of the portfolio. These limits, including leverage (see page 69), are monitored and the sensitivity of the portfolio to key risks is undertaken periodically as appropriate to ascertain the impact of changes in key variables in the portfolio. Exceptions from limits monitoring and stress testing are escalated to the AIFM and reported to the Board along with remedial measures being taken.

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 19 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. 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.

Accordingly, the Financial Statements have been prepared on the going concern basis as it is the Directors' opinion, having assessed the principal risks and other matters set out in the Viability Statement on page 9 which assesses the prospects of the Company over a period of 10 years, that the Company will continue in operational existence for a period of at least 12 months from the date of approval of these Financial Statements.

Relations with Shareholders

The Board places great importance on communication with shareholders. The Company's Managers meet regularly with shareholders and their representatives 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, or through the Company's brokers, Cenkos Securities and Jefferies (see contact details on the back cover).

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 published at www.scottishmortgageit.com. 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

In its oversight of the Managers and the Company's other service providers, the Board seeks assurances that they have due regard to the benefits of diversity and promote these within their respective organisations.

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

The Company believes that it is in the shareholders' interests to consider environmental, social and governance (ESG) factors when selecting and retaining investments and has asked the Managers to take these issues into account. 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 to the United Nations Principles for Responsible Investment and the Carbon Disclosure Project and are also members of the International Corporate Governance Network.

By order of the Board
Fiona McBain
Chairman
11 May 2018

Audit Committee Report

The Audit Committee consists of Mr LJ Dowley, Professor PH Maxwell and Dr P Subacchi. During the year Ms FC McBain and Professor JA Kay stepped down from the Committee. The members of the Committee consider that they have the requisite financial skills and experience to fulfil the responsibilities of the Committee. The Chairman of the Committee, Mr LJ Dowley, 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.

The Committee's effectiveness is reviewed on an annual basis as part of the Board's performance evaluation process (see page 33).

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 formally twice during the year and KPMG LLP, the external Auditor, attended both meetings. The Committee also met on a number of other occasions to consider specific matters, such as the valuation of unlisted investments. Baillie Gifford & Co's Internal Audit and Compliance Departments and the AIFM's permanent risk function provided reports on their monitoring programmes for these meetings.

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

- the results announcement and the Annual and Interim Reports;
- the Company's accounting policies and practices and the implementation of the Managers' valuation policy for investments in unquoted companies;
- the regulatory changes impacting the Company;
- the requirement to ensure the Annual Report and Financial Statements are fair, balanced and understandable and 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;
- re-appointment, 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 99.6% of total assets.

- ***Unlisted Investments***

  The Committee reviewed the Managers' valuation policy for investments in unquoted companies and approved the valuations of the unlisted investments following a detailed review of the valuation of each investment and relevant challenge where appropriate.

  Holdings in certificated form were agreed to confirmations from the Company's custodian and confirmations of uncertificated unlisted investments were obtained from the relevant investee companies.

- ***Listed Investments***

  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 the recording and pricing of investments.

  The value of all the listed investments at 31 March 2018 was agreed to external price sources and the holdings agreed to confirmations from the Company's Custodian or to share certificates.

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 and that the Financial Statements are in accordance with applicable law and accounting standards.

Audit Tender

Following the audit tender process held in the year to 31 March 2016, the Board unanimously decided to reappoint KPMG as Auditor.

In recognition of underlying audit rotation requirements, the Committee intends to undertake a further tender process during the year to 31 March 2020 to cover the financial years ending 31 March 2021 onwards.

Internal Controls and Risk Management

The Committee reviewed the effectiveness of the Company's risk management and internal controls systems as described on pages 33 and 34. No significant weaknesses were identified in the year under review.

External Auditor

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

— a report from the Auditor describing the arrangements to identify, report and manage any conflicts of interest and received confirmation of their independence; and

— the extent of non-audit services provided by the external Auditor. Non-audit fees for the year to 31 March 2018 were £750 and related to the certification of financial information for the debenture trustee. The Committee does not believe that this has impaired the Auditor's independence.

The effectiveness of the external Auditor was reviewed and the Committee considered:

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

— feedback from the Secretaries on the performance of the audit team;

— the Audit Quality Inspection Report from the FRC; and

— detailed discussion with audit personnel to challenge audit processes and deliverables.

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.

Non audit service requests were considered on a case by case basis.

Although KPMG LLP, or its predecessor firms, has been Auditor for over twenty eight years, the audit partners/directors 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. Mr J Waterson was appointed audit director during the year to 31 March 2017 and, following becoming a partner of KPMG LLP will continue as audit partner until the conclusion of the 2020 audit.

KPMG has confirmed that it believes it is independent within the meaning of regulatory and professional requirements and that the objectivity of the audit partner and staff is not impaired.

Having carried out the review process described above, the Committee is satisfied that the Auditor remains independent and effective.

There are no contractual obligations restricting the Committee's choice of external Auditor.

Accountability and Audit

The respective responsibilities of the Directors and the Auditor in connection with the Financial Statements are set out on pages 39 to 43.

By order of the Board
Justin Dowley
Audit Committee Chairman
11 May 2018

Directors' Remuneration Report

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

Statement by the Chairman

The Directors' Remuneration Policy is subject to shareholder approval every three years or sooner if an alteration to the policy is proposed. The Remuneration Policy which is set out below was approved at the Annual General Meeting in June 2017. No changes are proposed to the policy at this year's Annual General Meeting.

The Board reviewed the level of fees during the year and it was agreed that there would be no change to Director's fees. The fees were last increased on 1 April 2017.

Directors' Remuneration Policy

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 Limited, who have been appointed by the Board as the Company 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.

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.

Limits on Directors' 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.

The basic and additional fees paid to Directors in respect of the year ended 31 March 2018 and the expected fees payable in respect of the year ending 31 March 2019 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 2019 £	Fees for year ending 31 Mar 2018 £
Chairman's fee	60,000	60,000
Chairman of Audit Committee's fee	50,000	50,000
Director's fee	40,000	40,000
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 KPMG LLP's report on pages 40 to 43.

Directors' Remuneration for the Year (audited)

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

Name	2018 Fees £	2018 Taxable benefits* £	2018 Total £	2017 Fees £	2017 Taxable benefits* £	2017 Total £
Fiona McBain (Chairman)	55,077	729	**55,806**	30,000	1,141	**31,141**
Justin Dowley (Audit Committee Chairman)	50,000	3,431	**53,431**	33,769	2,524	**36,293**
Professor John Kay	40,000	1,897	**41,897**	30,000	1,097	**31,097**
Professor Patrick Maxwell	40,000	2,472	**42,472**	30,000	2,576	**32,576**
Dr Paola Subacchi	40,000	2,532	**42,532**	30,000	3,175	**33,175**
Gordon McQueen (retired 30 June 2016)	–	–	**–**	8,750	3,066	**11,816**
John Scott (retired 29 June 2017)	14,846	528	**15,374**	45,000	1,256	**46,256**
	239,923	**11,589**	**251,512**	**207,519**	**14,835**	**222,354**

* Comprises travel and subsistence expenses incurred by or on behalf of Directors in the course of travel to attend Board, Committee and other meetings held at the Company's registered office in Edinburgh. These amounts have been grossed up for income tax and, if applicable, National Insurance contributions.

Directors' Interests (audited)

Name	Nature of interest	Ordinary 5p shares held at 31 March 2018	Ordinary 5p shares held at 31 March 2017
Fiona McBain	Beneficial	6,127	6,083
Justin Dowley	Beneficial	203,233	201,775
Professor John Kay	Beneficial	32,792	32,792
Professor Patrick Maxwell	Beneficial	16,150	26,280
Dr Paola Subacchi	Beneficial	19,379	16,490

The Directors at the year end, and their interests in the Company, were as shown above. There have been no changes intimated in the Directors' interests up to 9 May 2018.

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, 98.7% were in favour, 0.4% were against and votes withheld were 0.9%. At the last Annual General Meeting at which the Directors' Remuneration Policy was considered (June 2017), 99.2% of votes received were in favour, 0.5% were against and votes withheld were 0.3%.

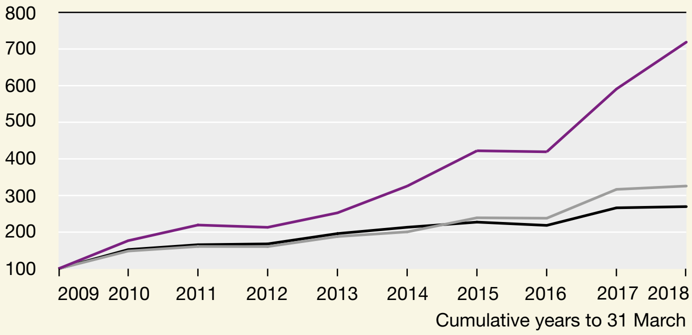
Relative Importance of Spend on Pay

The table below shows the actual expenditure during the year in relation to Directors' remuneration and distributions to shareholders.

	2018 £'000	2017 £'000	Change %
Directors' remuneration	252	222	13.1
Dividends	41,666	39,084	6.6
Share buy-backs	62,951	19,558	221.9

Company Performance

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



Source: Thomson Reuters#

Scottish Mortgage share price

Benchmark†

FTSE All-Share Index

* All figures are total return (assuming all dividends are reinvested). See Glossary of Terms on page 74.

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

See disclaimer on page 73.

Past performance is not a guide to future performance.

The graph 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 37 and 38 was approved by the Board of Directors and signed on its behalf on 11 May 2018.

Fiona McBain
Chairman

Statement of Directors' Responsibilities in Respect of the Annual Report and the Financial Statements

The Directors are responsible for preparing the Annual Report and 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 are required to prepare the Financial Statements in accordance with UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

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 its profit or loss 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 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;

— assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and

— use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Under section 454 of the Companies Act 2006 the Directors have the authority to revise the Financial Statements if they do not comply with the Act, making such revisions in accordance with the Companies (Revision of Defective Accounts and Reports) Regulations 2008 so as to give a true and fair view as if they were prepared and approved by the Directors as at the date of the original Financial Statements and accordingly do not take account of events which have taken place after the date on which the original Financial Statements were approved (see note 1 'Principal Accounting Policies' on page 48).

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 its Financial Statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect 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 are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

Responsibility Statement of the Directors in Respect of the Annual Financial Report

We confirm that to the best of our knowledge:

— the Financial Statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and

— the Strategic Report includes a fair review of the development and performance of the business and the position of the issuer, together with a description of the principal risks and uncertainties that they face.

We consider the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

On behalf of the Board
Fiona McBain
22 May 2018

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

Overview	
Materiality: Financial Statements as a whole	**£66.8m (2017: £53.9m)** 1% (2017: 1%) of Total Assets
Risks of material misstatement	
Recurring risks	Valuation of unlisted investments ◀▶
	Carrying amount of listed investments ◀▶

1. Our opinion is unmodified

We have audited the Financial Statements of Scottish Mortgage Investment Trust PLC ("the Company") for the year ended 31 March 2018, which comprise the Income Statement, Balance Sheet, Statement of Changes in Equity, Cash Flow Statement and the related notes, including the accounting policies in note 1, which explains a revision in relation to a disclosure, on 22 May 2018.

In our opinion the Financial Statements:

— give a true and fair view seen as at the date the original Financial Statements were approved, of the state of Company's affairs as at 31 March 2018 and of its return for the year then ended;

— have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* seen as at the date the original Financial Statements were approved; and

— have been prepared in accordance with the requirements of the Companies Act 2006 as it has effect under the Companies (Revision of Defective Accounts and Reports) Regulations 2008 *("the Regulations").*

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the Audit Committee.

We were appointed as Auditor prior to 1991. The period of total uninterrupted engagement is at least the 28 financial years ended 31 March 2018. We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the Financial Statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters (unchanged from 2017), in decreasing order of significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the Financial Statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

	The risk	Our response
Valuation of Unlisted Investments (£1,003.5 million; 2017: £700.2 million) *Refer to page 35 (Audit Committee Report), page 49 (accounting policy) and pages 53, 54, and 62 (financial disclosures)*	**Subjective valuation:** 15.0% of the Company's total assets (by value) are held in investments where no quoted market price is available. Unlisted investments are measured at fair value, which is established in accordance with the International Private Equity and Venture Capital Valuation Guidelines by using measurements of value such as prices of recent orderly transactions, earnings multiples and net assets. There is a significant risk over the valuation of these investments.	Our procedures included: **Methodology choice:** In the context of observed industry best practice and the provisions of the International Private Equity and Venture Capital Valuation Guidelines, we challenged the appropriateness of the valuation basis selected; **Our valuations experience:** Challenging the investment manager on key judgements affecting investee company valuations, such as discount factors and the choice of benchmark for earnings multiples. We compared key underlying financial data inputs to external sources, investee company audited accounts and management information as applicable. Our work included consideration of events which occurred subsequent to the year end up until the date of this audit report; **Historical comparisons:** Assessment of investment realisations in the period, comparing actual sales proceeds to prior year end valuations to understand the reasons for significant variances and determine whether they are indicative of bias or error in the company's approach to valuations; **Comparing valuations:** Where a recent transaction has been used to value a holding, we obtained an understanding of the circumstances surrounding the transaction and whether it was considered to be on an arms-length basis and suitable as an input into a valuation; and **Assessing transparency**: Consideration of the appropriateness, in accordance with relevant accounting standards, of the disclosures in respect of unlisted investments and the effect of changing one or more inputs to reasonably possible alternative valuation assumptions. **Our results** — We found the Company's valuation of unlisted investments to be acceptable (2017: acceptable).
Carrying amount of listed investments *(£5,610.0 million; 2017: £4,598.1 million)* *Refer to page 35 (Audit Committee Report), page 49 (accounting policy) and pages 53, 54, and 62 (financial disclosures)*	**Low risk, high value** The Company's portfolio of listed investments makes up 83.9% of the Company's total assets (by value) and is considered to be one of the key drivers of results. We do not consider these investments to be at a high risk of significant misstatement, or to be subject to a significant level of judgement because they comprise liquid, listed investments. However, due to their materiality in the context of the financial statements as a whole, they are considered to be one of the areas which had the greatest effect on our overall audit strategy and allocation of resources in planning and completing our audit.	Our procedures included: — **Tests of Detail:** Agreeing the valuation of 100 per cent of investments in the portfolio to externally quoted prices; and — **Enquiry of custodians:** Agreeing 100 per cent of investment holdings in the portfolio to independently received third party confirmations from investment custodians or share certificates for investments which have recently listed and where the investment custodians do not hold the certificate. **Our results** — We found the carrying amount of listed investments to be acceptable (2017: acceptable).

KPMG

3. Emphasis of matter – revision of disclosure note

We draw attention to the disclosures made in note 1 to these financial statements concerning the revision of the disclosure of the distributability of the realised capital reserves. These financial statements replace the original financial statements approved by the directors on 11 May 2018. They have been prepared under the Regulations and accordingly do not take account of events which have taken place after the date on which the original financial statements were approved on 11 May 2018. Our previous report was signed on that date. We have not performed a subsequent events review for the period from the date of our previous report to the date of this report.

Our opinion is not modified in respect of this matter.

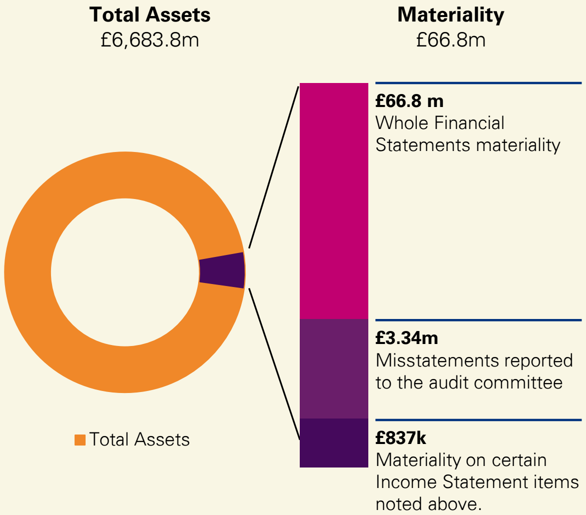
4. Our application of materiality and an overview of the scope of our audit

Materiality for the Financial Statements as a whole was set at £66.8m, determined with reference to a benchmark of total assets, of which it represents 1%.

In addition, we applied materiality of £837,000 (2017: £793,000) to income, investment management fees and borrowing costs, for which we believe misstatements of lesser amounts than materiality for the Financial Statements as a whole could reasonably be expected to influence the Company's members' assessment of the financial performance of the Company.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £3.34m, in addition to other identified misstatements that warranted reporting on qualitative grounds.

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



5. We have nothing to report on going concern

We are required to report to you if:

— we have anything material to add or draw attention to in relation to the Directors' statement in note 1 to the Financial Statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Company's use of that basis for a period of at least twelve months from the date of approval of the Financial Statements; or

— if the related statement under the Listing Rules set out on page 34 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects.

6. We have nothing to report on the other information in the Annual Report

The Directors are responsible for the other information presented in the Annual Report together with the Financial Statements. Our opinion on the Financial Statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the Financial Statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:

— we have not identified material misstatements in the Strategic Report (similarly revised in line with the change explained in note 1) and the Directors' Report;

— in our opinion the information given in those reports for the financial year is consistent with the Financial Statements; and

— in our opinion those reports have been prepared in accordance with the Companies Act 2006 seen as at the date the original reports were approved.

Directors' remuneration report

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of principal risks and longer-term viability

Based on the knowledge we acquired during our Financial Statements audit, we have nothing material to add or draw attention to in relation to:

— the Directors' confirmation within the Viability Statement on pages 9 and 10 that they have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency and liquidity;

— the Principal Risks disclosures describing these risks and explaining how they are being managed and mitigated; and

— the Directors' explanation in the Viability Statement of how they have assessed the prospects of the Company, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Under the Listing Rules we are required to review the Viability Statement.

We have nothing to report in this respect.

KPMG

Corporate governance disclosures

We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our Financial Statements 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 position and performance, business model and strategy; or
- the section of the Annual Report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the eleven provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

7. We have nothing to report on the other matters on which we are required to report by exception

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the Financial Statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

8. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 39, the Directors are responsible for: the preparation of the Financial Statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Statements. A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The audit of revised Financial Statements also includes the performance of procedures to assess whether the revisions made by the Directors are appropriate and have been properly made.

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the Financial Statements from our sector experience and through discussion with the Directors, the manager and the administrator (as required by auditing standards).

We had regard to laws and regulations in areas that directly affect the Financial Statements including financial reporting (including related company legislation) as well as the company's qualification as an Investment Trust under UK tax legislation, any breach of which could lead to the Company losing various deductions and exemptions from UK corporation tax. We considered the extent of compliance with those laws and regulations as part of our procedures on the related Financial Statement items.

We communicated identified laws and regulations throughout our team which included individuals with experience relevant to those laws and regulations, and remained alert to any indications of non-compliance throughout the audit.

As with any audit, there remained a higher risk of non-detection of non-compliance with relevant laws and regulations (irregularities), as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

9. The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and as required by paragraph 7 of the Regulations. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

John Waterson (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG

22 May 2018

KPMG

Income Statement

For the year ended 31 March

	Notes	2018 Revenue £'000	2018 Capital £'000	2018 Total £'000	2017 Revenue £'000	2017 Capital £'000	2017 Total £'000
Gains on investments	9	–	1,203,348	**1,203,348**	–	1,354,245	**1,354,245**
Currency gains/(losses)		–	21,129	**21,129**	–	(42,958)	**(42,958)**
Income	2	30,663	–	**30,663**	27,796	–	**27,796**
Investment management fee	3	(4,495)	(13,484)	**(17,979)**	(3,558)	(10,674)	**(14,232)**
Other administrative expenses	4	(3,929)	–	**(3,929)**	(3,544)	–	**(3,544)**
Net return before finance costs and taxation		22,239	1,210,993	**1,233,232**	20,694	1,300,613	**1,321,307**
Finance costs of borrowings	5	(5,490)	(16,471)	**(21,961)**	(4,837)	(14,510)	**(19,347)**
Net return before taxation		16,749	1,194,522	**1,211,271**	15,857	1,286,103	**1,301,960**
Tax	6	(48)	–	**(48)**	(1,721)	–	**(1,721)**
Net return after taxation		**16,701**	**1,194,522**	**1,211,223**	**14,136**	**1,286,103**	**1,300,239**
Net return per ordinary share	7	**1.20p**	**85.80p**	**87.00p**	**1.07p**	**97.31p**	**98.38p**

The total column of this statement is the profit and loss account of the Company. The supplementary revenue and capital return columns are prepared under guidance published by the Association of Investment Companies.

All revenue and capital items in this statement derive from continuing operations.

A Statement of Comprehensive Income is not required as all gains and losses of the Company have been reflected in the above statement.

The accompanying notes on pages 48 to 64 are an integral part of the Financial Statements.

Balance Sheet

As at 31 March

	Notes	2018 £'000	2018 £'000	2017 £'000	2017 £'000
Fixed assets					
Investments held at fair value through profit or loss	9		6,646,015		5,298,338
Current assets					
Debtors	10	2,764		16,293	
Cash and cash equivalents	19	34,974		76,643	
		37,738		92,936	
Creditors					
Amounts falling due within one year	11	(241,961)		(367,973)	
Net current liabilities			(204,223)		(275,037)
Total assets less current liabilities			6,441,792		5,023,301
Creditors					
Amounts falling due after more than one year	12		(254,036)		(149,710)
			6,187,756		**4,873,591**
Capital and reserves					
Share capital	13		71,086		71,086
Share premium account†	13,14		352,375		216,808
Capital redemption reserve	14		19,094		19,094
Capital reserve†	14		5,741,352		4,537,789
Revenue reserve	14		3,849		28,814
Shareholders' funds	15		**6,187,756**		**4,873,591**
Net asset value per ordinary share (after deducting borrowings at book)*	15		**443.5p**		**358.7p**

The Financial Statements of Scottish Mortgage Investment Trust PLC (Company registration No. SC007058) were approved and authorised for issue by the Board and were signed on its behalf on 22 May 2018.

Fiona McBain
Chairman

The accompanying notes on pages 48 to 64 are an integral part of the Financial Statements.

* See Glossary of Terms on page 74.

† The Capital Reserve and Share Premium Account as at 31 March 2017 have been restated – see note 13 on page 56.

Statement of Changes in Equity

For the year ended 31 March 2018

	Notes	Share capital £'000	Share premium account † £'000	Capital redemption reserve £'000	Capital reserve *† £'000	Revenue reserve * £'000	Shareholders' funds £'000
Shareholders' funds at 1 April 2017		71,086	216,808	19,094	4,537,789	28,814	**4,873,591**
Net return after taxation	14	–	–	–	1,194,522	16,701	**1,211,223**
Ordinary shares bought back into treasury	13	–	–	–	(62,951)	–	**(62,951)**
Ordinary shares sold from treasury	13	–	135,567	–	71,992	–	**207,559**
Dividends paid during the year	8	–	–	–	–	(41,666)	**(41,666)**
Shareholders' funds at 31 March 2018		**71,086**	**352,375**	**19,094**	**5,741,352**	**3,849**	**6,187,756**

For the year ended 31 March 2017

	Notes	Share capital £'000	Share premium account † £'000	Capital redemption reserve £'000	Capital reserve *† £'000	Revenue reserve * £'000	Shareholders' funds £'000
Shareholders' funds at 1 April 2016		71,086	116,410	19,094	3,197,092	53,762	**3,457,444**
Net return after taxation		–	–	–	1,286,103	14,136	**1,300,239**
Ordinary shares bought back into treasury	13	–	–	–	(19,558)	–	**(19,558)**
Ordinary shares issued from treasury	13	–	100,398	–	74,152	–	**174,550**
Dividends paid during the year	8	–	–	–	–	(39,084)	**(39,084)**
Shareholders' funds at 31 March 2017		**71,086**	**216,808**	**19,094**	**4,537,789**	**28,814**	**4,873,591**

The accompanying notes on pages 48 to 64 are an integral part of the Financial Statements.

* The Revenue Reserve and the Capital Reserve (to the extent it constitutes realised profits and subject to the removal, intended since the 2014 Annual General Meeting, of a restriction in the Articles of Association) are distributable.

† The Capital Reserve and Share Premium Account as at 31 March 2016 and 31 March 2017 have been restated – see note 13 on page 56.

Cash Flow Statement

For the year ended 31 March

	Notes	2018 £'000	2018 £'000	2017 £'000	2017 £'000
Cash flows from operating activities					
Net return before taxation		1,211,271		1,301,960	
Gains on investments		(1,203,348)		(1,354,245)	
Currency (gains)/losses		(21,129)		42,958	
Finance costs of borrowings		21,961		19,347	
Overseas withholding tax refunded		316		124	
Overseas withholding tax incurred		(2,128)		(1,755)	
Changes in debtors and creditors		4,295		443	
Cash from operations			11,238		8,832
Interest paid			(20,972)		(19,484)
Net cash outflow from operating activities			(9,734)		(10,652)
Cash flows from investing activities					
Acquisitions of investments		(938,385)		(723,418)	
Disposals of investments		800,627		686,952	
Net cash outflow from investing activities			(137,758)		(36,466)
Equity dividends paid	8	(41,666)		(39,084)	
Ordinary shares bought back into treasury		(62,884)		(19,574)	
Ordinary shares sold from treasury		212,687		169,422	
Bank loans repaid		(132,775)		(37,903)	
Bank loans drawn down and loan notes issued		136,921		–	
Net cash inflow from financing activities			112,283		72,861
(Decrease)/increase in cash and cash equivalents			(35,209)		25,743
Exchange movements			(6,460)		6,927
Cash and cash equivalents at start of period	19		76,643		43,973
Cash and cash equivalents at end of period*	19		**34,974**		**76,643**

* Cash and cash equivalents represent cash at bank and short term money market deposits repayable on demand.

The accompanying notes on pages 48 to 64 are an integral part of the Financial Statements.

Notes to the Financial Statements

1 Principal Accounting Policies

These Financial Statements were approved by the Board of Directors on 22 May 2018 in replacement of those originally approved by the Board on 11 May 2018. They have been prepared as at that earlier date, but include revisions to include (see note 14 and the Statement of Changes in Equity) that the Company's realised capital profits are not distributable under a restriction in its current Articles of Association; that restriction is in contradiction of the intent of the resolution passed by the Shareholders in 2014.

The Financial Statements for the year to 31 March 2018 have been prepared in accordance with FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and on the basis of the accounting policies set out below which are unchanged from the prior year and have been applied consistently.

(a) Basis of Accounting

All of the Company's operations are of a continuing nature and 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 under section 1158 of the Corporation Tax Act 2010 will be retained.

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 and Venture Capital Trusts' issued in November 2014 and updated in January 2017 with consequential amendments.

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.

The Directors consider the Company's functional currency to be sterling as the Company's share capital and dividends paid are denominated in sterling, 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.

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.

The Company has only one material segment being that of an investment trust company investing in a portfolio of long term investments chosen on a global basis.

(b) Accounting Estimates, Assumptions and Judgements

The preparation of the Financial Statements requires the use of estimates, assumptions and judgements. These estimates, assumptions and judgements affect the reported amounts of assets and liabilities, at the reporting date. While estimates are based on best judgement using information and financial data available, the actual outcome may differ from these estimates. The key sources of estimation and uncertainty relate to the fair valuation of the unlisted investments.

Judgements

The key judgements in the fair valuation process are:

(i) the Managers' determination of the appropriate application of the International Private Equity and Venture Capital guidelines ('IPEV') to each unlisted investment; and

(ii) the Directors' consideration of whether each fair value is appropriate following detailed review and challenge.

The judgement applied in the selection of the methodology used (see (c) below) for determining the fair value of each unlisted investment can have a significant impact upon the valuation.

Estimates

The key estimate in the Financial Statements is the determination of the fair value of the unlisted investments by the Managers for consideration by the Directors. This estimate is key as it significantly impacts the valuation of the unlisted investments at the balance sheet date. The significance of this estimate has increased over year with the increase in unlisted investments (see note 9). The fair valuation process involves estimates using inputs that are unobservable (for which market data is unavailable). Fair value estimates are cross-checked to alternative estimation methods where possible to improve the robustness of the estimate. As the valuation outcomes may differ from the fair value estimates a price sensitivity analysis is provided in Other Price Risk Sensitivity in note 19 on page 62 to illustrate the effect on the Financial Statements of an over or under estimation of fair values. The risk of an over or underestimation of fair values is greater when methodologies are applied using more subjective inputs.

Assumptions

The determination of fair value by the Managers involves key assumptions dependent upon the valuation methodology used. As explained in (c) below, the primary methodologies applied are i) the Price of Recent Investment and ii) Multiples approaches. The Multiples approach involves more subjective inputs than the Price of Recent Investment approach and therefore presents a greater risk of over or under estimation.

The key assumption for the Price of Recent Investment method is that the prices used remain a reasonable proxy for fair value typically for a period of up to six months from the date of the relevant transaction. All recent investment prices are compared to movements in relevant benchmarks and the wider market over the period since the date of the relevant transaction. As the time from the reference transaction increases, the valuation is cross-checked to a Multiples based method to ensure reasonableness.

The key assumptions for the Multiples approach are that the selection of comparable companies (chosen on the basis of their business characteristics and growth patterns) and using either historic or forecast revenues (as considered most appropriate) provide a reasonable basis for identifying relationships between enterprise value and growth to apply in the determination of fair value. Other assumptions include the appropriateness of the discount magnitude applied for reduced liquidity and the probabilities assigned to an exit being through either an IPO or a trade sale. Valuations are cross-checked for reasonableness to alternative multiples based approaches or benchmark movements, as appropriate.

(c) Investments

Purchases and sales

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.

Listed Investments

The fair value of listed security investments is bid value, or in the case of holdings on certain recognised overseas exchanges, at last traded prices.

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.

Unlisted Investments

Unlisted investments are valued at fair value by the Directors following a detailed review and appropriate challenge of the valuations proposed by the Managers. The Managers' unlisted investment policy applies methodologies consistent with the International Private Equity and Venture Capital Valuation guidelines ('IPEV'). The principal methodologies applied are market based approaches and are as follows:

— Price of Recent Investment;

— Multiples;

— Industry Valuation Benchmarks; and

— Available Market Prices.

The nature of the unlisted portfolio currently will influence the valuation methodology applied. The price of a recent investment or available market prices for secondary transactions may be the most appropriate approach for investments in young, rapidly growing companies using technology to create new, or disrupt existing, business models. The policy, however, recognises that the robustness of a transaction based valuation will erode as the length of time from the relevant transaction increases. Additionally, the background to the transaction must be considered. In these cases, alternative techniques consistent with IPEV guidelines will be employed. Methodologies using multiples or discounted cash flows are utilised where appropriate, particularly in those companies with established earnings. An absence of relevant industry peers may preclude the application of the Industry Valuation Benchmarks method.

The unlisted investments are valued according to a three monthly cycle of measurement dates. The fair value of the unlisted investments will be reviewed before the next scheduled three monthly measurement date on the following occasions:

— At the year end and half year end of Scottish Mortgage; and

— Where there is an indication of a change in fair value as defined in the IPEV guidelines (commonly referred to as 'trigger' events).

Majority Holdings

The Company has a majority holding in the shares of the Level E Maya Fund. The Company has taken advantage of the exemption from preparing consolidated accounts available in FRS 102 for investments held as part of an investment portfolio with a view to subsequent resale.

Gains and Losses

Gains and losses on investments, including those arising from foreign currency exchange differences are recognised in the Income Statement as capital items.

(d) Cash and Cash Equivalents

Cash and cash equivalents 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.

(e) 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 any 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.

(f) 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 have been charged 25:75 to the revenue account and capital reserve. The Directors have agreed that with effect from 1 April 2018 the investment management fee will be charged fully to the capital reserve (see Chairman's Statement on page 3).

(g) 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 have been allocated 25:75 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. The Directors have agreed that with effect from 1 April 2018 the finance costs will be charged fully to the capital reserve (see Chairman's Statement on page 3).

(h) Taxation

Current tax is provided at the amounts expected to be paid or recovered. 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 an undiscounted basis on all timing differences which have originated but not reversed by the Balance Sheet date, calculated at the tax rates expected to apply when the timing differences reverse, based on what has been enacted or substantially enacted, 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.

(i) 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.

(j) 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. 75% of management fees and finance costs have been allocated to the capital reserve in accordance with the Company's objective of combining capital and income growth with effect from 1 April 2018 100% of management fees and finance costs will be charged to the capital reserve (see Chairman's Statement on page 3).

(k) Share Premium Account

The balance classified as share premium represents the proceeds of sales of shares held in treasury in excess of the weighted average purchase price paid by the Company to repurchase the shares.

2 Income

	2018 £'000	2017 £'000
Income from investments		
UK dividend income	2,332	3,840
UK other investment income*	–	60
Overseas dividends	27,804	22,491
Overseas interest	147	1,361
	30,283	**27,752**
Other income		
Deposit interest	380	44
	380	**44**
Total income	**30,663**	**27,796**
Total income comprises:		
Dividends from financial assets designated at fair value through profit or loss	30,136	26,391
Interest from financial assets designated at fair value through profit or loss	147	1,361
Interest from financial assets not at fair value through profit or loss	380	44
	30,663	**27,796**

* Includes OEIC income.

3 Investment Management Fee

	2018 Revenue £'000	2018 Capital £'000	2018 Total £'000	2017 Revenue £'000	2017 Capital £'000	2017 Total £'000
Investment management fee	4,495	13,484	**17,979**	3,558	10,674	**14,232**

Details of the Investment Management Agreement are disclosed on page 28. The annual management fee is 0.30% on the first £4 billion of total assets less current liabilities (excluding short term borrowings for investment purposes) and 0.25% thereafter. For the year to 31 March 2017 the management fee was 0.30% of total assets less current liabilities (excluding short term borrowings for investment purposes). The management fee is calculated quarterly and 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 Company's holding in the Baillie Gifford Global Discovery OEIC was sold during the year to 31 March 2017.

The investment management fees for the years to 31 March 2018 and 31 March 2017 were charged 25% to revenue and 75% to capital (with effect from 1 April 2018 the investment management fee will be charged 100% to capital, see Chairman's Statement on page 3).

4 Other Administrative Expenses

	2018 £'000	2017 £'000
General administrative expenses (including share issuance expenses)	3,644	3,358
Directors' fees (see Directors' Remuneration Report page 37)	240	208
Auditor's remuneration for audit services	44	25
Auditor's remuneration for non-audit services – certification of financial information for the debenture trustees	1	1
– provision of Indian tax services	–	2
	3,929	3,594
Share issuance expenses deducted from gross issuance proceeds	–	(50)
Other administrative expenses charged to revenue	**3,929**	**3,544**

5 Finance Costs of Borrowings

	2018 Revenue £'000	2018 Capital £'000	2018 Total £'000	2017 Revenue £'000	2017 Capital £'000	2017 Total £'000
Financial liabilities not at fair value through profit or loss						
Bank loans and overdrafts repayable within five years	1,285	3,853	**5,138**	1,433	4,298	**5,731**
Debentures repayable wholly or partly in more than five years	3,392	10,178	**13,570**	3,404	10,212	**13,616**
Loan notes repayable in more than five years	813	2,440	**3,253**	–	–	–
	5,490	**16,471**	**21,961**	**4,837**	**14,510**	**19,347**

The finance costs for the years to 31 March 2018 and 31 March 2017 have been charged 25% to revenue and 75% to capital (with effect from 1 April 2018, finance costs will be charged 100% to capital, see Chairman's Statement on page 3).

6 Tax on Ordinary Activities

	2018 Revenue £'000	2018 Capital £'000	2018 Total £'000	2017 Revenue £'000	2017 Capital £'000	2017 Total £'000
Overseas taxation	2,029	–	**2,029**	1,845	–	**1,845**
Overseas tax refunded	(1,981)	–	**(1,981)**	(124)	–	**(124)**
	48	**–**	**48**	**1,721**	**–**	**1,721**

	2018 £'000	2017 £'000
The tax charge for the year is lower (2017 – lower) than the standard rate of corporation tax in the UK of 19% (2017 – 20%)		
The differences are explained below:		
Net return on ordinary activities before taxation	1,211,271	1,301,960
Net return on ordinary activities before taxation multiplied by the standard rate of corporation tax in the UK of 19% (2017 – 20%)	230,141	260,392
Capital returns not taxable	(232,651)	(262,257)
Income not taxable (UK dividends)	(443)	(768)
Income not taxable (overseas dividends)	(5,144)	(4,346)
Adjustment to income received from OEICs for tax purposes	–	3
Current year management expenses and non-trade loan relationship deficit not utilised	8,097	6,976
Overseas withholding tax	2,029	1,845
Overseas withholding tax refunded	(1,981)	(124)
Tax charge for the year	**48**	**1,721**

At 31 March 2018 the Company had surplus management expenses and losses on non-trading loan relationships of £266 million (2017 – £222 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

	2018 Revenue	2018 Capital	2018 Total	2017 Revenue	2017 Capital	2017 Total
Net return per ordinary share	**1.20p**	**85.80p**	**87.00p**	**1.07p**	**97.31p**	**98.38p**

Revenue return per ordinary share is based on the net revenue on ordinary activities after taxation of £16,701,000 (2017 – £14,136,000), and on 1,392,180,470 (2017 – 1,321,667,362) 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 return for the financial year of £1,194,522,000 (2017 – net capital return of £1,286,103,000), and on 1,392,180,470 (2017 – 1,321,667,362) 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

	2018	2017	2018 £'000	2017 £'000
Amounts recognised as distributions in the year:				
Previous year's final (paid 3 July 2017)	1.61p	1.58p	22,264	20,795
Interim (paid 1 December 2017)	1.39p	1.39p	19,402	18,289
	3.00p	**2.97p**	**41,666**	**39,084**

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 £16,701,000 (2017 – £14,136,000).

	2018	2017	2018 £'000	2017 £'000
Dividends paid and payable in respect of the year:				
Interim dividend per ordinary share (paid 1 December 2017)	1.39p	1.39p	19,402	18,289
Proposed final dividend per ordinary share (payable 2 July 2018)	1.68p	1.61p	23,442	22,264
	3.07p	**3.00p**	**42,844**	**40,553**

9 Fixed Assets – Investments

As at 31 March 2018	Level 1 * £'000	Level 2 £'000	Level 3 * £'000	Total £'000
Equities/funds	5,604,854	37,666	–	**5,642,520**
Unlisted ordinary shares	–	–	168,083	**168,083**
Unlisted preference shares	–	–	835,412	**835,412**
Total financial asset investments	**5,604,854**	**37,666**	**1,003,495**	**6,646,015**

As at 31 March 2017	Level 1 * £'000	Level 2 £'000	Level 3 * £'000	Total £'000
Equities/funds	4,565,355	5,463	–	**4,570,818**
Debt securities	–	27,277	–	**27,277**
Unlisted ordinary shares	–	–	146,381	**146,381**
Unlisted preference shares	–	–	553,862	**553,862**
Total financial asset investments	**4,565,355**	**32,740**	**700,243**	**5,298,338**

Investments in securities are financial assets designated at fair value through profit or loss on initial recognition. In accordance with Financial Reporting Standard 102, 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 – using unadjusted quoted prices for identical instruments in an active market;
Level 2 – using inputs, other than quoted prices included within Level 1, that are directly or indirectly observable (based on market data); and
Level 3 – using inputs that are unobservable (for which market data is unavailable).

The valuation techniques used by the Company are explained in the accounting policies on page 48.

9 Fixed Assets – Investments (continued)

During the year investments with a bookcost of £72,494,000 (2017 – £nil) were transferred from Level 3 to Level 1 on becoming listed and investments with a bookcost of £16,292,000 (2017 – £nil) were transferred from Level 3 to Level 2.

	Listed Securities* £'000	Unlisted Securities £'000	Bonds £'000	Total £'000
Cost of investments at 1 April 2017	2,014,840	625,812	9,864	**2,650,516**
Investment holding gains at 1 April 2017	2,555,978	74,431	17,413	**2,647,822**
Value of investments at 1 April 2017	4,570,818	700,243	27,277	**5,298,338**
Movements in year:				
Purchases at cost	491,194	447,191	–	**938,385**
Sales – proceeds	(714,652)	(53,328)	(26,076)	**(794,056)**
– gains on sales	435,344	7,544	16,212	**459,100**
Changes in investment holding gains and losses	771,030	(9,369)	(17,413)	**744,248**
Changes in categorisation	88,786	(88,786)	–	**–**
Value of investments at 31 March 2018	**5,642,520**	**1,003,495**	**–**	**6,646,015**
Ordinary share investments*	5,642,520	168,083	–	**5,810,603**
Preference share investments	–	835,412	–	**835,412**
Value of investments at 31 March 2018	**5,642,520**	**1,003,495**	**–**	**6,646,015**
Cost of investments at 31 March 2018	2,315,512	938,433	–	**3,253,945**
Investment holding gains at 31 March 2018	3,327,008	65,062	–	**3,392,070**
Value of investments at 31 March 2018	**5,642,520**	**1,003,495**	**–**	**6,646,015**

* Includes funds and Level 2 equity investments.

The purchases and sales proceeds figures above include transaction costs of £332,000 (2017 – £261,000) and £383,000 (2017 – £312,000) respectively.

Of the gains on sales during the year of £459,100,000 (2017 – gains of £240,259,000) a net gain of £335,688,000 (2017 – gain of £140,787,000) was included in the investment holding gains/(losses) at the previous year end.

	2018 £'000	2017 £'000
Net gains on investments designated at fair value through profit or loss on initial recognition		
Gains on sales	459,100	240,259
Changes in investment holding gains	744,248	1,113,986
	1,203,348	**1,354,245**

10 Debtors

	2018 £'000	2017 £'000
Amounts falling due within one year:		
Accrued income	777	3,534
Sales for subsequent settlement	–	6,571
Share issuance proceeds awaiting settlement	–	5,128
Withholding tax reclaim outstanding	1,665	–
Other debtors and prepayments	322	1,060
	2,764	**16,293**

None of the above debtors is a financial asset 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

	2018 £'000	2017 £'000
The Royal Bank of Scotland plc 1 year loan	28,514	131,947
The Royal Bank of Scotland plc 2 year loan	60,593	67,973
National Australia Bank Limited 2 year loan	142,572	159,936
Purchases for subsequent settlement	–	–
Other creditors and accruals	10,282	8,117
	241,961	**367,973**

Included in other creditors is £4,671,000 (2017 – £4,037,000) in respect of the investment management fee.

Borrowing facilities at 31 March 2018

A 1 year US$40 million revolving loan facility has been arranged with The Royal Bank of Scotland plc.
A 2 year US$85 million revolving loan facility has been arranged with The Royal Bank of Scotland plc.
A 2 year US$200 million revolving loan facility has been arranged with National Australia Bank Limited.

At 31 March 2018 drawings were as follows:

The Royal Bank of Scotland plc	US$40 million (revolving facility) at an interest rate (at 31 March 2018) of 2.255% per annum
	US$85 million (revolving facility) at an interest rate (at 31 March 2018) of 2.764% per annum
National Australia Bank Limited	US$200 million (revolving facility) at an interest rate (at 31 March 2018) of 2.623% per annum

At 31 March 2017 drawings were as follows:

The Royal Bank of Scotland plc	US$165 million (revolving facility) at an interest rate (at 31 March 2017) of 1.525% per annum
	US$85 million (fixed rate facility) at an interest rate of 1.945% per annum
National Australia Bank Limited	US$200 million (revolving facility) at an interest rate (at 31 March 2017) of 1.792% per annum

During the year the US$165 million 1 year revolving loan with The Royal Bank of Scotland plc ('RBS') was repaid and replaced with a US$40 million 1 year revolving loan with RBS. The US$85 million 3 year fixed rate loan with RBS was refinanced with a US$85 million 2 year revolving loan with RBS.

The main covenants which are tested monthly 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 £1,000 million.
(iii) The Company shall not change the investment manager without prior written consent of the lenders.

Subsequent to the year end on 11 April 2018, the US$40 million 1 year revolving loan with RBS was replaced with a US$80 million 3 year revolving loan with RBS.

12 Creditors – Amounts falling due after more than one year

	Nominal rate	Effective rate	2018 £'000	2017 £'000
Debenture stocks:				
£20 million 8–14% stepped interest debenture stock 2020	14.0%	12.3%	20,704	20,932
£75 million 6.875% debenture stock 2023	6.875%	6.9%	74,821	74,784
£50 million 6–12% stepped interest debenture stock 2026	12.0%	10.8%	53,093	53,319
£675,000 4½% irredeemable debenture stock			675	675
Unsecured loan notes:				
£45 million 3.05% 2042	3.05%	3.05%	44,890	–
£30 million 3.30% 2044	3.30%	3.30%	29,927	–
£30 million 3.12% 2047	3.12%	3.12%	29,926	–
			254,036	**149,710**

12 Creditors – Amounts falling due after more than one year (continued)

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 £3,618,000 (2017 – £4,035,000) over nominal value. The debenture stocks are secured by a floating charge over the assets of the Company.

Unsecured loan notes

During the year the Company issued the following private placement unsecured loan notes:

- £45 million at a coupon of 3.05% maturing on 7 April 2042
- £30 million at a coupon of 3.30% maturing on 6 April 2044
- £30 million at a coupon of 3.12% maturing on 6 April 2047

A further unsecured loan note was agreed for funding on 30 September 2020 to refinance the £20 million 8–14% stepped interest debenture stock maturing on 30 September 2020:

- £20 million at a coupon of 3.65% maturing on 6 April 2044

The unsecured loan notes are stated at the cumulative amount of net proceeds after issue. The cumulative effect is to reduce the carrying amount of borrowing by £257,000.

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 Share Capital

	2018 Number	2018 £'000	2017 Number	2017 £'000
Allotted, called up and fully paid ordinary shares of 5p each	1,395,363,209	69,768	1,358,569,485	67,928
Treasury shares of 5p each	26,367,671	1,318	63,161,395	3,158
Total	**1,421,730,880**	**71,086**	**1,421,730,880**	**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 2018 a total of 14,006,276 (2017 – 7,005,000) ordinary shares with a nominal value of £700,000 (2017 – £350,000) were bought back at a total cost of £62,951,000 (2017 – £19,558,000) and held in treasury. At 31 March 2018 the Company had authority to buy back a further 191,711,909 ordinary shares.

Under the provisions of the Company's Articles the share buy-backs were funded from the capital reserve.

In the year to 31 March 2018, the Company sold 50,800,000 ordinary shares from treasury at a premium to net asset value, with a nominal value of £2,540,000 raising net proceeds of £207,559,000 (31 March 2017 – 53,050,000 ordinary shares raising net proceeds of £174,550,000). At 31 March 2018 the Company had authority to issue or sell from treasury a further 121,286,948 ordinary shares.

Share Premium Account

Where the sale of shares held in treasury results in proceeds in excess of the weighted average purchase price paid by the Company to repurchase the shares, the excess must be transferred to the Company's Share Premium Account. In prior years, when shares held in treasury were subsequently sold, the proceeds of the sale were reflected in full in the Capital Reserve. Consequently, an adjustment has been made between the Capital Reserve and the Share Premium Account and the prior year disclosures have been restated accordingly. The effect of this adjustment as at 1 April 2016 has been to increase Share Premium to £116,410,000 from Nil and decrease Capital Reserve to £3,197,092,000 from £3,313,502,000. For the year ended 31 March 2017, the credit to Share Premium for the year has been increased to £100,398,000 from Nil with the in year movement on Capital Reserve decreased to £74,152,000 from £174,550,000. This has resulted in revised Share Premium and Capital Reserve balances of £216,808,000 and £4,537,789,000 respectively at 31 March 2017 and forms the restated opening position at 1 April 2017.

There is no impact on total reserves in the current or prior periods arising from this restatement.

14 Capital and Reserves

	Share capital £'000	Share premium account † £'000	Capital redemption reserve £'000	Capital reserve † £'000	Revenue reserve £'000	Shareholders' funds £'000
At 1 April 2017	71,086	216,808	19,094	4,537,789	28,814	**4,873,591**
Gains on sales	–	–	–	459,100	–	**459,100**
Changes in investment holding gains and losses	–	–	–	744,248	–	**744,248**
Exchange differences	–	–	–	(6,460)	–	**(6,460)**
Exchange differences on loans	–	–	–	27,589	–	**27,589**
Shares bought back into treasury	–	–	–	(62,951)	–	**(62,951)**
Shares sold from treasury	–	135,567	–	71,992	–	**207,559**
Investment management fee charged to capital	–	–	–	(13,484)	–	**(13,484)**
Finance costs of borrowings charged to capital	–	–	–	(16,471)	–	**(16,471)**
Dividends paid in year	–	–	–	–	(41,666)	**(41,666)**
Revenue return on ordinary activities after taxation	–	–	–	–	16,701	**16,701**
At 31 March 2018	**71,086**	**352,375**	**19,094**	**5,741,352**	**3,849**	**6,187,756**

The capital reserve includes investment holding gains of £3,392,070,000 (2017 – gains of £2,647,822,000) as disclosed in note 9. The Revenue Reserve and the Capital Reserve (to the extent it constitutes realised profits and subject to the removal, intended since the 2014 Annual General Meeting, of a restriction in the Articles of Association) are distributable.

† The Capital Reserve and Share Premium Account as at 31 March 2017 have been restated – see note 13.

15 Shareholders' Funds

	2018 £'000	2017 £'000
Total shareholders' funds are attributable as follows:		
Equity shares	**6,187,756**	**4,873,591**

Total shareholders' funds have been calculated in accordance with the provisions of FRS 102.

	2018	2017
Shareholders' funds attributable to ordinary shares (as above)	£6,187,756,000	£4,873,591,000
Number of ordinary shares in issue at the year end*	1,395,363,209	1,358,569,485
Shareholders' funds per ordinary share	**443.5p**	**358.7p**

* Excluding shares held in treasury.

16 Net Asset Value per Ordinary Share (calculated in accordance with the Articles of Association)

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 (adjusted to reflect the deduction of the debentures and loan notes at par/nominal value – see note 19) were as follows:

	2018	2017	2018 £'000	2017 £'000
Ordinary shares	**443.7p**	**359.0p**	**6,191,379**	**4,877,626**

A reconciliation to shareholders' funds per ordinary share in accordance with the provisions of FRS102 (see note 15) is as follows:

	2018	2017
Net asset value per ordinary share (in accordance with Articles of Association)	443.7p	359.0p
Expenses of debenture issue	0.1p	0.1p
Allocation of interest on borrowing	(0.3p)	(0.4p)
Total net assets at 31 March	**443.5p**	**358.7p**

17 Related Party Transactions

The Directors' fees for the year and Directors' interests are detailed in the Directors' Remuneration Report on pages 37 and 38.

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.

18 Contingencies, Guarantees and Financial Commitments

At the year end the Company had a capital commitment amounting to US$12,660,000 (2017 – US$23,600,000) in respect of five (2017 – five) subscription agreements: Innovation Works Development Fund, L.P. with a total commitment of US$15.00 million which expires on 21 May 2020, Sinovation Fund III, L.P. with a total commitment of US$10.00 million which expires on 31 December 2025, WI Harper Fund VII QP L.P. with a total commitment of US$10.00 million which expires on 3 March 2019, WI Harper Fund VIII L.P. with a total commitment of US$10.00 million which expires on 31 July 2024 and ARCH Venture Fund IX, L.P. with a total commitment of US$10.00 million which expires on 6 July 2026. At 31 March 2018 US$15.0 million, US$6.00 million, US$9.58 million, US$7.2 million and US$3.85 million (2017 – US$15.00 million, US$2.25 million, US$9.34 million, US$4.67 million and US$0.95 million) have been drawn down on each of these agreements respectively. Additionally, the Company has committed to purchase US$20 million of Vir Biotechnology Inc Series B preference shares by 31 March 2020 subject to the completion of certain milestones (2017 – nil).

19 Financial Instruments

As an Investment Trust, the Company invests in listed and unlisted securities and makes other investments so as to achieve its investment objective of maximising total return, whilst also generating 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 losses 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 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 an ongoing basis. Details of the Company's investment portfolio are shown in note 9 and on pages 21 to 24.

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.

19 Financial Instruments (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 2018	Investments £'000	Cash and cash equivalents £'000	Loans, loan notes and debentures £'000	Other debtors and creditors £'000	Net exposure £'000
US dollar	4,235,597	25,986	(231,679)	(690)	**4,029,214**
Euro	1,335,236	–	–	159	**1,335,395**
Hong Kong dollar	500,986	–	–	–	**500,986**
Swedish krona	333,306	3,798	–	–	**337,104**
Indian rupee	84,710	–	–	162	**84,872**
Total exposure to currency risk	**6,489,835**	**29,784**	**(231,679)**	**(369)**	**6,287,571**
Sterling	156,180	5,190	(254,036)	(7,149)	**(99,815)**
	6,646,015	**34,974**	**(485,715)**	**(7,518)**	**6,187,756**

As at 31 March 2017	Investments £'000	Cash and cash equivalents £'000	Loans, loan notes and debentures £'000	Other debtors and creditors £'000	Net exposure £'000
US dollar	3,311,569	67,547	(359,856)	(890)	**3,018,370**
Euro	1,055,007	–	–	998	**1,056,005**
Hong Kong dollar	308,730	–	–	–	**308,730**
Swedish krona	246,984	–	–	1,865	**248,849**
Brazilian real	27,277	–	–	546	**27,823**
Danish krone	47,104	–	–	–	**47,104**
Indonesian rupiah	17,659	–	–	–	**17,659**
Indian rupee	78,537	–	–	–	**78,537**
Total exposure to currency risk	**5,092,867**	**67,547**	**(359,856)**	**2,519**	**4,803,077**
Sterling	205,471	9,096	(149,710)	5,657	**70,514**
	5,298,338	**76,643**	**(509,566)**	**8,176**	**4,873,591**

19 Financial Instruments (continued)

Currency Risk Sensitivity

At 31 March 2018, 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 2017.

	2018 £'000	2017 £'000
US dollar	201,461	150,919
Euro	66,770	52,800
Hong Kong dollar	25,049	15,437
Swedish krona	16,855	12,442
Indian rupee	4,244	3,927
Danish krone	–	2,355
Brazilian real	–	1,391
Indonesian rupiah	–	883
	314,379	**240,154**

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.

19 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

	2018 Fair value £'000	2018 Weighted average interest rate	2018 Weighted average period until maturity *	2017 Fair value £'000	2017 Weighted average interest rate	2017 Weighted average period until maturity *
Floating rate:						
Brazilian bonds (index linked)	–	–	–	27,277	9.7%	28 years
Cash and short term deposits:						
Other overseas currencies	29,784	–	n/a	67,547	–	n/a
Sterling	5,190	0.3%	n/a	9,096	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, debentures and loan notes (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:

	2018 £'000	2017 £'000
Floating rate – US$ denominated	231,679	291,883
Fixed rate – Sterling denominated	254,036	149,710
– US$ denominated	–	67,973
	485,715	**509,566**

Maturity Profile

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

	2018 Within 1 year £'000	2018 Between 1 and 5 years £'000	2018 More than 5 years £'000	2017 Within 1 year £'000	2017 Between 1 and 5 years £'000	2017 More than 5 years £'000
Repayment of loans, debentures and loan notes	231,679	95,000	155,675 *	359,856	20,000	125,675 *
Accumulated interest on loans, debentures and loan notes to maturity date	18,799	62,141	91,284	18,060	52,487	33,022
	250,478	**157,141**	**246,959**	**377,916**	**72,487**	**158,697**

* Includes £675,000 irredeemable debenture stock.

Interest Rate Risk Sensitivity

An increase of 100 basis points in bond yields as at 31 March 2018 would have decreased net assets and net return after taxation by £nil (2017 – £3,729,000) and would have increased the net asset value per share (with borrowings at fair value) by 2.69p (2017 – increased by 0.55p). A decrease of 100 basis points would have had an equal but opposite effect.

19 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. The Board provides guidance to the Managers on the level of unlisted investments.

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 21 to 24. In addition, a geographical analysis of the portfolio, an analysis of the investment portfolio by broad industrial sector and a list of the 30 largest investments by their aggregate market value are contained in the Strategic Report.

91.2% (2017 – 93.8%) of the Company's net assets are invested in quoted equities. A 3% increase in quoted companies equity valuations at 31 March 2018 would have increased net assets and net return after taxation by £169,276,000 (2017 – £137,125,000). A decrease of 3% would have had an equal but opposite effect.

16.2% (2017 – 14.4%) of the Company's net assets are invested in unlisted securities. The fair valuation of the unlisted investments is influenced by the estimates, assumptions and judgements made in the fair valuation process (see 1 (b) on page 48). A sensitivity analysis is provided below which recognises that the valuation methodologies employed involve different levels of subjectivity in their inputs. The sensitivity analysis below applies a wider range of input variable sensitivity to the multiples methodology as it involves more significant subjective estimation than the recent transaction method (the risk of over or under estimation is higher due to the greater subjectivity involved, for example, in selecting the most relevant measure of sustainable revenues and identifying appropriate comparable companies).

As at 31 March 2018			Impact	
Valuation Basis	Fair Value of Investments £'000	Variable Input Sensitivity (%)	£'000 *	% of Net Assets
Recent Transaction	748,271	±10	±74,827	±1.2
Multiples	214,568	±20	±42,914	±0.7
Net Asset Value†	40,656	±10	±4,066	±0.1
Total	**1,003,495**		**±121,807**	**±2.0**

As at 31 March 2017			Impact	
Valuation Basis	Fair Value of Investments £'000	Variable Input Sensitivity (%)	£'000 *	% of Net Assets
Recent Transaction	447,257	±10	±44,726	±0.9
Multiples	213,236	±20	±42,648	±0.9
Net Asset Value†	39,750	±10	±3,975	±0.1
Total	**700,243**		**±91,349**	**±1.9**

* Impact on net assets and net return after taxation.

† Unlisted fund investments held at net asset values produced by the relevant fund administrators using appropriate fair valuation principles.

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.

19 Financial Instruments (continued)

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 Depositary is liable for the loss of financial instruments held in custody. The Depositary will ensure that any delegate segregates the assets of the Company. For the period up to the date of these Financial Statements, the Depository delegated the custody function to The Bank of New York Mellon SA/NV. 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 Manager monitors 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; and

— cash is held only at banks that are regularly reviewed by the Managers.

The Company owns a number of unquoted preference share securities. Some of these may have been classified as debt by the issuer. There are no material amounts past due in relation to these securities. As these instruments (alongside the ordinary share securities) have been recognised at fair value through profit and loss, the fair value takes into account credit, market and other price risk.

Credit Risk Exposure

The maximum exposure to direct credit risk at 31 March was:

	2018 £'000	2017 £'000
Fixed interest investments	–	27,277
Cash and short term deposits	34,974	76,643
Debtors and prepayments	2,764	16,293
	37,738	**120,213**

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

19 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 FRS 102. 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:

	2018 Par/nominal £'000	2018 Book £'000	2018 Fair £'000	2017 Par/nominal £'000	2017 Book £'000	2017 Fair £'000
8–14% stepped interest debenture stock 2020	20,000	20,704	25,339	20,000	20,932	27,295
6.875% debenture stock 2023	75,000	74,821	85,629	75,000	74,784	95,250
6–12% stepped interest debenture stock 2026	50,000	53,093	81,177	50,000	53,319	83,028
4½% irredeemable debenture stock	675	675	713	675	675	712
Total debentures	**145,675**	**149,293**	**192,858**	**145,675**	**149,710**	**206,285**
£45 million 3.05% 2042	45,000	44,890	47,762	–	–	–
£30 million 3.30% 2044	30,000	29,927	31,696	–	–	–
£30 million 3.12% 2047	30,000	29,926	31,819	–	–	–
Total unsecured loan notes	**105,000**	**104,743**	**111,277**	**–**	**–**	**–**
Fixed rate loans		–	–		67,973	68,083
Floating rate loans		231,679	231,679		291,883	291,883
Total borrowings		**485,715**	**535,814**		**509,566**	**566,251**

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 443.5p to 439.9p. Taking the market price of the ordinary shares at 31 March 2018 of 442.2p, this would have given a premium to net asset value of 0.5% as against a discount of 0.3% on a debt at book basis. At 31 March 2017 the effect would have been to reduce the net asset value from 358.7p to 354.6p. Taking the market price of the ordinary shares at 31 March 2017 of 366.1p, this would have given a premium to net asset value of 3.2% as against a premium of 2.1% on a debt at book basis.

Deducting long term borrowings at par value would have the effect of increasing the net asset value per share from 443.5p to 443.7p. Taking the market price of the ordinary shares at 31 March 2018 of 442.2p, this would have given a discount to net asset value of 0.3% as against a discount of 0.3% on a debt at book basis. At 31 March 2017 the effect would have been to increase the net asset value from 358.7p to 359.0p. Taking the market price of the ordinary shares at 31 March 2017 of 366.1p, this would have given a premium to net asset value of 2.0% as against a premium of 2.1% on a debt at book 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 from a portfolio of long term investments chosen on a global basis, enabling the Company to provide capital and dividend growth. 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 pages 8 and 9 and on pages 33 and 34. The Company has the authority to issue and buy back its shares (see page 7) 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, loan notes and debentures which are detailed in notes 11 and 12.

20 Subsequent Events

Subsequent to the year end, the US$40 million one year revolving loan with The Royal Bank of Scotland plc ('RBS') was replaced on 11 April 2018 with a US$80 million three year revolving loan with RBS.

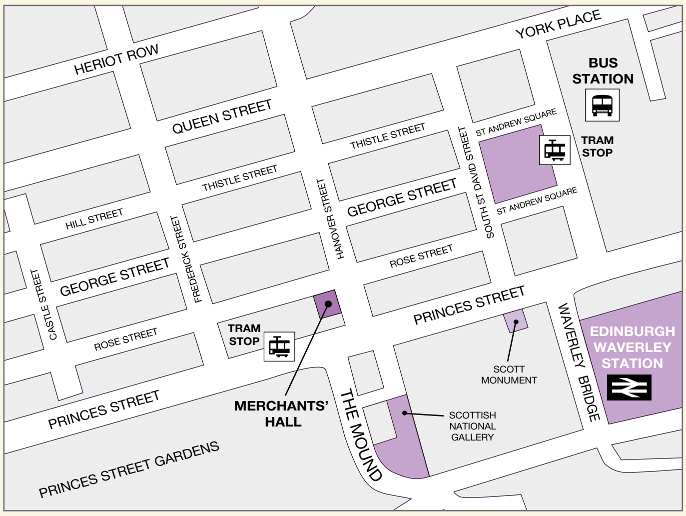
Unlisted investments

The holding in Mobike Ltd Series F Pref was sold on 20 April 2018 due to the company being bought by Internet Plus Holdings Ltd. The sale realised a loss of £237,000.

Spotify Technology SA listed on 3 April 2018. The closing price on the first day of trading represented an uplift of 25.0% from the price at 31 March 2018.

Unity Biotechnology Inc listed on 3 May 2018 by way of an initial public offering. The closing price on the first day of trading represented an uplift of 9.2% from the price at 31 March 2018.

Annual General Meeting



The Annual General Meeting of the Company will be held at The Merchants' Hall, 22 Hanover Street, Edinburgh, EH2 2EP on Thursday, 28 June 2018 at 4.30pm.

If you have any queries as to how to vote or how to attend the meeting, please call us on 0800 917 2112.

Baillie Gifford may record your call.

If you are unable to attend the Annual General Meeting, you may wish to consider registering for the Scottish Mortgage Investor Forum in London on 21 June 2018 – see page 73 for details.

By Rail: Edinburgh Waverley

By Bus: Lothian Buses local services include:
1, 3, 4, 15, 19, 22, 25, 29, 30, 31, 33, 34, 37, 41

Notice is hereby given that an Annual General Meeting of Scottish Mortgage Investment Trust PLC (the 'Company') will be held at The Merchants' Hall, 22 Hanover Street, Edinburgh EH2 2EP on Thursday 28 June 2018 at 4.30 pm for the purposes of considering and, if thought fit, passing the following Resolutions, of which Resolutions 1 to 11 and 13 will be proposed as ordinary Resolutions and Resolutions 12, 14 and 15 will be proposed as special resolutions. Resolutions 13 and 15 comprise the special business to be proposed and all the remaining resolutions comprise the ordinary business:

1. To receive and adopt the Company's Annual Report and Financial Statements for the financial year ended 31 March 2018, together with the Reports of the Directors and the Auditor's report thereon.
2. To approve the Directors' Annual Report on Remuneration for the financial year ended 31 March 2018.
3. Subject to the passing of Resolution 15 below, to declare a final dividend of 1.68p per Ordinary Share.
4. To re-elect Ms FC McBain as a Director of the Company.
5. To re-elect Mr LJ Dowley as a Director of the Company.
6. To re-elect Professor JA Kay as a Director of the Company.
7. To re-elect Professor PH Maxwell as a Director of the Company.
8. To re-elect Dr P Subacchi as a Director of the Company.
9. To re-appoint KPMG LLP as Independent Auditor of the Company to hold office until the conclusion of the next Annual General Meeting at which the Financial Statements are laid before the Company.
10. To authorise the Directors to determine the remuneration of the Independent Auditor of the Company.
11. That:
    (a) the Directors be generally and unconditionally authorised pursuant to section 551 of the Companies Act 2006 (the 'Act') to allot shares in the Company, or to grant rights to subscribe for or convert any security into shares in the Company, up to a maximum nominal amount of £7,020,816; and
    (b) the authority given by this Resolution:
        (i) shall be in substitution for all pre-existing authorities under section 551 of the Act; and
        (ii) unless renewed, revoked or varied in accordance with the Act, shall expire on 28 September 2019 or, if earlier, at the conclusion of the Annual General Meeting of the Company to be held in 2019 save that the Company may, before such expiry, make any offer or enter into an agreement which would or might require the allotment of shares in the Company, or the grant of rights to subscribe for or to convert any security into shares in the Company, after such expiry.
12. That, subject to the passing of Resolution 11 set out in the Notice of Annual General Meeting dated 29 May 2018 (the 'Allotment Authority'), the Directors be given power pursuant to sections 570 and 573 of the Companies Act 2006 (the 'Act') to allot equity securities (within the meaning of section 560(1) of the Act) for cash pursuant to the Allotment Authority, and to sell treasury shares for cash, as if section 561(1) of the Act did not apply to such allotment or sale, provided that such power:
    (a) shall be limited to the allotment of equity securities or the sale of treasury shares up to an aggregate nominal amount of £7,020,816;
    (b) shall be in substitution for all pre-existing powers under sections 570 and 573 of the Act; and
    (c) shall expire at the same time as the Allotment Authority, save that the Company may before expiry of the power conferred on the Directors by this Resolution make an offer or agreement which would or might require equity securities to be allotted after such expiry.

13. That the Directors be authorised for the purposes of LR15.4.11 of the Listing Rules of the UK Listing Authority of the Financial Conduct Authority to allot ordinary shares and to sell treasury shares for cash at a price below the net asset value per share of those shares without first offering those shares pro rata to existing Shareholders.
14. That, in substitution for any existing authority, but without prejudice to the exercise of any such authority prior to the date hereof, the Company be generally and unconditionally authorised, in accordance with section 701 of the Companies Act 2006 (the 'Act') to make market purchases (within the meaning of section 693(4) of the Act) of its ordinary shares, (either for retention as treasury shares for future reissue, resale, transfer or for cancellation), provided that:
    - (a) the maximum number of ordinary shares hereby authorised to be purchased is 210,484,065 or, if less, the number representing approximately 14.99 per cent. of the issued share capital of the Company on the date on which this Resolution is passed;
    - (b) the minimum price (excluding expenses) which may be paid for each ordinary share shall be the nominal value of that share;
    - (c) the maximum price (excluding expenses) which may be paid for any ordinary share purchased pursuant to this authority shall not be more than the higher of:
        - (i) 5 per cent. above the average closing price on the London Stock Exchange of an ordinary share over the five business days immediately preceding the date of purchase; and
        - (ii) the higher price of the last independent trade of an ordinary share and the highest current independent bid for such a share on the London Stock Exchange; and
    - (d) unless previously varied, revoked or renewed by the Company in general meeting, the authority hereby conferred shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2019, save that the Company may, prior to the expiry of such authority, enter into a contract or contracts to purchase ordinary shares under such authority which will or might be completed or executed wholly or partly after the expiration of such authority and may make a purchase of ordinary shares pursuant to any such contract or contracts.
15. That the Articles of Association produced to the Annual General Meeting and initialled by the Chairman for the purpose of identification be adopted as the Articles of Association of the Company in substitution for, and to the exclusion of, the existing Articles of Association so as to delete article 149(c) of the existing Articles of Association to be consistent with the intention of the resolution passed by Shareholders at the Annual General Meeting in 2014.

By order of the Board
Baillie Gifford & Co Limited
Company Secretaries
29 May 2018

Notes

1. As a member you are entitled to appoint a proxy or proxies to exercise all or any of your rights to attend, speak and vote at the AGM. A proxy need not be a member of the Company but must attend the AGM to represent you. You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You can only appoint a proxy using the procedure set out in these notes and the notes to the proxy form. You may not use any electronic address provided either in this notice or any related documents (including the Financial Statements and proxy form) to communicate with the Company for any purpose other than those expressly stated.
2. To be valid any proxy form or other instrument appointing a proxy, together with any power of attorney or other authority under which it is signed or a certified copy thereof, must be received by post or (during normal business hours only) by hand at the Registrars of the Company at Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol, BS99 6ZY or www.eproxyappointment.com no later than 2 days (excluding non-working days) before the time of the meeting or any adjourned meeting.
3. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual and/or by logging on to the website www.euroclear.com/CREST. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
4. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications, and must contain the information required for such instruction, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the Company's registrar (ID 3RA50) no later than 2 days (excluding non-working days) before the time of the meeting or any adjournment. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Application Host) from which the Company's registrar is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

5. CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider(s), to procure that his/her CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST service by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.
6. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.
7. The return of a completed proxy form or other instrument of proxy will not prevent you attending the AGM and voting in person if you wish.
8. Shareholders participating in the Baillie Gifford Investment Trust Share Plan, the Baillie Gifford Children's Savings Plan or the Baillie Gifford Investment Trust ISA who wish to vote and/or attend the meeting must complete and return the enclosed reply-paid Form of Direction.
9. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001 and section 311 of the Companies Act 2006 the Company specifies that to be entitled to attend and vote at the Annual General Meeting (and for the purpose of the determination by the Company of the votes they may cast), shareholders must be registered in the Register of Members of the Company no later than 48 hours (excluding non-working days) prior to the commencement of the AGM or any adjourned meeting. Changes to the Register of Members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting.
10. Any person to whom this notice is sent who is a person nominated under section 146 of the Companies Act 2006 to enjoy information rights (a 'Nominated Person') may, under an agreement between him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the Annual General Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.
11. The statement of the rights of shareholders in relation to the appointment of proxies in Notes 1 and 2 above does not apply to Nominated Persons. The rights described in those Notes can only be exercised by shareholders of the Company.
12. The members of the Company may require the Company to publish on its website, (without payment) a statement (which is also passed to the Auditor) setting out any matter relating to the audit of the Company's accounts, including the Auditor's report and the conduct of the audit. The Company will be required to do so once it has received such requests from either members representing at least 5 per cent. of the total voting rights of the Company or at least 100 members who have a relevant right to vote and hold shares in the Company on which there has been paid up an average sum per member of at least £100. Such requests must be made in writing and must state your full name and address and be sent to the Company at Calton Square, 1 Greenside Row, Edinburgh, EH1 3AN.
13. Information regarding the Annual General Meeting, including information required by section 311A of the Companies Act 2006, is available from the Company's page of the Managers' website at www.scottishmortgageit.com.
14. Members have the right to ask questions at the meeting in accordance with section 319A of the Companies Act 2006.
15. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.
16. As at 9 May 2018 (being the last practicable date prior to the publication of this notice) the Company's issued share capital consisted of 1,404,163,209 ordinary shares, carrying one vote each. Therefore, the total voting rights in the Company as at 9 May 2018 were 1,404,163,209 votes.
17. Any person holding 3 per cent. or more of the total voting rights of the Company who appoints a person other than the Chairman of the meeting as his/her proxy will need to ensure that both he/she and his/her proxy complies with their respective disclosure obligations under the UK Disclosure and Transparency Rules.
18. No Director has a contract of service with the Company.
19. Copies of the following documents are available for inspection at the registered office of the Company and at the offices of Dentons UKMEA LLP, One Fleet Place, London EC4M 7RA during normal business hours Monday to Friday (public holidays excepted) up to and including the day of the Annual General Meeting, and at the venue for the Annual General Meeting from half an hour before the time fixed for the Annual General Meeting until the end of the Annual General Meeting:
    - The current Articles of Association of the Company; and
    - The proposed new Articles of Association marked up to show the differences from the current Articles of Association.

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 70). 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	GB00BLDYK618
Sedol	BLDYK61
Ticker	SMT

Legal Entity Identifier 213800G37DCS3Q9IJM38

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/early December 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 and the stock split of 5 for 1) of an ordinary share in the Company as at 31 March 1982 was 6.12p.

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 0370 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 0370 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 0370 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

	2018 Number of shares held	2018 %	2017 Number of shares held	2017 %
Institutions	282,366,999	20.2	320,077,649	23.6
Intermediaries*	898,672,010	64.4	800,110,571	58.9
Individuals	48,886,697	3.5	65,799,588	4.8
Baillie Gifford Share Plans/ISA	163,737,099	11.7	159,218,024	11.7
Marketmakers	1,700,404	0.2	13,363,653	1.0
	1,395,363,209	**100.0**	**1,358,569,485**	**100.0**

* Intermediaries include wealth managers and execution-only platforms.

Automatic Exchange of Information

In order to fulfil its obligations under UK tax legislation relating to the automatic exchange of information, Scottish Mortgage Investment Trust PLC is required to collect and report information about certain categories of shareholders.

The legislation requires investment trust companies to provide personal information to HMRC on certain investors who purchase shares in investment trusts. Accordingly, Scottish Mortgage Investment Trust PLC must provide information annually to the local tax authority on the tax residencies of a number of non-UK based certificated shareholders and corporate entities.

Shareholders, excluding those whose shares are held in CREST, who come on to the share register will be sent a certification form for the purposes of collecting this information.

For further information, please see HMRC's Quick Guide: Automatic Exchange of Information – information for account holders https://www.gov.uk/government/publications/exchange-of-information-account-holders.

Alternative Investment Fund Managers (AIFM) Directive

In accordance with the AIFM Directive, information in relation to the Company's leverage and the remuneration of the Company's AIFM, Baillie Gifford & Co Limited, is required to be made available to investors.

AIFM Remuneration

In accordance with the Directive, the AIFM remuneration policy is available at www.bailliegifford.com or on request (see contact details on the back cover) and the numerical remuneration disclosures in respect of the AIFM's relevant reporting period are available at www.bailliegifford.com.

Leverage

The Company's maximum and actual leverage levels (see Glossary of Terms on page 74) at 31 March 2018 are shown below:

	Gross method	Commitment method
Maximum limit	2.50:1	2.00:1
Actual	1.08:1	1.08:1

Cost-effective Ways to Buy and Hold Shares in Scottish Mortgage

Press advertisement for Scottish Mortgage

The Baillie Gifford Investment Trust Share Plan 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 £20,000 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.

Further information

If you would like more information on any of the plans described above, please contact the Baillie Gifford Client Relations Team (see contact details on page 72).

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's risk could be increased by its investment in unlisted investments. These assets may be more difficult to buy or sell, so changes in their prices may be greater.
- 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' or 'leverage'). 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 which may impact on its performance.
- Scottish Mortgage charges, with effect from 1 April 2018, 100% of the investment management fee and 100% of borrowing costs to capital which reduces the capital value.
- You should note that tax rates and reliefs may change at any time and their value depends on circumstances.
- The favourable tax treatment of ISAs may change.
- Details of other risks that apply to investment in the savings vehicles shown on page 70 are contained in the product brochures.

Scottish Mortgage Investment Trust is listed on the London Stock Exchange and is not authorised or regulated by the Financial Conduct Authority.

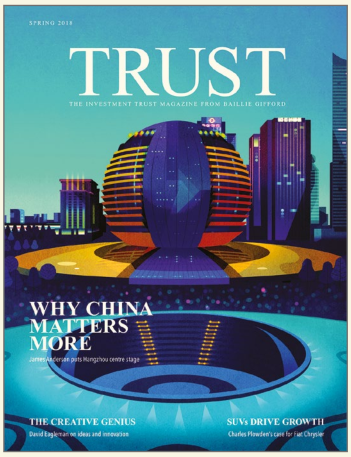
Further details of the risks associated with investing in the Company, including how charges are applied, can be found at www.scottishmortgageit.com, or by calling Baillie Gifford on 0800 917 2112.

The information and opinions expressed within this Annual Report and Financial Statements are subject to change without notice. This information has been issued and approved by Baillie Gifford & Co Limited, the Managers and Secretaries, and does not in any way constitute investment advice.

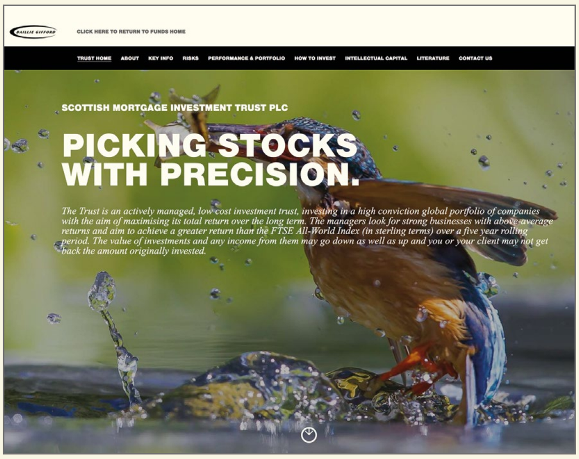
Baillie Gifford Savings Management Limited (BGSM) is the manager of The Baillie Gifford Investment Trust Share Plan, The Baillie Gifford Children's Savings Plan and The Baillie Gifford Investment Trust ISA. BGSM is wholly owned by Baillie Gifford & Co. BGSM and Baillie Gifford & Co are both authorised and regulated by the Financial Conduct Authority. Baillie Gifford only provides information about its products and does not provide investment advice.

The staff of Baillie Gifford and the Directors of Scottish Mortgage may hold shares in Scottish Mortgage and 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 70 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 twice 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.

You can subscribe to *Trust* magazine or view a digital copy at www.bailliegifford.com/trust.

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 70.

Literature in Alternative Formats

It is possible to provide copies of literature in alternative formats, such as large print or audio. 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.

The Scottish Mortgage Investor Forums

The Scottish Mortgage Investor Forums seek to offer existing and prospective Scottish Mortgage shareholders the chance to hear presentations from the Managers, James Anderson and Tom Slater. The most recent of these events was held at Brighton in April. As there has proven to be a high level of demand for these events from shareholders, we will be continuing to hold these in a variety of locations around the UK.

The next Scottish Mortgage Investor Forum will be held on 21 June 2018 at IET London, 2 Savoy Place, London, WC2R 0BL. At this evening event, James and Tom will be discussing their current investment enthusiasms and thoughts on the most exciting areas with potential for future growth. After the presentations attendees will have the opportunity to put their questions directly to the speakers.

Please visit www.scottishmortgageit.com to register for this event.

Details for all such Scottish Mortgage Investor Forums will be posted on this website as they become available.

Scottish Mortgage Investor Forums – Blue Sky Thinking for Tomorrow's World

Resolute Optimism

"We try to listen, to learn from those who are smarter than we are."

Technologies are developing at an increasing rate across a wide range of fields. Many of these advances are hugely positive and exciting, at the same time as being complex and often interrelated.

As investors in a wide range of companies at the forefront of changing the industries in which they operate, Scottish Mortgage portfolio managers James Anderson and Tom Slater believe their primary task is to listen and then use the insights gained from those responsible for driving these developments.

In order to help their understanding of such shifts, the Managers have sought to expand their information networks well beyond the traditional financial industry voices. The Resolute Optimism pages at www.resoluteoptimism.com share some of these thoughts and ideas which inform Scottish Mortgage, as well as their insights on the challenges and delights of long-term investing and capital markets.

Third Party Data Provider Disclaimer

No third party data provider ('Provider') makes any warranty, express or implied, as to the accuracy, completeness or timeliness of the data contained herewith nor as to the results to be obtained by recipients of the data. No Provider shall in any way be liable to any recipient of the data for any inaccuracies, errors or omissions in the index data included in this document, regardless of cause, or for any damages (whether direct or indirect) resulting therefrom.

No Provider has any obligation to update, modify or amend the data or to otherwise notify a recipient thereof in the event that any matter stated herein changes or subsequently becomes inaccurate.

Without limiting the foregoing, no Provider shall have any liability whatsoever to you, whether in contract (including under an indemnity), in tort (including negligence), under a warranty, under statute or otherwise, in respect of any loss or damage suffered by you as a result of or in connection with any opinions, recommendations, forecasts, judgments, or any other conclusions, or any course of action determined, by you or any third party, whether or not based on the content, information or materials contained herein.

FTSE Index Data

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Glossary of Terms

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

Net Asset Value
Also described as shareholders' funds. 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 (Borrowings at Fair Value)
Borrowings are valued at an estimate of their market worth. The value of the borrowings at par, fair and book are set out on page 64.

Net Asset Value (Borrowings at Par)
Borrowings are valued at their nominal par value. The value of the borrowings at par, fair and book are set out on page 64.

Net Asset Value (Borrowings at Book)/Shareholders' Funds
Borrowings are valued at adjusted net issue proceeds. The value of the borrowings at par, fair and book are set out on page 64.

Net Liquid Assets
Net liquid assets comprise current assets less current liabilities, excluding borrowings.

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). The ongoing charges have been calculated on the basis prescribed by the Association of Investment Companies.

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 (including any outstanding trade or foreign exchange settlements) expressed as a percentage of shareholders' funds.

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

Leverage
For the purposes of the Alternative Investment Fund Managers (AIFM) Directive, leverage is any method which increases the Company's exposure, including the borrowing of cash and the use of derivatives. It is expressed as a ratio between the Company's exposure and its net asset value and can be calculated on a gross and a commitment method. Under the gross method, exposure represents the sum of the Company's positions after the deduction of sterling cash balances, without taking into account any hedging and netting arrangements. Under the commitment method, exposure is calculated without the deduction of sterling cash balances and after certain hedging and netting positions are offset against each other.

Active Share
Active share, a measure of how actively a portfolio is managed, is the percentage of the portfolio that differs from its comparative index. It is calculated by deducting from 100 the percentage of the portfolio that overlaps with the comparative index. An active share of 100 indicates no overlap with the index and an active share of zero indicates a portfolio that tracks the index.

Directors

Chairman:
FC McBain ACA

LJ Dowley FCA
Professor JA Kay CBE FBA FRSE
Professor PH Maxwell DPhil FRCP FMedSci
Dr P Subacchi

Alternative Investment Fund Managers, Secretaries and Registered Office

Baillie Gifford & Co Limited
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Depositary

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London
E14 5AL

www.scottishmortgageit.com

Company Registration No.	SC007058
ISIN	GB00BLDYK618
Sedol	BLDYK61
Ticker	SMT

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