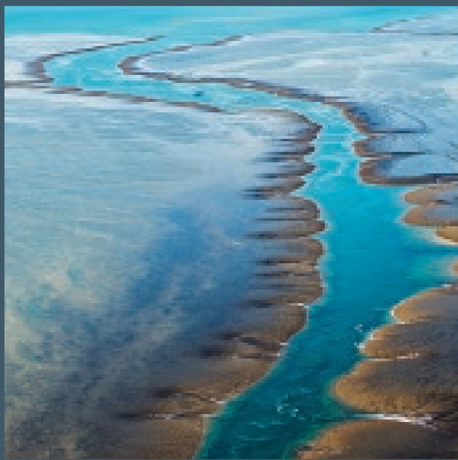
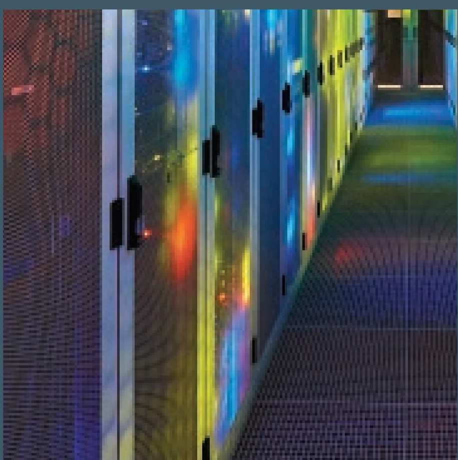
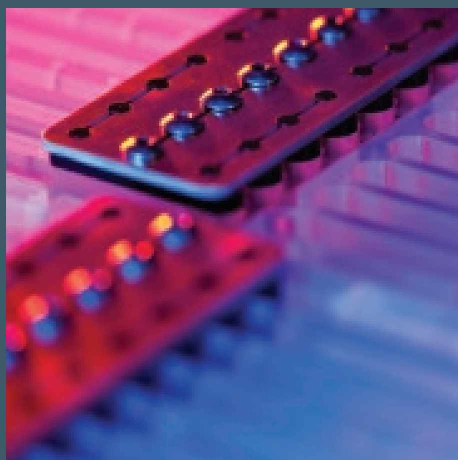
SCOTTISH MORTGAGE INVESTMENT TRUST PLC

Your low cost choice for global investment

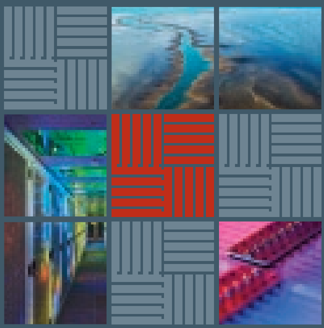






Annual Report and Financial Statements
31 March 2016

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.

Message from the Chairman

World equity markets were more volatile over the past twelve months than in recent years. The Scottish Mortgage portfolio was not immune to these swings in sentiment, but over the financial year as a whole on a total return basis the Net Asset Value (NAV) was broadly flat and the share price fell by a little under 1%, having been down around 10% at the half year point. As I have observed in previous years, 12 months is too short a period over which to judge performance, given our investment time horizon of at least five years. I am pleased to say that performance measured over 3, 5 and 10 years remains strong.

Despite the general market backdrop, throughout most of the year demand for Scottish Mortgage's shares remained reasonably firm, with the Company's shares trading around, or at a small premium to, NAV for much of the period. In line with the Company's policy of aiding the efficient functioning of the market in its shares, Scottish Mortgage both issued shares from Treasury through the year and, on one occasion in early 2016, bought back shares, to alleviate supply and demand imbalances which were building up in the market. The Board will continue to act in accordance with this policy, as it believes such transactions to be in the long term interests of all shareholders.

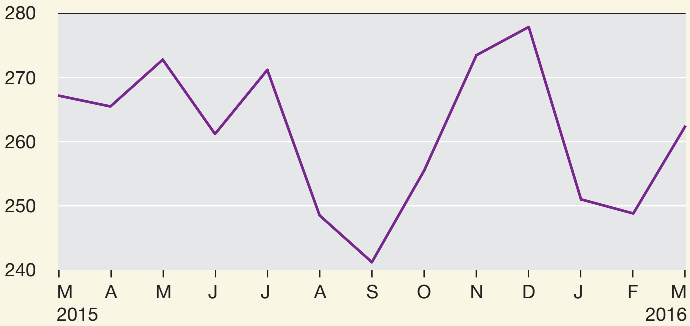
Throughout the year, the Managers have continued to focus on finding the best growth companies for the next five to ten years and beyond. The Managers believe that several industries are in the midst of structural change and that these advances are in general being driven by just a handful of companies. This, combined with the wider market volatility, make it an attractive time to be investing in individual growth businesses for the long term.

Over the past 12 months, a significant number of the Managers' new investment ideas have been private, rather than public, companies. The rising number of such unquoted companies within the portfolio was highlighted in the Interim Report and the Board believes that it is now appropriate to set out in the Company's Investment Policy a maximum purchasing limit which may be reached within the portfolio. As previously announced, this will be done through a shareholder vote at the AGM on 30 June in Edinburgh. I hope to see you there.

Financial Highlights – Year to 31 March 2016

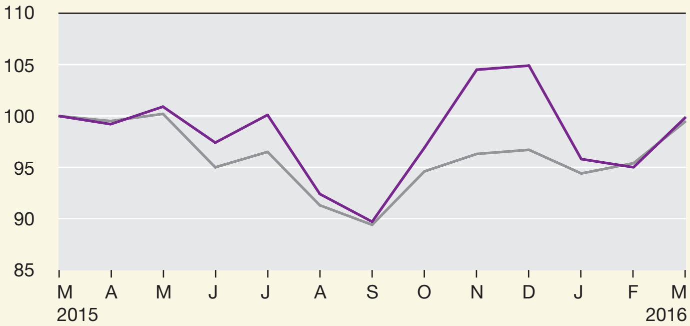
Share Price* -0.7% | **NAV* -0.1%** | **Benchmark*† -0.5%**

* Source: Morningstar, total return.



Share Price (pence)

Share price

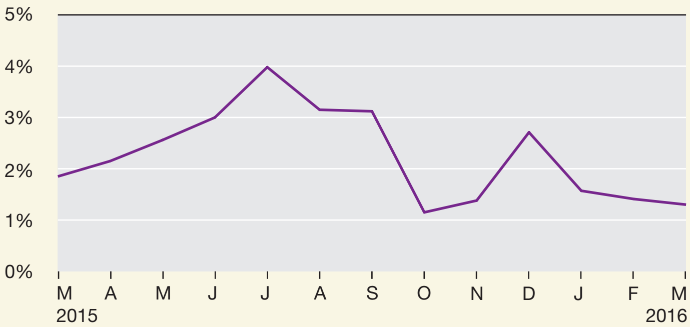


NAV and Benchmark

(figures rebased to 100 at 31 March 2015)

NAV total return (after deducting borrowings at fair value)

Benchmark† total return



Premium/(Discount)

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

† Benchmark: FTSE All-World Index (in sterling terms).
Source: Thomson Reuters Datastream/Baillie Gifford.

Past performance is not a guide to future performance.

Strategic Report

This Strategic Report, which includes pages 2 to 21 and incorporates the Chairman's Statement, has been prepared in accordance with the Companies Act 2006.

Chairman's Statement

I am pleased to say that the Scottish Mortgage portfolio has continued to produce good long term returns for shareholders. The past financial year, taken in isolation, has not been as strong as recent years, either in terms of the NAV performance or our own share price, but I hope that my earlier statements have been consistent in warning that not every year can be expected to produce the stellar results that we have been fortunate to see in the past.

I would stress once again that such flat periods are to be expected and are consistent with the approach taken for Scottish Mortgage. Indeed, I would go so far as to suggest that shareholders should expect that there will be periods when our investment approach is out of favour, when there is a disconnect between share prices and the underlying fundamentals of the companies, and in such circumstances our share price may well suffer. A pleasing outcome of the last twelve months was that good individual company results managed to reverse share price falls, mitigating broader negative sentiments which might otherwise have had a greater impact on the portfolio, for example regarding China, healthcare and technology.

In the context of a five year investment horizon, a single twelve month period is an insufficient time over which to evaluate the investment approach taken for Scottish Mortgage. Neither the Managers nor the Board make any attempt to mitigate the effects of short term market gyrations. The portfolio is invested in individual businesses which have the potential to offer extraordinary growth over the long term.

Over the past twelve months, behind the turbulent movement in their share prices, a number of the companies in the portfolio have reported strong operational results, reaping the benefit of prior years' capital investment. Looking ahead, the level of continued investment by the companies which Scottish Mortgage holds should provide a strong base for future growth and returns. This is particularly pleasing to see against a wider backdrop of slowing investment and companies which have been returning cash to their shareholders.

The table below shows the five and ten year total returns in percentage terms to 31 March 2016 alongside the Association of Investment Companies (AIC) Global Sector average for comparison.

Total Return (%)	Five years	Ten years
NAV	71.0	156.4
Share price	91.1	202.2
FTSE All-World Index	48.0	92.9
Global Sector Av – NAV	46.4	87.9
Global Sector Av – share price	52.8	91.5

Source: AIC/Morningstar.

Past performance is not a guide to future performance.

Earnings and Dividends

Scottish Mortgage is clear in its focus as a growth-oriented investment trust. Our objective is to maximise total returns to shareholders but, in light of the growth investment mandate, the likelihood is that the majority of returns in the portfolio will come through capital appreciation, as distinct from dividend income, over the longer term.

Our income has fallen again this year, reflecting several aspects of our investment policy: our holdings in quoted companies have been moving away from higher income-paying stocks, in favour of longer term growth investments, and we hold more unquoted companies, which currently provide little by way of income. This year's earnings per share were 1.66p, 26% lower than in 2014/15.

The Board has encouraged the Managers to pursue a total return policy, without regard to the expected split between dividends and capital gains, believing that this is the best way to deliver value to shareholders in the long run. While we believe that Scottish Mortgage is held by investors mainly interested in capital growth, your Board nonetheless recognises the importance to many of our shareholders of the income from their holdings in the Company. After careful consideration and notwithstanding the drop in our income we are recommending an increased final dividend, providing a total distribution for the year of 2.96 pence per share, which is some 1% higher than that paid in 2014/15. To achieve this, we are once again having to use our reserves to supplement the income we have earned during the period. Once the final dividend is approved and paid, the remaining reserves will stand at 2.5 pence per share.

At this level, we are unlikely to have sufficient income and revenue reserves to continue to pay a comparable dividend over the coming years from these two sources alone. The Company is, however, permitted to make distributions from capital profits. The Board will be willing to do this in order to continue to grow our dividend payments so long as it believes that the total returns being earned by the Company over the long run justify this. The Baillie Gifford savings scheme, and many other platforms, give shareholders an opportunity to re-invest dividends in the Company, and the Board hopes that shareholders who have no immediate need of income will take advantage of this facility.

Changes to Investment Policy

Currently, whilst Scottish Mortgage's investment policy specifically lists 'unquoted entities' amongst the permissible investments, there are no formal parameters set out with regard to such. Given the rising level of these investments within the Scottish Mortgage portfolio and the changing nature of the investment opportunities being seen by the Managers, the Board is of the view that this is an appropriate moment to provide clarity for shareholders on the maximum level such investments might reach over time.

The level of the investments in private or unquoted companies within the portfolio has been rising over the past few years and was around 12% at 31 March 2016. The investment case for holding such companies within the Scottish Mortgage portfolio, as well as the reasons why the Board believes the Managers have a competitive advantage in investing in this area, were set out in the Interim Report to 30 September 2015. In addition, the Managers' Review in the Annual Report and Financial Statements will contain a more detailed exploration of this aspect of the portfolio. As always, I would encourage shareholders to read the Managers' commentary on pages 10 to 13.

Whilst Scottish Mortgage has long been able to make investments in private companies, the increase in the level and number of such unlisted investments within the portfolio in recent years has been in direct response to a shift in the balance within the capital markets between the providers and consumers of capital, rather than a change in the Managers' investment philosophy and approach. The Managers remain committed long term investors in strong growth companies. In order to maintain the breadth of their investment opportunities, the Managers have sought to utilise the flexibility of the closed ended capital structure of Scottish Mortgage to invest in a number of private companies. The Managers believe that this will provide them with a greater opportunity to continue to deliver long term returns for shareholders in the future.

Historically, the Board has provided guidance to the Managers on the appropriate maximum level for such investments within the portfolio; this guidance has been reviewed and it is now proposed to adapt it to reflect developments in the corporate funding markets, whereby emerging companies are able to finance themselves for much longer before coming to public markets. The Board believes this shift in the functioning of capital markets is likely to persist, rendering the flexibility to undertake investments ahead of public offerings of increasing importance for growth investors across the world. The Board supports the Managers in their belief that investments made in the unquoted companies within the portfolio are entirely consistent with their investment philosophy and recognises that the Managers are agnostic as to whether a company chooses to remain private, or list on a public market.

Thus the Company is tabling an Ordinary Resolution at the Scottish Mortgage Annual General Meeting (AGM) on 30 June to seek permission from shareholders to amend the Company's Investment Policy to stipulate that 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, with this test applied by reference to the current values of unquoted holdings and total assets at the time of the intended purchase of the next investment not listed on a public market.

This Resolution also asks shareholders to approve other minor changes to the Investment Objective and Policy; these are intended as simplifications and clarifications of the text, not as substantive changes to the existing policy. The wording of the current and proposed Investment Objective and Policy is set out on pages 7 and 8 of the Circular dated 27 May 2016 and sent to shareholders with the Annual Report and Financial Statements.

The Board believes that all of these changes are in the best interests of the Company and shareholders as a whole and it is unanimous in recommending that you vote in favour of all of the Resolutions, as the Directors intend to do in respect of their own holdings.

Gearing

The Board of Scottish Mortgage remains committed to the strategic use of gearing, in the belief that it is in the long term interests of shareholders to be geared into prospective long run equity market returns. No attempt is made to deploy short term tactical gearing shifts, or to express a view on future near term market moves, as we do not believe this to be one of our competitive advantages. Accordingly, gearing levels were maintained throughout the year.

The Board will continue to monitor the appropriate level of gearing for the long term and is mindful that further rises in the allocation to private companies within the portfolio may result in it becoming appropriate to reduce the level of borrowing so as to keep a broadly consistent level of gearing relative to the listed equity portion of Shareholders' Funds.

Buybacks and Share Issuance

Despite some dramatic swings in sentiment in the broader equity markets throughout the past 12 months, Scottish Mortgage continued to see a reasonably sustained level of demand, with the Company's shares trading around, or at a small premium to, NAV for much of the period.

In line with the stated policy of aiding the efficient functioning of the market in its shares, Scottish Mortgage both sold shares from Treasury from time to time and, on one occasion, bought back a small number of shares, when there were supply and demand imbalances building up in the market. The balance of these operations was heavily in favour of our issuing shares and we were able to attract additional net capital of £180 million, growing the Company by some 5%.

It is the Board's intention to continue this liquidity management policy in normal market conditions, with regard to share issuance and share buybacks, as it believes this to be in the interest of all shareholders. The Company has 109 million shares remaining in Treasury and the Board is once again seeking the necessary shareholder approvals to continue to undertake such transactions in the Company's own shares.

Low Cost

Keeping costs low for shareholders continues to be a priority for the Board and an important competitive advantage for Scottish Mortgage, given the erosive effect of high costs on compounded returns to shareholders.

I am therefore delighted to announce that, for the year to 31 March 2016, Scottish Mortgage's 'Ongoing Charges Ratio' has fallen once again, this year by over 6% to 0.45%, from 0.48% the previous year. This figure remains one of the lowest reported in the investment trust sector.

Board and AGM

I would like to take this opportunity to thank Gordon McQueen for his considerable number of years of service to the Company as a Director and in particular for his dedication and diligence in his role as Chairman of the Audit Committee. He has decided that, after more than fifteen years on the Board of Scottish Mortgage, he will not stand for re-election at the forthcoming AGM. We wish him all the very best in his future endeavours.

Gordon will be succeeded in his role as Audit Committee Chairman by Justin Dowley, who joined the Board last year and brings us many years of commercial and financial experience. We also welcome to the Board Professor Patrick Maxwell who was appointed at the start of the current financial year and, like Justin, stands for election at the forthcoming AGM. Amongst other distinguished roles, Patrick holds the position of Regius Professor of Physic at Cambridge University and it is, I hope, appropriate to point out that 'Physic' is a mediaeval term for what we now know as Medicine; given your Company's increasing exposure to life science businesses, we look forward to Patrick's contributions in this and other fields.

The Annual General Meeting will be held in Edinburgh at the Merchants' Hall, at 4.30pm on 30 June 2016. The joint Managers of the Trust, James Anderson and Tom Slater, will make a presentation to shareholders on the investments and take questions. I do hope you will be able to attend.

Scottish Mortgage Forum for Individual Investors

In recent years, the Board has been pleased to see considerable growth in the number of individual shareholders investing directly through execution-only platforms, but we realise that it can be difficult for many shareholders to attend the AGM, which is always held in Edinburgh. In order to provide our broad investor base with the opportunity to hear directly from those investing their assets, the Managers are holding a series of shareholder events, starting with a session in London on 22 June. For further details on this event please see page 61 of the Annual Report and Financial Statements or the Scottish Mortgage website **www.scottishmortgageit.com**.

Investment Strategy

The Statement of the Managers' core investment beliefs is included within the Annual Report and Financial Statements on page 14. The stability of their core investment philosophy and the consistency with which the Managers have applied this to the portfolio over many years is one of Scottish Mortgage's key strengths.

This style of investing requires commitment and a willingness to look through short term market gyrations. Both the Managers and the Board believe true investment risk is the permanent loss of capital. It cannot be encapsulated or even meaningfully estimated by measuring volatility over the short term relative to a market average. Where short term share price moves disconnect significantly from companies' fundamentals, this may provide even more attractive opportunities for the Managers.

Outlook

Scottish Mortgage's portfolio offers shareholders access to some of the most exciting growth companies across the world, whether they be public or private, which are themselves aiming to change the future of a wide range of industries over the coming years. We do not try to disguise the fact that our portfolio is a concentrated one and in many cases invested in businesses (of which Tesla is a prime example) whose intention is to disrupt the present incumbents and which has been constructed in accordance with the convictions of our Managers and with no heed to benchmarks or indices.

The Board acknowledges that there are some very obvious risks in the world, be they political in nature as countries negotiate their future relationships; or economic, as much of the world struggles with low growth, zero interest rates and a radically different supply/demand balance for fossil fuels. I will confine my comments on 'Brexit' to noting that, by the time we meet in Edinburgh at the end of June, the result will be known.

There are many threats out there and your Board spends a great deal of its time thinking about risk and trying to understand how well diversified our portfolio really is. We also have a suspicion that the real hazard is what one American politician tried to articulate as the 'unknown unknowns'. Beyond ensuring that we are properly diversified from a political, geographical and industrial perspective, we focus on the opportunities which such events may offer to Scottish Mortgage if and when they occur. We believe strongly in two things: first, that passive investing is no longer an adequate approach if investors wish to preserve capital in the medium term – there are simply too many competitive threats to established businesses, many of which will not survive. Secondly, that many of the companies in our portfolio offer the potential for growth based on structural rather than cyclical changes over the long term.

Looking to the future, the Board believes that, through the consistent application of its long term growth investment strategy, Scottish Mortgage offers its shareholders a real alternative to other investment vehicles. We are about as far removed from being an 'index tracker' as it is possible to be and we offer an active investment management approach at a very competitive cost.

John Scott
Chairman
18 May 2016

One Year Summary

The following information illustrates how Scottish Mortgage has performed over the year to 31 March 2016.

	31 March 2016	31 March 2015	% change
Total assets (before deduction of debentures, long and short term borrowings)	£3,955.4m	£3,820.4m	
Loans and debentures	£498.0m	£487.2m	
Shareholders' funds	£3,457.4m	£3,333.2m	
Net asset value per ordinary share (after deducting borrowings at fair value)*	259.2p	262.4p	(1.2)
Share price	262.5p	267.2p	(1.8)
FTSE All-World Index (in sterling terms)			(3.0)
Dividends paid and proposed per ordinary share	2.96p	2.93p	1.0
Revenue earnings per ordinary share	1.66p	2.24p	(25.9)
Ongoing charges ratio	0.45%	0.48%	
Premium (after deducting borrowings at fair value)	1.3%	1.8%	
Active share†	94%	95%	

Year to 31 March	2016	2015
Total returns (%)#		
Net asset value per ordinary share (after deducting borrowings at fair value)	(0.1%)	27.7%
Share price	(0.7%)	29.6%
FTSE All-World Index (in sterling terms)	(0.5%)	19.2%

Year to 31 March	2016	2016	2015	2015
Year's high and low	**High**	**Low**	**High**	**Low**
Share price	281.8p	220.6p	271.0p	189.2p
Net asset value per ordinary share (after deducting borrowings at fair value)‡	275.9p	216.4p	267.2p	192.7p
Premium/(discount) (after deducting borrowings at fair value)‡	6.7%	(4.2%)	4.2%	(6.4%)
Average sector discount (AIC Global Sector)	(4.5%)	(8.0%)	(5.1%)	(7.9%)

	31 March 2016	31 March 2015
Net return per ordinary share		
Revenue return	1.66p	2.24p
Capital return	(2.81p)	56.50p
Total return	**(1.15p)**	**58.74p**

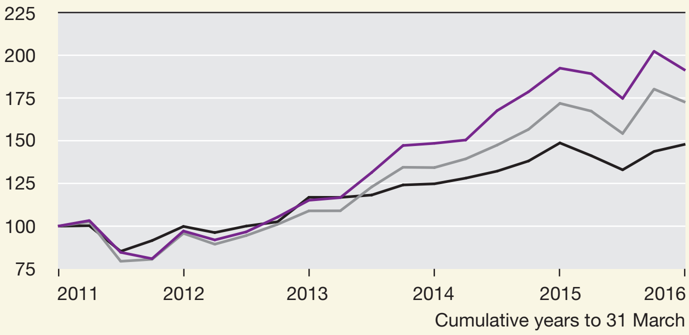
* Borrowings are deducted at fair value (the estimate of market worth).
† See Glossary on page 61.
# Source: Morningstar/Baillie Gifford.
‡ Cum-income.

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 2016.

Five Year Total Return Performance

(figures rebased to 100 at 31 March 2011)



Source: Thomson Reuters Datastream.

Share price total return

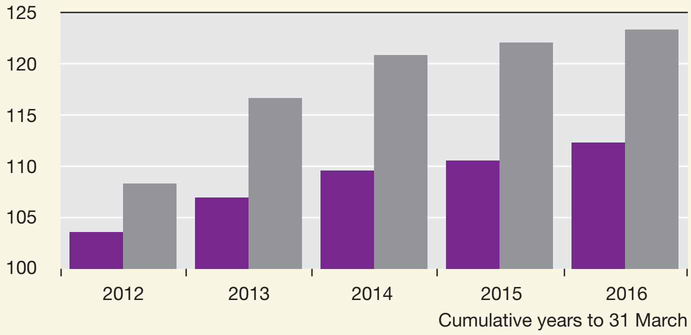
NAV (fair) total return

Benchmark* total return

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

Dividend and RPI Growth

(figures rebased to 100 at 31 March 2011)



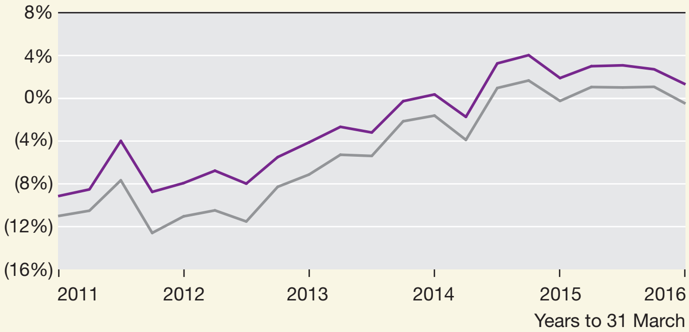
Source: Thomson Reuters Datastream/Baillie Gifford.

RPI

Scottish Mortgage dividend

Premium/(Discount) to Net Asset Value

(plotted on a monthly basis)



Source: Thomson Reuters Datastream/Baillie Gifford.

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

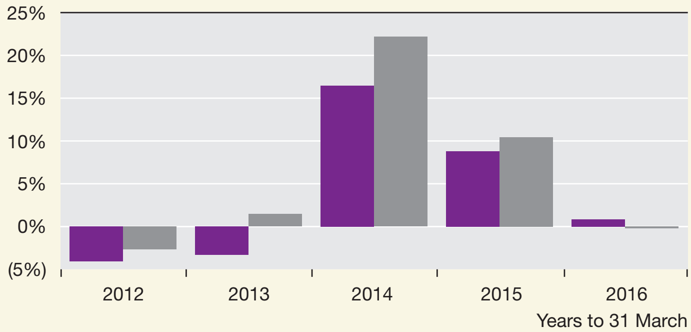
Scottish Mortgage (discount)/premium (after deducting borrowings at par)

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 return)



Source: Thomson Reuters Datastream.

NAV (fair) return

Share price return

Past performance is not a guide to future performance.

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.

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 whilst also generating 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 primary investment focus is on quoted equities predominantly 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. 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.

Proposed Changes to Investment Objective and Policy

Shareholders' authority is being sought at the forthcoming Annual General Meeting to amend the Company's investment objective and policy. This proposal is explained in the Circular which is being sent to Shareholders with this Annual Report. The current investment objective and policy is set out above.

The Managers' Core Investment Beliefs with respect to the Company are set out on page 14.

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 10 to 13. A detailed analysis of the Company's investment portfolio is set out on pages 16 to 20.

Discount/Premium

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

The Board recognises that it is in the long term interests of shareholders to manage discount volatility and believes that the prime driver of discounts over the longer term is performance. The Board does not have a formal discount target at which shares will be bought back as it believes that the announcement of specific targets is likely to hinder rather than help the successful execution of a buyback policy.

During the year the Company bought back a total of 1,250,000 shares, into treasury. Between 1 April and 16 May 2016 no further shares were bought back.

During the year the Company sold 68,100,000 shares from treasury at a premium to the net asset value. Between 1 April and 16 May 2016 a further 2,500,000 shares were sold from treasury at a premium to net asset value.

Performance

At each Board meeting, the Directors consider a number of performance measures to assess the Company's success in achieving its objectives.

Key Performance Indicators

The key performance indicators (KPIs) used to measure the progress and performance of the Company over time are established industry measures and are as follows:

- the movement in net asset value per ordinary share (after deducting borrowings at fair value);
- the movement in the share price;
- the movement of net asset value and share price performance compared to the Benchmark;
- the premium/discount (after deducting borrowings at fair value);
- ongoing charges ratio;
- revenue return; and
- dividend per share.

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

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

Borrowings

There are four debentures in issue, all of which are listed and quoted on the London Stock Exchange and details of which are given on page 48 and pages 53 to 55. In addition, loan facilities are in place which are also shown on page 47.

During the year the US$165 million 1 year loan with State Street was repaid and replaced with a US$165 million 1 year loan with The Royal Bank of Scotland plc ('RBS').

Subsequent to the year end on 11 April 2016 the US$165 million 1 year loan with RBS was re-financed with a US$165 million 1 year loan with RBS. Additionally, negotiations are underway to refinance on 20 May 2016 the US$200 million 2 year loan with National Australia Bank ('NAB') with a revolving US$200 million 2 year loan with NAB.

Principal Risks

As explained on page 27 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 50 to 55. To mitigate this risk, 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 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.

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.

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 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 breaches of cyber security. To mitigate this risk, the Board receives six monthly reports from the Depositary confirming safe custody of the Company's assets. 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 accounting systems or those of other third party service providers could lead to an inability to provide accurate reporting and monitoring or a misappropriation of assets. 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.

Premium/Discount Volatility – the premium/discount at which the Company's shares trade can change. To mitigate this risk, the Board monitors the level of premium/discount and the Company has authority to issue new shares and buy back its existing shares when deemed by the Board to be in the best interests of the Company and its shareholders.

Leverage Risk – the Company may borrow money for investment purposes. If the investments fall in value, any borrowings will magnify the extent of this loss. If borrowing facilities are not renewed, the Company may have to sell investments to repay borrowings. 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. The majority of the Company's investments are in quoted securities that are readily realisable. Further information on leverage can be found in note 20 on page 55 and the Glossary of Terms on page 61.

Political Risk – the Board is aware that the forthcoming UK Referendum on its membership of the European Union introduces elements of political uncertainty which may have practical consequences for the Company and its Managers. Developments are being closely monitored and considered by the Board and the Managers.

Viability Statement

In accordance with provision C2.2 of the UK Corporate Governance Code (published by the Financial Reporting Council in September 2014) 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 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 and short term bank loans, the revenue projections, the readily realisable nature of the portfolio which could be sold to provide funding if necessary and its stable closed end structure. 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

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.

Gender Representation

The Board comprises seven Directors, five male and two female. The Company has no employees. The Board's policy on diversity is set out on page 27.

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 28.

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 will be published on the Managers' website within the applicable time period.

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 10 to 13.

Managers' Review

It has been a year of sound and fury. In conventional terms it has signified very little. Markets and our portfolio ended the 12 months little changed in prices after varied and frenetic zigzags throughout the period. Mr. Market has been more than usually emotional in his moods but has ended up back much where he was a year ago. Equally the shape of the portfolio is familiar. The top 5 holdings are in the same companies for the second year running. We still own 29 of the top 30 shares from the previous year.

Despite the indecision of markets we believe that the last year may come to be seen as one of those rare occasions when the world we are likely to inhabit underwent radical change. Naturally many of the shifts have long antecedents and may still be but dimly grasped but this should not be allowed to disguise the reality of extraordinary change. With such a backdrop it is not surprising that ructions have been frequent and market progress halting – there are many companies and investment approaches that are raging against the dying of the old lights. This process is bound to be uncomfortable.

Last year we concluded that we needed to concentrate on three new questions in order both to convey the direction of our thoughts to shareholders and to assess whether our views and portfolio are productive and meaningful interpretations of the investment world. So far we think all three of these questions retain their relevance.

Will major and accelerating improvements in core technologies lead to progress in healthcare, energy and transportation analogous to those in information technology in recent years? Or will secular stagnation and limited productivity gains dominate?

This seems to us to have become the central debate of our investing – perhaps even our economic – times. It needs scarcely be added that the predominant mood in markets, politics and the media is that we are condemned to an era of pervasive doom and gloom. The academic version of this is perhaps best captured by Robert Gordon's 'The Rise and Fall of American Growth' but the market version has been buttressed by the widespread belief that low stated GDP growth and minimal inflation are indicators of distress and justification for negative government bond yields in several countries. In equity terms this has been matched by an assumption that this must mean that we are condemned to a low return world and by a chronic lack of confidence that active investment management is worthwhile.

We disagree with this vision of futility. Unfortunately the more the investment world endorses these pessimistic mantras the more likely they become. If the world's savings are merely tied up in bonds yielding little or nothing issued by governments attempting little or nothing or in seeking out those quoted companies that have the least conceivable need of capital or desire to invest in uncertain future growth then we can hardly be surprised if stagnation is the result. The only compensation is that the returns for those few who aspire to more are likely to rise as competition falls.

But the simplest reason we do not adhere to the dystopian version of the investment world is that it has been badly misguided. Ultimately for equity investors the economic context as defined by GDP growth, government deficits, inflation and bond yields is at best of minor and unclear relevance to markets and at worst a dangerous distraction. What matters is the creation of wealth by companies. This has already happened in the 21st century in quite astonishing scale. Whilst cynics, value investors and commentators can argue all they like as to the precisely 'correct' valuations afforded to the great (predominately) technology driven companies of our era even the most dedicated and morose cannot wish away their existence. That Apple and Alphabet (Google) are the two largest companies in the world by market capitalization is hardly a figment of fevered speculation but of levels of profitability that even conservative valuation principles cannot ignore. For an equity investor this ought to matter far more than endless speculation over the odds of a quarter point rise in the Federal Reserve's monetary settings or the trajectory of UK GDP growth (or otherwise) in 2016.

What matters still more and next is whether the extraordinary value creation of the recent past can be replicated or bettered in the future. We think that it can. Indeed we think that the chances that this is so in the future have increased and are increasing.

The evidence that this is so appears to us to be particularly compelling in the fields of transportation and energy. Until recently we thought that the mutually reinforcing trio of electric vehicles, autonomous vehicles and renewable energy would require at the very least five years (and more probably a decade) to become a significant economic influence. This did not mean that we regarded these areas as unfit for investment but that we felt the lengthy time frames and inevitable uncertainties of technological and competitive clarity combined with bureaucratic and self-interested inertia and obstructionism by incumbents did require more than our usual patience and willingness to be wrong in return for significant upside potential. Our position sizing reflected this.

This has proven unduly conservative. That this is so is principally to the credit of Tesla. Whilst the underlying trends have been supportive, the ability to tie the strands together, to apply the necessary capital, to thereby drive down the cost of batteries and storage, to manufacture from scratch and to build electric vehicles of performance and allure has transformed the probabilities and the time scale involved. Sheer ambition matters.

The extraordinary success of the Model 3 unveiling seems to us to be one of those rare moments that have meaning beyond the normal. In the first two days Tesla received 232,000 orders (with a $1,000 reservation fee) and a potential $8.1bn in revenue. In comparison in the first two days of the original iPhone in 2007 Apple sold 270,000 units for $135m. Whether electric vehicles have come of age or not Tesla itself most certainly has. By 2020 the impact on the mass market ought to be apparent. By 2030 Musk believes the entire market will be 100% electric and 100% autonomous. Given the sustained improvement in performance and price electric vehicles will, he suggests, be cheaper even if the price of oil 'goes to zero'. Tesla's Autopilot already seems to have cut accident rates by 50%. We have bought more Tesla shares.

Our contentions that healthcare is embarking on a path of radical reinvention survive – but they have not advanced as much as those surrounding transportation and energy. It's tempting to say that this is unsurprising as healthcare is complex, highly politicized and at the mercy of incumbent interests. But this may be indulgent: all these apply to energy and transport too and the economic and personal motivations ought to be at least as strong in creating pressure for healthcare improvements. Equally it is

© Tesla.

unclear that the breakthroughs that are occurring in healthcare are less significant than in transportation. Our experience over the last year has been that of listening to expert industry veterans repeating as in a mantra that they do not like to use the term 'cure' but that this is what they are observing at least at the conceptual level. At an individual company level it is not even obvious that the time and capital required are out of kilter with that expended by Tesla. But at an industry level this translates into a very high barrier. Immunotherapy oncology is a clear example. The clinical testing for each specific type of cancer usually runs into billions of dollars and as genomic science progresses, the indications become more and more specific. It is only in rare instances that an appeal to the public directly can accelerate the process. Illumina's non-invasive Down's syndrome test has been a clear instance of such a success.

Eventually we do believe that the promise of new technologies in healthcare will reward patient investors. From genomics to immunotherapy to gene editing and therapy the methodology, the proofs of concept and the economics are falling into place. Much of what is needed now is the building out of scale, data, training and experience.

Which companies will prove to have the greatest profitability resilience and longevity?

We wrote last year about the risks that matter to us as investors. Tom Slater pointed out that we do not believe that risk can be defined as volatility and that doing so indeed detracts from the ability to discern true risk in the form of a permanent loss of capital.

We would now go further than in the past. It seems to us that there is usually no longevity without volatility. As with states and individuals, exaggerated stability leads to complacency and an inability to respond to changed circumstances. From the storied supposed safety of newspaper franchises (even Warren Buffett believed in this one for too long) to the downfall of notable food retailers ('people will always need food') decades of effortless prosperity proved a recipe for disaster. Barnes & Noble and Borders proved much more prone to permanent loss of capital than the volatile and supposedly risky Amazon. Investors redouble the problem. In the search for low volatility positive returns they push companies to manage for stability, cash-flow and dividends thereby frequently undermining the necessary investment. Many then gear up their portfolios and trading position on the basis that these stocks are virtually riskless according to the models.

These considerations seem to us to be likely to be even more relevant in the future. On the one hand the rise of low volatility and passive investing are clear. They unduly support the apparently stable and the complacent large. On the other the direct assault on the businesses of the apparently secure is rapidly growing. If Musk is right about transportation in 2030 then whither oil companies or the inventors of the combustion engine? If personalized medicine and early cures do indeed arrive then what happens to the trillions in market capitalization enjoyed by the exploiters of questionable blockbuster drugs and unquestionably unjustified pharmaceutical price inflation? Valeant's demise is likely to be the lead indicator of much greater pain.

Amazon founder Jeff Bezos.

In contrast we increasingly believe that the business models and mentalities of the (frequently volatile) companies that make up the bulk of the Scottish Mortgage portfolio have the capability to enjoy long as well as profitable lives. We noted last year that from their very long-term visions to their low capital requirements and strong networks, there might be reason to doubt the all too prevalent assumption that the internet platform companies of today would turn out to be the inflated but near identical brethren of the 1990's bubble.

The last year has provided substantial practical evidence of this in ways that have both helped and hindered our results. In both the US and China, the current evidence is that instead of the power of the internet incumbents being threatened by the next innovation, rather their reach and authority has expanded, thereby squeezing both smaller competitors and the pre-internet behemoths. For good or ill Tencent, Alibaba and Baidu appear to control directly or indirectly almost the entire internet ecosystem in China. At the same time they are starting to encroach on the world of finance and banking in an apparently remorseless manner. In America the clearest example may be Facebook. It has used its data, insights and financial power in a manner that appears to be extending its reach and potential longevity as each new technology and business model comes into view. Through analyzing and buying Instagram, WhatsApp and Oculus Rift Facebook has made itself the leading presence in emergent areas rather than disappearing as AOL or My Space did. What we have to acknowledge is that this dominant position has increasingly come at the cost of the smaller players in the market. The prospects of Twitter and LinkedIn have soured.

Corporations, states and citizens. Who wins?

Beneath so many of the headlines of the last year lurks the increasingly acrimonious battle for the share of the spoils of economies and societies. It is not possible to assume any longer that the effortless dominance of capital over labour, or in popular terms the 1% over the 99%, will continue as it has done since the late 1970's. From Donald Trump to Yanis Varoufakis many of the most colourful people and episodes over the last year have explored such issues. But almost as frequently the relative power of the state and the corporate sector has been the issue at stake. From iPhone encryption to Google's tax affairs tensions have grown. Once again this has not been confined to the west. Facebook has been involved in both a vitriolic argument about Indian Internet access at low cost and an elaborate minuet with the Chinese authorities, who in turn seem increasingly unsure whether to be proud of the modernizing impact of their technology companies or scared of their allure to a querulous middle-class.

Whilst these issues continue to rise up the agenda we find it hard to come to any conclusions as to what the likely impact and resolutions will be at this stage. This is principally because none of the parties to these messy struggles seems to be very convincing in conveying its case. Noise levels are high. Our own sole conviction is that we should use our limited influence to persuade the companies in which we invest that they are better thinking of their long-run credibility than their short-run profit maximization. We are quite prepared to be outspoken about these issues.

Concluding Observations

We find ourselves in a very strange environment. The investment world appears to be becoming ever more self-referential, ever more short-term, ever more obsessed by positioning and macroeconomic soothsaying. Neither building great companies nor sensibly allocating precious capital resources appears to be of much interest.

As we have discussed the market mood is full of pessimism and negativity. We need to reiterate in closing that to us this is misguided. The opportunities for fundamental, long-term growth investment do not turn on stated GDP growth or on central banks or overall corporate earnings. They are instead dependent on the skills, circumstances and opportunities available to build great businesses at scale with high and persistent returns. The flow of such companies, quoted and unquoted and frequently at quite enormous scale, seems to us to have increased and be increasing. The territory is fertile.

James Anderson

Investing in Private Companies for Scottish Mortgage

Scottish Mortgage's portfolio of unlisted companies has been growing and we believe there are some tremendous opportunities to deploy capital in this area. Our reputation as a long-term supportive shareholder helps us to get access to appealing growth businesses and our scale enables us to invest in them at a cost that few can match.

Why are a growing number of our investment ideas coming from outside of the listed sphere? Our philosophy and process are unchanged and we are not becoming early stage venture capitalists. What has changed is that the capital cost of building a company has collapsed. Ten years ago, businesses had to buy servers, infrastructure and software. Today they use free development tools and pay a fee to Amazon Web Services to host their infrastructure. Ten years ago, their addressable market was the three hundred million people that could access a website using a desktop computer, most of whom were in the United States. Today there are more than three billion people across the globe accessing the Internet with a mobile device, which means breakthrough businesses can achieve huge scale whilst raising only modest amounts of capital.

Without pressure from dominant early funding partners wanting to recoup their capital, the attitude of the entrepreneurs involved has changed. They are staying private longer, avoiding the burdens of the public markets and being selective about their investors. They are listing at a time and on terms to suit their businesses. This provides a challenge for public market investors if they wish to retain their opportunity set. This was starkly illustrated by the listing of Alibaba in September 2014 at a market capitalisation of over $150bn. A great deal of value creation had taken place before it became a listed company.

Retaining private status allows companies to make decisions in a different way from those beholden to stock markets. It allows founders to think long-term and invest in projects without immediate payoffs. Such an approach is often difficult for listed companies. The average holding period across major stock markets has declined significantly and as a result, the focus on quarterly earnings statements has increased, as has the demand for predictable and increasing short-term profitability. This forces decisions to be taken in a different way, which we believe is increasingly detrimental to the chances of long-term outsized returns. As a result, unlisted companies may have a structure that confers an advantage over our investment time horizon.

Scottish Mortgage has two important assets when seeking unlisted investments. The first is our reputation as a long-term and supportive custodian. We've held Amazon shares in size for over ten years and that kind of behaviour stands out amidst short-termism elsewhere. This matters because the management teams involved are careful about whom they will allow onto their shareholder register. Just because companies don't want to go public, it doesn't mean they don't have financing requirements and, for rapidly scaling companies, this can require the resources of public market investors. Our second asset is our structure.

The portfolio of unlisted companies has been growing.

Images clockwise from top: www.alamy.com; © HelloFresh 2016; Courtesy of Skyscanner; Britta Pedersen/dpa/Corbis.

Being closed-ended means that we can own these investments on a long-term time horizon. We do not have the liquidity constraints of open-ended funds or the limited life constraints of most venture capital structures.

As outlined elsewhere in this report, we value our unlisted holdings using the International Private Equity and Venture Capital guidelines. An important element of this accounting approach is that we regularly estimate the price at which a company would trade if there were a market in its shares. We are concerned that this pushes us to become the conduit through which exaggerated stock market volatility is transmitted to unlisted companies. We do not wish to make it harder for the management of investee companies to take long-term decisions, thereby eroding one of the key advantages that originally attracted us to them. Within the context of the guidelines we therefore aim to have a robust and thoughtful valuation process that emphasises the evolving performance of these businesses and does not simply reflect stock market noise.

We are in the fortunate position to get the opportunity to invest in unlisted companies with great potential and remarkable management teams. We need to continue to earn a reputation as desirable shareholders to ensure that we remain able to invest in the best growth companies available globally. We are excited about the prospects for long-term returns and committed to keeping the costs of investing low.

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 becomes apparent. It is these characteristics that we want to identify and support. We own companies rather than rent shares. We do not regard ourselves as experts in forecasting the oscillations of economies or the mood swings of markets. Indeed we think that it is hard to excel in such areas as this is where so many market participants focus and where so little of the value of companies lies. Equally Baillie Gifford is more likely to possess competitive advantages for the good of shareholders when it adopts a long term perspective. We are a 100 year old Scottish partnership. We think about our own business over decades not quarters. Such stability may not be exciting but it does encourage patience in this most impatient of industries. We only judge our investment performance over five year plus time horizons. In truth it takes at least a decade to provide adequate evidence of investment skill.

— The investment management industry is ill-equipped to deal with the behavioural and emotional challenges inherent in today's capital markets. Our time frame and ownership structure help us to fight these dangers. We are besieged by news, data and opinion. The bulk of this information is of little significance but it implores you to rapid and usually futile action. This can be particularly damaging at times of stress. Academic research argues that most individuals dislike financial losses twice as much as they take pleasure in gains. We fear that for fund managers this relationship is close to tenfold. Internal and external pressures make the avoidance of loss dominant. This is damaging in a portfolio context. We need to be willing to accept loss if there is an equal or greater chance of (almost) unlimited gain.

— We are very dubious about the value of routine information. We have little confidence in quarterly earnings and none in the views of investment banks. We try to screen out rather than incorporate their noise. In contrast we think that the world offers joyous opportunities to hear views, perspectives and visions that are barely noticed by the markets. There is more in the investment world than the *Financial Times* or *Wall Street Journal* describe.

— We are global in stock selection, asset allocation and attribution. We are active not passive – or far worse – index plus in stock selection. Holding sizes reflect the potential upside and its probability (or otherwise) rather than the combination of the market 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%) and ongoing charges ratio (0.45% as at 31 March 2016) 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 0.45% 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 5% or 15% of your returns each year. Nor do we believe in a performance fee. Usually it undermines investment performance. It increases pressure and narrows perspective.

Thirty Largest Holdings and Twelve Month Performance at 31 March 2016

Name	Business	Fair value 31 March 2016 £'000	% of total assets	Absolute performance † %	Contribution to absolute performance # %	Fair value 31 March 2015 £'000
Amazon.com	Online retailer	330,117	8.3	64.4	5.7	305,142
Illumina	Biotechnology equipment	291,722	7.4	(9.8)	(1.2)	299,082
Inditex	International clothing retailer	231,567	5.9	10.1	0.7	195,943
Baidu	Online search engine	228,621	5.8	(5.5)	(0.2)	254,498
Tencent Holdings	Internet services	190,964	4.8	11.1	0.7	257,783
Tesla Motors	Electric cars	185,552	4.7	26.4	0.5	67,764
Facebook	Social networking site	179,697	4.6	43.3	1.7	125,367
Alibaba Group	Online retailer	164,129	4.1	(1.9)	0.0	151,530
Alphabet (formerly Google)	Online search engine	155,518	3.9	40.8	1.4	110,504
Atlas Copco	Engineering	87,657	2.2	(15.7)	(0.4)	102,647
Kering	Luxury goods producer and retailer	86,183	2.2	(2.9)	0.0	91,043
BASF	Chemicals	78,624	2.0	(19.4)	(0.5)	100,452
Prudential	International insurance	76,256	1.9	(19.3)	(0.5)	98,001
Kinnevik	Investment company	68,867	1.7	(9.9)	(0.2)	78,408
Zalando	International clothing retailer	68,231	1.7	35.9	0.5	50,308
Intuitive Surgical	Surgical robots	67,644	1.7	22.9	0.4	55,041
Apple	Computer technology	58,850	1.5	(8.1)	(0.1)	56,263
Rolls-Royce Group	Aerospace equipment	56,982	1.4	(26.8)	(0.6)	48,957
Novozymes	Enzyme manufacturer	54,045	1.4	2.8	0.1	53,251
Fiat Chrysler Automobiles	Automobiles	54,015	1.4	(22.5)	(0.7)	149,890
Rocket Internet	Internet startup factory	44,793	1.1	(41.6)	(0.7)	60,655
ASML Holding	Lithography	42,067	1.1	3.9	0.1	40,744
Housing Development Finance Corporation	Mortgage bank	42,009	1.1	(17.0)	(0.3)	51,219
Palantir Technologies Inc[u]	Data integration software and service provider	41,479	1.1	23.2	0.3	33,682
Reckitt Benckiser	Consumer goods company	40,319	1.0	18.6	0.2	34,742
ARM Holdings	Semiconductor and software design company	40,108	1.0	(7.6)	(0.1)	43,707
Netflix	Subscription service for TV shows and movies	36,264	0.9	31.1 *	0.1 *	–
Ctrip.com	Travel agent	35,752	0.9	56.0	0.4	22,939
Thumbtack Inc[u]	Online directory service for local businesses	34,787	0.9	6.4 *	0.1 *	–
You & Mr Jones[u]	Digital advertising agency	34,787	0.9	6.1 *	0.1 *	–
		3,107,606	**78.6**			

† Absolute performance (in sterling terms) has been calculated on a total return basis over the period 1 April 2015 to 31 March 2016.

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.

[u] Denotes unlisted investment.

Source: Baillie Gifford/StatPro.

Past performance is not a guide to future performance.

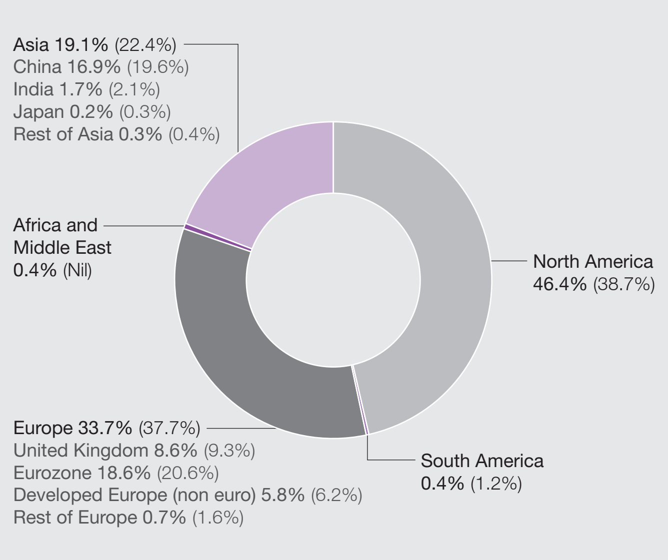
Investment Changes

	Valuation at 31 March 2015 £'000	Net acquisitions/ (disposals) £'000	Appreciation/ (depreciation) £'000	Valuation at 31 March 2016 £'000
Equities*:				
North America	1,459,675	208,067	148,823	1,816,565
South America	7,068	(6,212)	(856)	–
Europe				
United Kingdom	304,899	69,205	(60,102)	314,002
Eurozone	787,194	17,845	(59,572)	745,467
Developed Europe (non euro)	234,306	21,818	(28,161)	227,963
Rest of Europe	61,332	(23,137)	(11,110)	27,085
Africa and the Middle East	–	16,394	1,000	17,394
Asia				
China	747,870	(106,354)	25,287	666,803
India	81,533	–	(12,688)	68,845
Japan	10,360	–	(2,534)	7,826
Rest of Asia	14,941	–	(2,008)	12,933
Total equities	**3,709,178**	**197,626**	**(1,921)**	**3,904,883**
Brazilian bonds	38,110	(16,143)	(4,726)	17,241
Total bonds	**38,110**	**(16,143)**	**(4,726)**	**17,241**
Total investments	**3,747,288**	**181,483**	**(6,647)**	**3,922,124**
Net liquid assets	73,151	(43,725)	3,848	33,274
Total assets	**3,820,439**	**137,758**	**(2,799)**	**3,955,398**

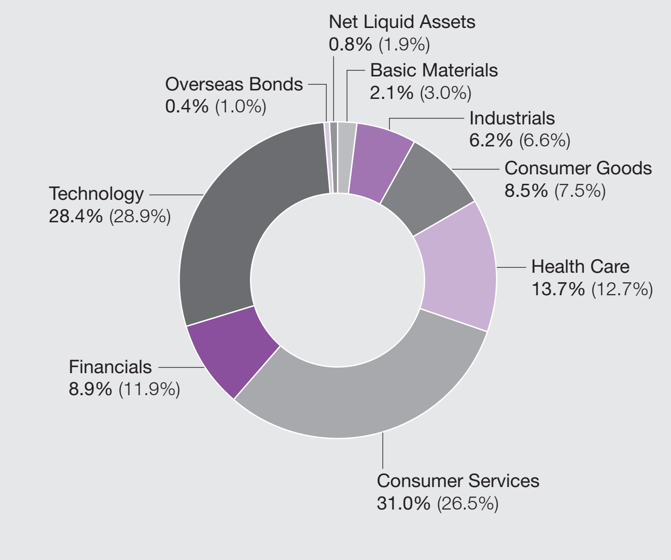
The figures above for total assets are made up of total net assets before deduction of debentures, long and short term borrowings.
* Equities include OEICs.

Distribution of Portfolio

Geographical 2016 (2015)



Sectoral 2016 (2015)



Classification of Investments

Classification Equities*:	North America %	South America %	Europe %	Africa and Middle East %	Asia %	2016 Total %	2015 Total %
Basic Materials	**–**	**–**	**2.1**	**–**	**–**	**2.1**	**3.0**
Chemicals	–	–	2.0	–	–	2.0	2.6
Mining	–	–	0.1	–	–	0.1	0.4
Industrials	**1.6**	**–**	**4.6**	**–**	**–**	**6.2**	**6.6**
Aerospace and defence	–	–	1.4	–	–	1.4	1.3
Electronic and electrical equipment	0.1	–	–	–	–	0.1	0.3
Industrial engineering	–	–	2.9	–	–	2.9	3.6
Support services	1.5	–	0.3	–	–	1.8	1.4
Consumer Goods	**4.7**	**–**	**3.5**	**–**	**0.3**	**8.5**	**7.5**
Automobiles and parts	4.7	–	2.1	–	0.3	7.1	6.1
Household goods and home construction	–	–	1.0	–	–	1.0	0.9
Personal goods	–	–	0.4	–	–	0.4	0.5
Health Care	**11.8**	**–**	**1.9**	**–**	**–**	**13.7**	**12.7**
Pharmaceuticals and biotechnology	9.7	–	1.9	–	–	11.6	10.8
Health care equipment and services	2.1	–	–	–	–	2.1	1.9
Consumer Services	**11.7**	**–**	**12.5**	**0.4**	**6.4**	**31.0**	**26.5**
Food and drug retailers	0.4	–	0.9	–	–	1.3	3.0
General retailers	10.0	–	11.4	0.4	5.5	27.3	22.9
Media	0.9	–	–	–	–	0.9	0.6
Travel and leisure	0.4	–	0.2	–	0.9	1.5	–
Financials	**0.7**	**–**	**6.6**	**–**	**1.6**	**8.9**	**11.9**
Banks	–	–	0.8	–	–	0.8	2.3
Financial services	0.7	–	5.3	–	1.6	7.6	9.1
Open ended investment companies	–	–	0.5	–	–	0.5	0.5
Technology	**15.5**	**–**	**2.1**	**–**	**10.8**	**28.4**	**28.9**
Software and computer services	13.9	–	1.0	–	10.6	25.5	25.9
Technology hardware and equipment	1.6	–	1.1	–	0.2	2.9	3.0
Total Equities*	**46.0**	**–**	**33.3**	**0.4**	**19.1**	**98.8**	
Total Equities* – 2015	38.2	0.2	36.3	–	22.4		**97.1**
Bonds	**–**	**0.4**	**–**	**–**	**–**	**0.4**	**1.0**
Net Liquid Assets	**0.3**	**–**	**0.5**	**–**	**–**	**0.8**	**1.9**
Total Assets (before deduction of debentures, long and short term borrowings)	**46.3**	**0.4**	**33.8**	**0.4**	**19.1**	**100.0**	
Total Assets – 2015	38.7	1.2	37.7	–	22.4		**100.0**
Debentures, Long and Short Term Borrowings	**(10.2)**	**–**	**(2.4)**	**–**	**–**	**(12.6)**	**(12.7)**
Shareholders' Funds	**36.1**	**0.4**	**31.4**	**0.4**	**19.1**	**87.4**	
Shareholders' Funds – 2015	29.9	1.2	33.8	–	22.4		**87.3**
Number of equity investments*	**38**	**–**	**31**	**1**	**12**	**82**	**65**

* Including OEICs.

	Listed equities %	Unlisted equities %	Bonds %	Net liquid assets %	Total %
31 March 2016	**87.0**	**11.8**	**0.4**	**0.8**	**100.0**
31 March 2015	93.2	3.9	1.0	1.9	100.0

List of Investments as at 31 March 2016

Classification	Name	Business	Fair value £'000	% of total assets
North America				
Electronic and electrical equipment	Solarcity	Solar energy production	**5,349**	**0.1**
Support services	LinkedIn Corp	Business-related social networking site	25,316	
	Thumbtack Inc(u)	Online directory service for local businesses	34,787	
			60,103	**1.5**
Automobiles and parts	Tesla Motors	Electric cars	**185,552**	**4.7**
Health care equipment and services	Essence Healthcare(u)	Cloud-based health provider	16,609	
	Intuitive Surgical	Surgical robots	67,644	
			84,253	**2.1**
Pharmaceuticals and biotechnology	Alnylam Pharmaceuticals	Biotechnology	14,272	
	Bluebird Bio Inc	Provider of biotechnological products and services	22,032	
	Genomic Health	Genetic testing	9,852	
	Illumina	Biotechnology equipment	291,722	
	Juno Therapeutics	Clinical stage biotechnology company	23,739	
	Myriad Genetics	Genetic testing	20,378	
			381,995	**9.7**
Food and drug retailers	Whole Foods Market	Food retailer	**15,632**	**0.4**
General retailers	Amazon.com	Online retailer	330,117	
	JAND Inc Series A (Warby Parker)(u)	Online and physical glasses retailer	4,848	
	JAND Inc Series D (Warby Parker)(u)	Online and physical glasses retailer	12,552	
	Netflix	Subscription service for TV shows and movies	36,264	
	Udacity(u)	Online education	10,436	
			394,217	**10.0**
Media	You & Mr Jones(u)	Digital advertising agency	**34,787**	**0.9**
Travel and leisure	Airbnb(u)	Online marketplace for travel accommodation	**17,394**	**0.4**
Financial services	Lending Club Corp	Internet financial services provider	12,247	
	WI Harper Fund VII(u)	Venture capital	12,050	
	WI Harper Fund VIII(u)	Venture capital	2,408	
			26,705	**0.7**
Software and computer services	Alphabet (formerly Google)	Online search engine	155,518	
	Anaplan Inc(u)	Enterprise planning software	10,436	
	Castlight Health Inc	Healthcare information company	4,158	
	Dropbox(u)	Online storage	28,889	
	Facebook	Social networking site	179,697	
	Flatiron Health(u)	Software and data aggregation for oncology	6,957	
	Palantir Technologies Inc(u)	Data integration software and service provider	41,479	
	Salesforce	Cloud computing and hosting	26,352	
	Splunk	Data diagnostics	24,686	
	SurveyMonkey(u)	Online surveys	12,318	
	Twitter	Global platform for real-time conversation	10,761	
	Workday	Enterprise information technology	26,714	
	Zocdoc Inc(u)	Online platform for searching for doctors and booking appointments	20,875	
			548,840	**13.9**
Technology hardware and equipment	Apple	Computer technology	58,850	
	Stratasys	3D printer manufacturer	2,888	
			61,738	**1.6**
Total North American Equities			**1,816,565**	**46.0**

(u) Denotes unlisted investment.

Classification	Name	Business	Fair value £'000	% of total assets
Europe				
Chemicals	BASF	Chemicals – Germany	**78,624**	**2.0**
Mining	KGHM	Copper mining – Poland	**5,270**	**0.1**
Aerospace and defence	Rolls-Royce Group	Aerospace equipment – UK	**56,982**	**1.4**
Industrial engineering	Atlas Copco	Engineering – Sweden	87,657	
	Renishaw	Electronic equipment – UK	26,571	
			114,228	**2.9**
Support services	Funding Circle[u]	Facilitates loans to small and medium enterprises – UK	**11,053**	**0.3**
Automobiles and parts	Ferrari	Automobiles – Italy	27,788	
	Fiat Chrysler Automobiles	Automobiles – Italy	54,015	
			81,803	**2.1**
Household goods and home construction	Reckitt Benckiser	Consumer goods company – UK	**40,319**	**1.0**
Personal goods	Burberry Group	Clothing and accessories – UK	**14,551**	**0.4**
Pharmaceuticals and biotechnology	Curevac[u]	Biotech – Germany	19,820	
	Novozymes	Enzyme manufacturer – Denmark	54,045	
			73,865	**1.9**
Food and drug retailers	Jeronimo Martins	Retailer – Portugal	13,132	
	Magnit OJSC GDR	Retailer – Russia	21,815	
			34,947	**0.9**
General retailers	HelloFresh[u]	Grocery retailer – Germany	19,821	
	Home24[u]	Online furniture retailer – Germany	26,164	
	Inditex	International clothing retailer – Spain	231,567	
	Kering	Luxury goods producer and retailer – France	86,183	
	Spotify[u]	Online music streaming service – Sweden	17,394	
	Zalando	International clothing retailer – Germany	68,231	
			449,360	**11.4**
Travel and leisure	Skyscanner[u]	Online flight search – UK	**9,800**	**0.2**
Banks	Banco Santander	Banking – Spain	33,262	
	NBNK	Banking – UK	867	
			34,129	**0.8**
Financial services	Kinnevik	Investment company – Sweden	68,867	
	Level E Maya Fund	Artificial intelligence based algorithmic trading – UK	4,973	
	Prudential	International insurance – UK	76,256	
	Rocket Internet	Internet startup factory – Germany	44,793	
	Transferwise[u]	Online money transfer – UK	13,915	
			208,804	**5.3**
Open ended investment companies	Baillie Gifford Global Discovery Fund	Global growth fund	**18,607**	**0.5**
Software and computer services	ARM Holdings	Semiconductor and software design company – UK	**40,108**	**1.0**
Technology hardware and equipment	ASML Holding	Lithography – Netherlands	**42,067**	**1.1**
Total European Equities			**1,314,517**	**33.3**
Africa and Middle East				
General retailers	Souq[u]	Owner and operator of online retail e-commerce website – UAE	17,394	0.4
Total African and Middle Eastern Equities			**17,394**	**0.4**

[u] Denotes unlisted investment.

Classification	Name	Business	Fair value £'000	% of total assets
Asia				
Automobiles and parts	Astra International	Automotive conglomerate – Indonesia	**12,933**	**0.3**
General retailers	Alibaba Group	Online retail – China	164,129	
	Flipkart[u]	E-commerce – India	26,836	
	Internet Plus Holdings[u]	Local services aggregator – China	17,394	
	JD.com	Online direct sales company – China	10,714	
			219,073	**5.5**
Travel and leisure	Ctrip.com	Travel agent – China	**35,752**	**0.9**
Financial services	Housing Development Finance Corporation	Mortgage bank – India	42,009	
	Innovation Works Development Fund[u]	Venture capital – China	18,282	
	Innovation Works Development Fund III[u]	Venture capital – China	947	
			61,238	**1.6**
Software and computer services	Baidu	Online search engine – China	228,621	
	Tencent Holdings	Internet services – China	190,964	
			419,585	**10.6**
Technology hardware and equipment	Advantest	Semiconductors – Japan	**7,826**	**0.2**
Total Asian Equities			**756,407**	**19.1**
Total Equity Investments			**3,904,883**	**98.8**
Fixed Interest				
Brazilian real denominated	Brazil CPI Linked 2045	Brazilian government inflation linked bond	**17,241**	**0.4**
Total Fixed Interest			**17,241**	**0.4**
Total Investments			**3,922,124**	**99.2**
Net Liquid Assets			33,274	0.8
Total Assets at Fair Value (before deduction of debentures, long and short term borrowings)			**3,955,398**	**100.0**

[u] Denotes unlisted investment.

The Strategic Report which includes pages 2 to 21 was approved by the Board of Directors and signed on its behalf on 18 May 2016.

John Scott
Chairman

Ten Year Record

Capital

At 31 March	Total assets £'000	Debenture stocks, long and short term borrowings £'000	Shareholders' funds £'000	Shareholders' funds per share p	Net asset value per share * (fair) p	Net asset value per share * (par) p	Share price p	Premium/ (discount) † (fair) %	Premium/ (discount) † (par) %
2006	1,985,162	231,809	1,753,353	121.7	116.8	122.2	104.3	(10.7)	(14.6)
2007	2,045,515	275,650	1,769,865	125.8	121.4	126.2	108.4	(10.7)	(14.1)
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)**

* 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 55).

† 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.

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 ‡ %
2006	41,456	25,738	1.76	1.70	0.52
2007	45,522	27,817	1.96	1.90	0.49
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**

Gearing Ratios

Year to 31 March	Gearing ¶ %	Potential gearing § %
2006	12	13
2007	14	16
2008	23	24
2009	26	29
2010	16	17
2011	17	17
2012	17	18
2013	16	17
2014	15	15
2015	12	15
2016	**13**	**14**

\# 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 44).

‡ Calculated as total operating costs divided by average net asset value (with debt at fair value) in accordance with AIC guidelines.

¶ Total assets (including all debt used for investment purposes) less all cash and cash equivalents divided by shareholders' funds.

§ Total assets (including all debt used for investment purposes) divided by shareholders' funds.

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

Cumulative Performance (taking 2006 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
2006	100	100	100	100	100	100	100	100	100
2007	104	106	104	107	104	106	111	112	105
2008	112	116	100	105	115	119	111	121	109
2009	66	70	77	84	68	72	144	145	108
2010	119	129	112	124	117	127	127	133	113
2011	140	155	118	135	142	158	151	141	119
2012	132	148	115	134	136	154	148	153	123
2013	147	169	130	157	158	182	177	165	128
2014	178	208	136	168	200	235	138	171	131
2015	225	267	158	200	256	304	127	172	132
2016	**222**	**267**	**153**	**199**	**252**	**302**	**94**	**174**	**134**
Compound annual returns									
5 year	9.7%	11.5%	5.3%	8.1%	12.1%	13.8%	(9.0%)	4.3%	2.3%
10 year	8.3%	10.3%	4.3%	7.1%	9.7%	11.7%	(0.6%)	5.7%	3.0%

†† Source: Thomson Reuters Datastream.

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

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

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

John Scott, the Chairman, is a former international investment banker. John was appointed a Director in 2001 and became Chairman on 31 December 2009. He is also Chairman of the Nomination Committee. He is a former executive director of Lazard Brothers & Co., Limited. During his twenty years with Lazard, he was involved with the merchant bank's corporate advisory activities and its Asian businesses. He is currently Chairman of Impax Environmental Markets plc and Alpha Insurance Analysts Limited, as well as being a director of various companies including Bluefield Solar Income Fund Limited, JPMorgan Claverhouse Investment Trust plc, CC Japan Income & Growth Trust plc and Alternative Asset Opportunities PCC Limited.

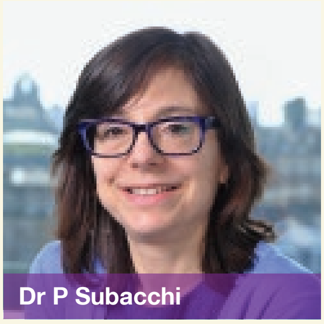
John Kay has a distinguished record as an economist, academic, author and commentator on business, government and economic issues. John was appointed a Director in 2008, he is a Visiting Professor at the London School of Economics and Investment Officer, St John's College, University of Oxford. He is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

Justin Dowley is a former international investment banker and was appointed a Director on 4 September 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. He is currently Chairman of Intermediate Capital Group plc and a non executive director of Melrose Industries plc, Novae Group plc, the National Crime Agency and a number of private companies.

Patrick Maxwell is Regius Professor of Physic and Head of the School of Clinical Medicine at Cambridge University. He was appointed a Director on 1 April 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 and chairs the Medical Research Council's Molecular and Cellular Medicine Board. He is currently a director of the Global Medical Excellence Cluster (GMEC) and a member of the boards of Cambridge University Health Partners (CUHP) and Cambridge University Hospitals NHS Foundation Trust.

Fiona McBain is chief executive of Scottish Friendly Assurance, a Glasgow based and mutually owned financial services group with over 1,000,000 policyholders. Fiona was appointed a Director in 2009. Before joining Scottish Friendly in 1998, Fiona, a chartered accountant, was employed by Prudential plc and Arthur Young (now Ernst & Young) where she spent some time working across a number of industry sectors, both in the UK and in the United States. She is also a director of Marine and General Mutual Life Assurance Society and a trustee of Save the Children UK.

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



Paola Subacchi is the Director of International Economics Research at Chatham House in London and a visiting professor at the University of Bologna. Paola was appointed to the Board in 2014. An Italian national, she studied at Università Bocconi in Milan and at the University of Oxford. She is a governor of St Marylebone School in London. Her forthcoming book 'The People's Money: How China is building a global currency' will be published by Columbia University Press.

All Directors are members of the Nomination and Audit Committees.

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 seven 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 £120 billion. Based in Edinburgh, it is one of the leading privately owned investment management firms in the UK, with 41 partners and a staff of around 930.

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 2016.

Corporate Governance

The Corporate Governance Report is set out on pages 26 to 28 and forms part of this Report.

Manager and Company Secretaries

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 is 0.30% of total assets less current liabilities (excluding short term borrowings for investment purposes). 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 BNY Mellon Trust & Depositary (UK) Limited has been appointed Depositary to the Company.

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 has delegated the custody function to The Bank of New York Mellon SA/NV ('the Custodian').

Directors

Information about the Directors, including their relevant experience, can be found on pages 22 to 23. Mr LJ Dowley and Professor PH Maxwell, having been appointed to the Board on 4 September 2015 and 1 April 2016, respectively, are required to seek election by shareholders at the Annual General Meeting. The Directors believe that the Board will benefit from their extensive knowledge and experience and recommend their election to shareholders.

Mr WG McQueen will retire at the Annual General Meeting and will not offer himself for re-election.

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

Following a formal performance evaluation this year facilitated by external consultants, the Board considers that the performance of the Directors continues to be effective and each remains committed to the Company. Their contribution to the Board is greatly valued and the Board recommends their re-election to shareholders.

Director Indemnification and Insurance

The Company has entered into deeds of indemnity in favour of each of its Directors. The deeds were in force during the year to 31 March 2016 and cover any liabilities that may arise to a third party, other than the Company, for negligence, default or breach of trust or duty. The Directors are not indemnified in respect of liabilities to the Company, any regulatory or criminal fines, any costs incurred in connection with criminal proceedings in which the Director is convicted or civil proceedings brought by the Company in which judgement is given against him/her. In addition, the indemnity does not apply to any liability to the extent that it is recovered from another person.

The Company maintains Directors' and Officers' Liability Insurance.

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 1.58p per ordinary share which, together with the interim dividend of 1.38p per ordinary share already paid, makes a total of 2.96p for the year compared with 2.93p per ordinary share for the previous year.

If approved, the recommended final dividend on the ordinary shares will be paid on 4 July 2016 to shareholders on the register at the close of business on 10 June 2016. The ex-dividend date is 9 June 2016.

The Company's Registrars offer a Dividend Reinvestment Plan (see page 57) and the final date for elections for this dividend is 13 June 2016.

Share Capital

Capital Structure

The Company's capital structure as at 31 March 2016 consists of 1,421,730,880 ordinary shares of 5p each, of which 1,312,524,485 are allotted and fully paid and 109,206,395 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 the inside front cover of the Circular which is being sent to shareholders with this Annual Report.

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 £21,045,408.05.

During the year to 31 March 2016 the Company sold 68,100,000 shares from treasury on a non-pre-emptive basis (nominal value £3,405,000, representing 5.5% of the called up share capital, excluding treasury shares, at 31 March 2015) at a premium to net asset value (on the basis of debt valued at fair value) on 86 separate occasions at an average price of 264.6 pence per share raising net proceeds of £179,873,000. At 31 March 2016 the Company held 109,206,395 treasury shares. Between 1 April and 16 May 2016 the Company sold a further 2,500,000 shares from treasury raising proceeds of £6,481,000.

During the year to 31 March 2016 the Company bought back 1,250,000 ordinary shares (nominal value £63,000 representing 0.1% of the called up share capital, excluding treasury shares, at 31 March 2015), on the London Stock Exchange, all of which were added to shares held in treasury. The total consideration for these shares was £3,199,000. Between 1 April and 16 May 2016 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 contained in the Circular sent to shareholders with this Annual Report.

Major Interests Disclosed in the Company's Shares

Name	No. of ordinary 5p shares held at 31 March 2016	% of issue*
BlackRock Inc (Indirect)	128,243,466	9.8
D.C. Thomson & Company Limited (Direct)	50,005,000	3.8
Investec Wealth & Investment Limited (Indirect)	40,646,265	3.1

There have been no changes to the major interests in the Company's shares disclosed to the Company up to 16 May 2016.

* Ordinary shares in issue excluding treasury shares.

Annual General Meeting

Information relating to the Company's Annual General Meeting to be held on 30 June 2016 is contained in the Circular sent to shareholders with this Annual Report.

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 Auditors

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 their reappointment and remuneration will be submitted to the Annual General Meeting.

During the year the Company tendered its audit (see Audit Committee Report on page 29).

Post Balance Sheet Events

The Directors confirm that there have been no post Balance Sheet events up to 18 May 2016.

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.

Bribery Act 2010

The Company has a zero tolerance policy towards bribery and is committed to carrying out business fairly, honestly and openly. The Managers also adopt a zero tolerance approach and have policies and procedures in place to prevent bribery.

By order of the Board
John Scott
18 May 2016

Corporate Governance Report

The Board is committed to achieving and demonstrating high standards of Corporate Governance. This statement outlines how the principles of the 2014 UK Corporate Governance Code (the 'Code'), which can be found at **www.frc.org.uk** and the principles of the Association of Investment Companies (AIC) Code of Corporate Governance were applied throughout the financial year. The AIC Code provides a framework of best practice for investment companies and can be found at **www.theaic.co.uk**.

Compliance

The Board confirms that the Company has complied throughout the year under review with the relevant provisions of the Code except that the Chairman of the Board is a member of the Audit Committee. The Board believes it is appropriate for Mr JPHS Scott to be a member of the Committee as he is considered to be independent and there are no conflicts of interest.

The Board is of the opinion that the Company has complied with the recommendations of the AIC Code.

The Board

The Board has overall responsibility for the Company's affairs. The Board appoints the Managers and 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 appointments of Mr LJ Dowley on 4 September 2015 and Professor PH Maxwell on 1 April 2016 the Board comprises seven Directors, all of whom are non-executive, although Mr WG McQueen is retiring as a Director at the forthcoming Annual General Meeting.

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 22 and 23.

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

Appointments

The terms and conditions of Directors' 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.

Mr JPHS Scott and Mr WG McQueen have served on the Board for more than nine years. The Directors recognise the value of progressive refreshing of, and succession planning for, company boards and the Board's composition is reviewed annually. The Board is of the view that length of service will not necessarily compromise the independence or contribution of directors of an investment trust company, where continuity and experience can be a benefit to the board. The Board concurs with the view expressed in the AIC Code that long-serving Directors should not be prevented from being considered as independent.

Following formal performance evaluation, the Board has concluded that, notwithstanding their length of service, Mr JPHS Scott and Mr WG McQueen continued to demonstrate independence of character and judgement and their skills and experience were 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. The Annual General Meeting was attended by all Directors serving at that date with the exception of Professor JA Kay who had been called as an expert witness in the High Court and submitted his apologies to the meeting.

Directors' Attendance at Meetings

	Board	Audit Committee	Nomination Committee
Number of meetings	**6**	**2**	**1**
John Scott	6	2	1
Justin Dowley (appointed 4 September 2015)	3	1	1
Michael Gray (retired 23 June 2015)	2	1	–
Professor John Kay	5	2	1
Fiona McBain	6	2	1
Gordon McQueen	6	2	1
Dr Paola Subacchi	6	2	1

Professor Patrick Maxwell was appointed following the year end on 1 April 2016.

Nomination Committee

The Nomination Committee consists of the independent non-executive Directors and the Chairman of the Board is Chairman of the Committee. The Committee meets on an annual basis and at such other times as may be required. The Committee has written terms of reference which include reviewing the Board, identifying and nominating new candidates for appointment to the Board, Board appraisal, succession planning and training. The Committee also considers whether Directors should be recommended for re-election by shareholders. The Committee is responsible for considering Directors' potential conflicts of interest and for making recommendations to the Board on whether or not the potential conflicts should be authorised. Appointments to the Board are made on merit with due regard for the benefits of diversity including gender. The priority in appointing new directors is to identify the candidate with the best range of skills and experience to complement existing Directors. The Board therefore does not consider it appropriate to set diversity targets.

Spencer Stuart were engaged to identify potential candidates to fill the vacancy following the retirement from the Board of Mr MM Gray at the Annual General Meeting on 23 June 2015. Additionally, as Mr WG McQueen is not offering himself for re-election at the forthcoming Annual General Meeting, Spencer Stuart were also engaged to identify potential candidates to fill this vacancy. Spencer Stuart has no other connection with the Company or Directors.

For both vacancies, the Committee identified the skills and experience that would be required, having due regard for the benefits of diversity on the Board, and candidates were interviewed from a shortlist of names provided by Spencer Stuart.

Mr Justin Dowley and Professor Patrick Maxwell were identified as preferred candidates.

Mr LJ Dowley brings to the Board extensive and relevant investment industry experience and was appointed to the Board on 4 September 2015. Professor PH Maxwell has deep knowledge in many fields of medical science and was appointed to the Board on 1 April 2016.

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

During the year the Board appointed Lintstock Ltd, a firm which assists companies with the design and execution of board evaluations, to facilitate the performance evaluation of the Chairman, each Director, the Board as a whole and its Committees. Lintstock provided a similar evaluation for the Company in 2013 and has no other connection with the Company or the Directors. Lintstock provided questionnaires which were tailored to the specific needs of the Company.

The questionnaires addressed, amongst other issues:

— Board and Committee composition and expertise;

— Quality of Board documentation, administration and third party relationships;

— Trust oversight and priorities for change; and

— Personal development.

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

The results were considered by the Nomination Committee.

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

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

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. 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 31 and 32.

Audit Committee

The report of the Audit Committee is set out on pages 29 and 30.

Internal Controls and Risk Management

The Directors acknowledge their responsibility for the Company's risk management and internal control systems and for reviewing their effectiveness. The systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable but not absolute assurance against material misstatement or loss.

The Board confirms that there is a continuing process for identifying, evaluating and managing the significant risks faced by the Company in accordance with the guidance 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting'.

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 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 acts as the Company's Depositary 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. The Depositary has delegated the custody function to The Bank of New York Mellon SA/NV London Branch ('the Custodian'). The Custodian prepares a report on its key controls and safeguards which is independently reviewed by KPMG LLP.

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 note 20 on page 55), 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 Directors considered it appropriate to adopt the going concern basis of accounting in preparing the 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 broker, Cenkos Securities (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

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
John Scott
Chairman
18 May 2016

Audit Committee Report

The Audit Committee consists of all independent Directors. The members of the Committee consider that they have the requisite financial skills and experience to fulfil the responsibilities of the Committee. Mr WG McQueen, Chairman of the Committee, is a Chartered Accountant. Following the retirement of Mr WG McQueen at the Annual General Meeting on 30 June 2016, Mr LJ Dowley will become Chairman of the Committee. Mr LJ Dowley is also 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.

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

Main Activities of the Committee

The Committee met twice during the year and KPMG LLP, the external Auditor, attended both meetings. 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 preliminary results announcement and the annual and interim reports;
- The Company's accounting policies and practices and the implementation of the Managers' updated valuation policy for investments in unquoted companies;
- The regulatory changes impacting the Company;
- The fairness, balance and understandability of the Annual Report and Financial Statements 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 99.2% of total assets.

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

The 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.

The value of all the listed investments at 31 March 2016 was agreed to external price sources and the holdings agreed to confirmations from the Company's custodian. Confirmations of uncertificated unlisted investments were obtained from the relevant investee companies.

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.

Audit Tender

During the year the Company tendered its audit. Invitations to tender were issued to 4 audit firms, resulting in comprehensive proposals of a very high standard being submitted, and 3 firms being invited to present their approach in more detail to the Audit Committee. In evaluating the firms, the primary focus was on audit quality giving specific consideration to audit approach and delivery with attention on the firms' approach to unlisted investments; audit engagement team quality; insight into future developments likely to affect the Company; and independence. Following a robust and transparent review process, where the firms were subjected to scrutiny and appropriate challenge, the Board unanimously decided to reappoint KPMG as Auditor.

In accordance with mandatory audit rotation requirements, the Committee intends to undertake a further tender process during the year to 31 March 2020.

Internal Controls and Risk Management

The Committee reviewed the effectiveness of the Company's risk management and internal controls systems as described on pages 27 and 28. 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 their 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 2016 were £4,000 and related to the certification of financial information for the debenture trustee and the provision of Indian tax services. The Committee does not believe that this has impaired the Auditor's independence.

The effectiveness of the external Auditor was considered as part of the Audit tender process which facilitated comparison against other firms. Additionally, the Committee considered:

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

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

— Responses to the ICAS Annual Audit Assessment questionnaire;

— 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.

Although KPMG LLP, or its predecessor firms, have been Auditor for over twenty six years, the audit partners responsible for the audit are rotated at least every five years in accordance with professional and regulatory standards in order to protect independence and objectivity and to provide fresh challenge to the business. Ms C Burnet, the current partner, was appointed over four years ago and will continue as partner until the conclusion of the 2016 audit. Following KPMG's successful tender, a new audit director will be appointed with full audit sign off authority.

KPMG have confirmed that they believe they are independent within the meaning of regulatory and professional requirements and that the objectivity of the audit partner and staff is not impaired. KPMG also acted as Auditor to the Manager and Ms C Burnet took on the lead relationship partner role with Baillie Gifford during 2013. A separate audit director has been responsible for the Baillie Gifford audit and KPMG had outlined the procedures that would be put in place in the unlikely event that a conflict of interest should arise. As a result of the new mandatory auditor rotation requirements, KPMG LLP will cease to be Auditor of the Managers following conclusion of the Managers' audit for this year.

Having carried out the review and tender 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 33 to 35.

By order of the Board

Gordon McQueen
Audit Committee Chairman
18 May 2016

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 2014 and no changes are proposed.

The Board reviewed the level of fees during the year and it was agreed that there would be no change to the fees. The fees were last increased on 1 April 2014.

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 2016 and the fees payable in respect of the year ending 31 March 2017 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 2017 £	Fees for year ending 31 Mar 2016 £
Chairman's fee	45,000	45,000
Directors' fee	30,000	30,000
Additional fee for Chairman of the Audit Committee	5,000	5,000
Total aggregate annual fees that can be paid to the Directors in any year under the Directors' Remuneration Policy, as set out in the Company's Articles of Association	300,000	300,000

Annual Report on Remuneration

An ordinary resolution for the approval of this report will be put to the members at the forthcoming Annual General Meeting.

The law requires the Company's Auditor to audit certain of the disclosures provided in this report. Where disclosures have been audited, they are indicated as such. The Auditor's opinion is included in their report on pages 34 and 35.

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	2016 Fees £	2016 Taxable benefits* £	2016 Total £	2015 Fees £	2015 Taxable benefits* £	2015 Total £
John Scott (Chairman)	45,000	1,335	**46,335**	45,000	684	**45,684**
Justin Dowley (appointed 4 September 2015)	17,192	1,646	**18,838**	–	–	**–**
Michael Gray (retired 23 June 2015)	6,962	–	**6,962**	30,000	605	**30,605**
Professor John Kay	30,000	2,520	**32,520**	30,000	2,678	**32,678**
Fiona McBain	30,000	1,264	**31,264**	30,000	804	**30,804**
Gordon McQueen (Audit Committee Chairman)	35,000	4,650	**39,650**	35,000	4,857	**39,857**
Dr Paola Subacchi	30,000	3,241	**33,241**	30,000	2,637	**32,637**
	194,154	**14,656**	**208,810**	**200,000**	**12,265**	**212,265**

* Comprises travel and subsistence expenses incurred by or on behalf of Directors in the course of travel to attend Board and Committee 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

Name	Nature of interest	Ordinary 5p shares held at 31 March 2016	Ordinary shares held at 31 March 2015
John Scott	Beneficial	233,238	233,238
Justin Dowley	Beneficial	199,717	–
Professor John Kay	Beneficial	32,792	25,000
Fiona McBain	Beneficial	6,021	5,956
Gordon McQueen	Beneficial	7,500	7,500
Dr Paola Subacchi	Beneficial	16,366	8,664

The Directors at the year end, and their interests in the Company, were as shown above. Professor Patrick Maxwell was appointed to the Board on 1 April 2016 and held 7,280 ordinary shares as at 16 May 2016. Dr Paola Subacchi purchased a further 8 ordinary shares on 4 April 2016. There have been no other changes intimated in the Directors' interests up to 16 May 2016.

Statement of Voting at Annual General Meeting

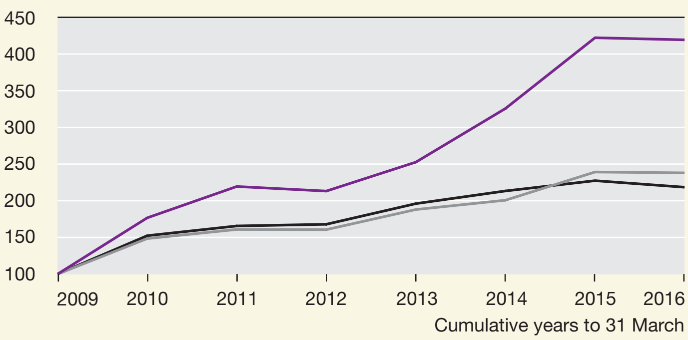
At the last Annual General Meeting, of the proxy votes received in respect of the Directors' Remuneration Report, 99.3% were in favour, 0.4% were against and votes withheld were 0.3%.

Relative Importance of Spend on Pay

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

Performance Graph

Scottish Mortgage's Share Price, FTSE All-Share Index and Benchmark*



Source: Thomson Reuters Datastream.

Scottish Mortgage share price

Benchmark†

FTSE All-Share Index

* All figures are total return (assuming all dividends are reinvested).

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

(figures have been rebased to 100 at 31 March 2009)

Past performance is not a guide to future performance.

Company 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 31 and 32 was approved by the Board of Directors and signed on its behalf on 18 May 2016.

John Scott
Chairman

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

The Directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Financial Statements for each financial year. Under that law they have elected to prepare the Financial Statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice). Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these Financial Statements, the Directors are required to:

— select suitable accounting policies and then apply them consistently;

— make judgements and accounting estimates that are reasonable and prudent;

— state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Financial Statements; and

— prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Financial Statements and the Directors' Remuneration Report comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

The Directors have delegated responsibility to the Managers for the maintenance and integrity of the Company's pages on the Managers' website. Legislation in the United Kingdom governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

Each of the Directors, whose names and functions are listed within the Directors and Managers section, confirms that, to the best of their knowledge:

— the Financial Statements, which have been prepared in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), give a true and fair view of the assets, liabilities, financial position and net return of the Company;

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

— the Strategic Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

By order of the Board
John Scott
18 May 2016

Notes

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

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

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

Independent Auditor's Report

to the members of Scottish Mortgage Investment Trust PLC ('the Company')

Opinions and conclusions arising from our audit

Our opinion on the Financial Statements is unmodified

We have audited the Financial Statements of Scottish Mortgage Investment Trust PLC for the year ended 31 March 2016 set out on pages 36 to 55. In our opinion the Financial Statements:

— give a true and fair view of the state of the Company's affairs as at 31 March 2016 and of its net 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); and

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

Our assessment of risks of material misstatement

In arriving at our audit opinion above on the Financial Statements the risks of material misstatement that had the greatest effect on our audit, in decreasing order of audit significance, were as follows:

Carrying amount of unlisted investments £466 million (2015 – £150 million) (New risk)

Refer to page 29 (Audit Committee section of the Governance Report), page 40 (Accounting Policies) and pages 42 to 55 (Financial Disclosures)

The risk: 11.8% of the company's total investment assets (by value) is held in investments where no quoted market price is available. Unquoted 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 and this is the key judgmental area that our audit focused on.

Our response: Our procedures included:

— challenging the investment manager on key judgements affecting investee company valuations in the context of observed industry best practice and the provisions of the International Private Equity and Venture Capital Valuation Guidelines. In particular, we challenged the appropriateness of the valuation basis selected as well as the underlying assumptions, such as trigger events and the choice of benchmark for earnings multiples;

— comparing key underlying financial data inputs to external sources, investee company audited accounts and management information as applicable;

— where a recent transaction had 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. Our work included consideration of events which occurred subsequent to the year end up until the date of this audit report;

— agreeing 100% of unlisted holdings in the portfolio to independently received third party confirmations;

— documenting and assessing the design and implementation of the processes and controls in place over unlisted investments valuation;

— review of the Manager's valuation committee minutes, and inspection of the valuation summaries to assess the discussion and review of the investment valuations; and

— attending the year-end Audit Committee meeting where we assessed the effectiveness of the Committee's challenge and approval of unlisted investment valuations.

Carrying amount of listed equity and debt investments £3,456 million (2015 – £3,597 million)

Refer to page 29 (Audit Committee section of the Governance Report), page 40 (Accounting Policies) and pages 42 to 55 (Financial Disclosures)

The risk: The Company's portfolio of listed equity and debt investments makes up 87.4% of the company's total investment assets (by value) and is one of the key drivers of performance results. We do not consider these investments to be at high risk of significant misstatement, nor 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 response: Our procedures over the completeness, valuation and existence of the company's quoted investment portfolio included, but were not limited to:

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

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

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

Materiality for the Financial Statements as a whole was set at £39.7m (2015 – £57.4m), determined with reference to a benchmark of total assets, of which it represents 1%, reflecting industry consensus levels (2015 – 1.5%).

In addition, we applied materiality of £1.06m (2015 – £1.4m) to income from investments for which we believe misstatements of lesser amounts than materiality for the Financial Statements as a whole could be reasonably expected to influence the Company's members' assessment of the financial performance of the Company.

We reported to the Audit Committee any corrected and uncorrected identified misstatements exceeding £53,000 (2015 – £72,000), on investment income items. For all other balances in the Financial Statements, we reported any corrected and uncorrected identified misstatements exceeding £2.0m (2015 – £2.9m), 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 the Baillie Gifford & Co head office in Edinburgh.

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

In our opinion:

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

— the information given in the Strategic Report and the Directors' Report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements; and

— the information given in the Corporate Governance Statement set out on pages 26 to 28 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the Financial Statements.

We have nothing to report on the disclosures of principal risks

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

— the Directors' Statement of Responsibilities on page 33, concerning the principal risks, their management, and, based on that, the Directors' assessment and expectations of the Company's continuing in operation over the 10 years to 31 March 2026; or

— the disclosures in note 1 of the Financial Statements concerning the use of the going concern basis of accounting.

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

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

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

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

— the Audit Committee Report does not appropriately address matters communicated by us to the Audit Committee.

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

— adequate accounting records have not been kept, 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; or

— a Corporate Governance Statement has not been prepared by the Company.

Under the Listing Rules we are required to review:

— the Directors' statements, set out on pages 9 and 28, in relation to going concern and longer-term viability; and

— the part of the Corporate Governance Statement on page 26 relating to the company's compliance with the eleven provisions of the 2014 UK Corporate Governance Code specified for our review.

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

Scope and responsibilities

As explained more fully in the Directors' Responsibilities Statement set out on page 33, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of Financial Statements is provided on the Financial Reporting Council's website at **www.frc.org.uk/auditscopeukprivate**. This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at **www.kpmg.com/uk/auditscopeukco2014a**, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

Catherine Burnet (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG
18 May 2016

Income Statement

For the year ended 31 March

	Notes	2016 Revenue £'000	2016 Capital £'000	2016 Total £'000	2015 Revenue £'000	2015 Capital £'000	2015 Total £'000
(Losses)/gains on investments	9	–	(6,647)	**(6,647)**	–	747,859	**747,859**
Currency losses	14	–	(7,212)	**(7,212)**	–	(32,287)	**(32,287)**
Income	2	32,910	–	**32,910**	38,964	–	**38,964**
Investment management fee	3	(2,881)	(8,642)	**(11,523)**	(2,562)	(7,685)	**(10,247)**
Other administrative expenses	4	(3,176)	–	**(3,176)**	(3,315)	–	**(3,315)**
Net return before finance costs and taxation		26,853	(22,501)	**4,352**	33,087	707,887	**740,974**
Finance costs of borrowings	5	(4,568)	(13,704)	**(18,272)**	(4,452)	(13,357)	**(17,809)**
Net return on ordinary activities before taxation		22,285	(36,205)	**(13,920)**	28,635	694,530	**723,165**
Tax on ordinary activities	6	(857)	–	**(857)**	(1,095)	–	**(1,095)**
Net return on ordinary activities after taxation		**21,428**	**(36,205)**	**(14,777)**	**27,540**	**694,530**	**722,070**
Net return per ordinary share	7	**1.66p**	**(2.81p)**	**(1.15p)**	**2.24p**	**56.50p**	**58.74p**

The total column of this statement is the profit and loss account of the Company.

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

The accompanying notes on pages 40 to 55 are an integral part of the Financial Statements.

Balance Sheet

As at 31 March

	Notes	2016 £'000	2016 £'000	2015 £'000	2015 £'000
Fixed assets					
Investments held at fair value through profit or loss	9		3,922,124		3,747,288
Current assets					
Debtors	10	4,051		3,693	
Cash and cash equivalents	19	43,973		76,543	
		48,024		80,236	
Creditors					
Amounts falling due within one year	11	(303,486)		(118,234)	
Net current liabilities			(255,462)		(37,998)
Total assets less current liabilities			3,666,662		3,709,290
Creditors					
Amounts falling due after more than one year	12		(209,218)		(376,072)
			3,457,444		**3,333,218**
Capital and reserves					
Called up share capital	13		71,086		71,086
Capital redemption reserve	14		19,094		19,094
Capital reserve	14		3,313,502		3,173,033
Revenue reserve	14		53,762		70,005
Shareholders' funds	15		**3,457,444**		**3,333,218**
Net asset value per ordinary share (after deducting borrowings at fair value)	19		**259.2p**		**262.4p**
Net asset value per ordinary share (after deducting borrowings at par)	16		**263.8p**		**268.0p**

The Financial Statements of Scottish Mortgage Investment Trust PLC (Company registration No. SC007058) were approved and authorised for issue by the Board and signed on 18 May 2016.

John Scott
Chairman

The accompanying notes on pages 40 to 55 are an integral part of the Financial Statements.

Statement of Changes in Equity

For the year ended 31 March 2016

	Notes	Share capital £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	Shareholders' funds £'000
Shareholders' funds at 1 April 2015		71,086	19,094	3,173,033	70,005	**3,333,218**
Net return on ordinary activities after taxation	14	–	–	(36,205)	21,428	**(14,777)**
Ordinary shares bought back	13	–	–	(3,199)	–	**(3,199)**
Ordinary shares issued	13	–	–	179,873	–	**179,873**
Dividends paid during the year	8	–	–	–	(37,671)	**(37,671)**
Shareholders' funds at 31 March 2016		**71,086**	**19,094**	**3,313,502**	**53,762**	**3,457,444**

For the year ended 31 March 2015

	Notes	Share capital £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	Shareholders' funds £'000
Shareholders' funds at 1 April 2014		71,086	19,094	2,429,523	78,010	**2,597,713**
Net return on ordinary activities after taxation		–	–	694,530	27,540	**722,070**
Ordinary shares bought back	13	–	–	(13,730)	–	**(13,730)**
Ordinary shares issued	13	–	–	62,710	–	**62,710**
Dividends paid during the year	8	–	–	–	(35,545)	**(35,545)**
Shareholders' funds at 31 March 2015		**71,086**	**19,094**	**3,173,033**	**70,005**	**3,333,218**

The accompanying notes on pages 40 to 55 are an integral part of the Financial Statements.

Cash Flow Statement

For the year ended 31 March

	Note	2016 £'000	2016 £'000	2015 £'000	2015 £'000
Cash flows from operating activities					
Net return on ordinary activities before taxation		(13,920)		723,165	
Net losses/(gains) on investments		6,647		(747,859)	
Currency losses		7,212		32,287	
Finance costs of borrowings		18,272		17,809	
Overseas withholding tax refunded		935		1,377	
Overseas withholding tax incurred		(1,792)		(2,469)	
Changes in debtors and creditors		(216)		2,647	
Cash from operations			17,138		26,957
Interest paid			(18,422)		(18,104)
Net cash (outflow)/inflow from operating activities			(1,284)		8,853
Cash flows from investing activities					
Acquisitions of investments		(619,851)		(668,702)	
Disposals of investments		445,699		650,501	
Realised currency gain		3,848		2,496	
Net cash outflow from investing activities			(170,304)		(15,705)
Equity dividends paid (note 8)		(37,671)		(35,545)	
Ordinary shares bought back		(3,184)		(29,337)	
Ordinary shares sold from treasury		179,873		62,710	
Bank loans repaid		(111,963)		(234,746)	
Bank loans drawn down		111,963		298,608	
Net cash inflow from financing activities			139,018		61,690
(Decrease)/increase in cash and cash equivalents			(32,570)		54,838
Cash and cash equivalents at start of period	19		76,543		21,705
Cash and cash equivalents at end of period*	19		**43,973**		**76,543**

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

The accompanying notes on pages 40 to 55 are an integral part of the Financial Statements.

Notes to the Financial Statements

1 Principal Accounting Policies

The Financial Statements for the year to 31 March 2016 have been prepared on the basis of the accounting policies set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The Financial Reporting Standard applicable in the UK and Republic of Ireland ('FRS 102') has been introduced which the Company must adopt for its financial year ending 31 March 2016. Following the application of the new reporting standard and the AIC's issued Statement of Recommended Practice, there has been no impact on the Company's Income Statement, Balance Sheet or Statement of Changes in Equity (previously called the Reconciliation of Movements in Shareholders' Funds) for the period previously reported. The Cash Flow Statement reflects the presentational requirements of FRS 102, which are different to FRS 1. In addition, the Cash Flow Statement reconciles to cash and cash equivalents whereas under previous UK GAAP the Cash Flow Statement reconciled to cash. Note 14 'Capital and Reserves' identifies which reserves are distributable. The Company has early adopted the amendments to Section 34 of FRS 102 regarding fair value hierarchy disclosures (see note 9 on page 45).

(a) Basis of Accounting

The Financial Statements are prepared on a going concern basis under the historical cost convention, modified to include the revaluation of fixed asset investments, and on the assumption that approval as an investment trust will be retained.

The Directors consider the Company's functional currency to be sterling as the Company's shareholders are predominantly based in the UK and the Company and its investment manager, who are subject to the UK's regulatory environment, are also UK based.

The Financial Statements have been prepared in accordance with The Companies Act 2006, applicable UK Accounting Standards and with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' issued in November 2014.

In order to reflect better the activities of the trust and in accordance with guidance issued by the AIC, supplementary information which analyses the profit and loss account between items of a revenue and capital nature has been presented in the Income Statement.

Financial assets and financial liabilities are recognised in the Company's Balance Sheet when it becomes a party to the contractual provisions of the instrument.

(b) 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 are disclosed in section (c) below and relate to the assumptions used in the determination of the fair value of the unlisted investments and the consolidation decision.

(c) Investments

Purchases and sales of investments are accounted for on a trade date basis. All investments are designated as valued at fair value through profit or loss upon initial recognition and are measured at subsequent reporting dates at fair value. The fair value of listed security investments is bid value, or in the case of FTSE 100 constituents, or 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'). These methodologies can be categorised as follows:

— Market Approach (a. Price of Recent Investment; b. Multiples; c. Industry Valuation Benchmarks; and d. Available Market Prices);

— Income Approach (Discounted Cash Flows); and

— Replacement Cost Approach (Net Assets).

The nature of the unlisted portfolio currently (generally young, rapidly growing companies using technology to create new, or disrupt existing, business models) will influence the valuation methodology applied. The price of a recent investment or available market prices for secondary transactions are likely to be the most appropriate approaches. Methodologies using multiples or discounted cash flows are likely to be inappropriately subjective where earnings are very low. An absence of relevant industry peers will often preclude the application of the Industry Valuation Benchmarks method. The Replacement Cost Approach is likely to result in a misleadingly conservative valuation of the typical companies within the current unlisted portfolio, where financial net assets are less important than intangible technological assets.

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 may have to be employed.

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).

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 arising from changes in the fair value of investments are considered to be realised to the extent that they are readily convertible to cash, without accepting adverse terms, at the Balance Sheet date. Fair value gains on unlisted investments are not considered to be readily convertible to cash and are therefore treated as unrealised. The treatment of listed investments is dependent upon the individual circumstances of each holding.

(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 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 are charged 25:75 to the revenue account and capital reserve.

(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 are 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.

(h) Taxation

The tax effect of different items of income and expenditure is allocated between revenue and capital on the same basis as the particular item to which it relates, under the marginal method, using the Company's effective tax rate for the accounting period.

Deferred taxation is provided on all timing differences, calculated at the current tax rate relevant to the benefit or liability. Deferred tax assets are recognised only to the extent that it will be more likely than not that there will be taxable profits from which underlying timing differences can be deducted.

(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 are allocated to the capital reserve in accordance with the Company's objective of combining capital and income growth.

2 Income

	2016 £'000	2015 £'000
Income from investments		
UK dividend income	6,645	5,493
UK other investment income*	78	68
Overseas dividends	24,253	30,507
Overseas interest	1,697	2,592
	32,673	**38,660**
Other income		
Deposit interest	162	85
Interest on withholding tax reclaimed	75	219
	237	**304**
Total income	**32,910**	**38,964**
Total income comprises:		
Dividends from financial assets designated at fair value through profit or loss	30,976	36,068
Interest from financial assets designated at fair value through profit or loss	1,697	2,592
Interest from financial assets not at fair value through profit or loss	237	304
	32,910	**38,964**

* Includes OEIC income.

3 Investment Management Fee

	2016 Revenue £'000	2016 Capital £'000	2016 Total £'000	2015 Revenue £'000	2015 Capital £'000	2015 Total £'000
Investment management fee	2,881	8,642	**11,523**	2,562	7,685	**10,247**

Details of the Investment Management Agreement are disclosed on page 24. Baillie Gifford & Co Limited's annual management fee is 0.30% of total assets less current liabilities (excluding short term borrowings for investment purposes). The management fee is levied on all assets, including holdings in collective investment schemes (OEICs) managed by Baillie Gifford & Co; however the OEICs' share class held by the Company does not itself attract a management fee.

The investment management fee is charged 25% to revenue and 75% to capital.

4 Other Administrative Expenses

	2016 £'000	2015 £'000
General administrative expenses (including share issuance expenses)	3,103	3,087
Directors' fees (see Directors' Remuneration Report page 31)	194	200
Auditor's remuneration for audit services	25	25
Auditor's remuneration for non-audit services – certification of financial information for the debenture trustees	1	1
– provision of Indian tax services	3	2
	3,326	3,315
Share issuance expenses deducted from gross issuance proceeds*	(150)	–
Other administrative expenses charged to revenue	**3,176**	**3,315**

* See note 14.

5 Finance Costs of Borrowings

	2016 Revenue £'000	2016 Capital £'000	2016 Total £'000	2015 Revenue £'000	2015 Capital £'000	2015 Total £'000
Financial liabilities not at fair value through profit or loss						
Bank loans and overdrafts repayable within five years	1,153	3,460	**4,613**	1,028	3,084	**4,112**
Debentures repayable wholly or partly in more than five years	3,415	10,244	**13,659**	3,424	10,273	**13,697**
	4,568	**13,704**	**18,272**	**4,452**	**13,357**	**17,809**

The finance costs are charged 25% to revenue and 75% to capital.

6 Tax on Ordinary Activities

	2016 Revenue £'000	2016 Capital £'000	2016 Total £'000	2015 Revenue £'000	2015 Capital £'000	2015 Total £'000
Overseas taxation	1,792	–	**1,792**	2,472	–	**2,472**
Overseas tax refunded	(935)	–	**(935)**	(1,377)	–	**(1,377)**
	857	**–**	**857**	**1,095**	**–**	**1,095**

	2016 £'000	2015 £'000
The tax charge for the year is higher than the standard rate of corporation tax in the UK of 20% (2015 – 21%)		
The differences are explained below:		
Net return on ordinary activities before taxation	(13,920)	723,165
Net return on ordinary activities before taxation multiplied by the standard rate of corporation tax in the UK of 20% (2015 – 21%)	(2,784)	151,865
Capital returns not taxable	2,772	(150,270)
Income not taxable (UK dividends)	(1,329)	(1,154)
Income not taxable (overseas dividends)	(4,689)	(6,156)
Adjustment to income received from OEICs for tax purposes	4	3
Current year management expenses and non-trade loan relationship deficit not utilised	6,026	5,712
Overseas withholding tax	1,792	2,472
Overseas withholding tax refunded	(935)	(1,377)
Tax charge for the year	**857**	**1,095**

At 31 March 2016 the Company had surplus management expenses and losses on non-trading loan relationships of £188 million (2015 – £157 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

	2016 Revenue	2016 Capital	2016 Total	2015 Revenue	2015 Capital	2015 Total
Net return per ordinary share	**1.66p**	**(2.81p)**	**(1.15p)**	**2.24p**	**56.50p**	**58.74p**

Revenue return per ordinary share is based on the net revenue on ordinary activities after taxation of £21,428,000 (2015 – £27,540,000), and on 1,290,467,928 (2015 – 1,229,231,951) 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 loss for the financial year of £36,205,000 (2015 – net capital gain of £694,530,000), and on 1,290,467,928 (2015 – 1,229,231,951) 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

	2016	2015	2016 £'000	2015 £'000
Amounts recognised as distributions in the year:				
Previous year's final (paid 6 July 2015)	1.55p	1.52p	19,758	18,646
Interim (paid 4 December 2015)	1.38p	1.38p	17,913	16,899
	2.93p	**2.90p**	**37,671**	**35,545**

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 £21,428,000 (2015 – £27,540,000).

	2016	2015	2016 £'000	2015 £'000
Dividends paid and payable in respect of the year:				
Interim dividend per ordinary share (paid 4 December 2015)	1.38p	1.38p	17,913	16,899
Proposed final dividend per ordinary share (payable 4 July 2016)	1.58p	1.55p	20,738	19,308
	2.96p	**2.93p**	**38,651**	**36,207**

9 Fixed Assets – Investments

As at 31 March 2016	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Listed equities/funds	3,415,656	23,580	–	**3,439,236**
Listed debt securities	–	17,241	–	**17,241**
Unlisted equities	–	–	465,647	**465,647**
Total financial asset investments	**3,415,656**	**40,821**	**465,647**	**3,922,124**

As at 31 March 2015	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Listed equities/funds	3,535,168	23,686	–	**3,558,854**
Listed debt securities	–	38,110	–	**38,110**
Unlisted equities	–	–	150,324	**150,324**
Total financial asset investments	**3,535,168**	**61,796**	**150,324**	**3,747,288**

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 – investments with quoted prices in an active market;

Level 2 – investments whose fair value is based directly on observable current market prices or is indirectly being derived from market prices; and

Level 3 – investments whose fair value is determined using a valuation technique based on assumptions that are not supported by observable current market prices or are not based on observable market data.

The valuation techniques used by the Company are explained in the accounting policies on page 40.

	Equities* £'000	Bonds £'000	Total £'000
Cost of investments at 1 April 2015	1,948,711	22,070	**1,970,781**
Investment holding gains at 1 April 2015	1,760,467	16,040	**1,776,507**
Value of investments at 1 April 2015	3,709,178	38,110	**3,747,288**
Movements in year:			
Purchases at cost	627,182	–	**627,182**
Sales – proceeds	(429,556)	(16,143)	**(445,699)**
– gains on sales	232,087	3,937	**236,024**
Changes in investment holding gains and losses	(234,008)	(8,663)	**(242,671)**
Value of investments at 31 March 2016	**3,904,883**	**17,241**	**3,922,124**
Cost of investments at 31 March 2016	2,378,424	9,864	**2,388,288**
Investment holding gains at 31 March 2016	1,526,459	7,377	**1,533,836**
Value of investments at 31 March 2016	**3,904,883**	**17,241**	**3,922,124**

* Includes funds.

The purchases and sales proceeds figures above include transaction costs of £275,000 (2015 – £393,000) and £325,000 (2015 – £473,000) respectively.

Of the gains on sales during the year of £236,024,000 (2015 – gains of £184,467,000) a net gain of £193,357,000 (2015 – gain of £159,605,000) was included in the investment holding gains/(losses) at the previous year end.

9 Fixed Assets – Investments (continued)

	2016 £'000	2015 £'000
Net gains on investments designated at fair value through profit or loss on initial recognition		
Gains on sales	236,024	184,467
Changes in investment holding gains	(242,671)	563,392
	(6,647)	**747,859**

During the year the Company had a holding in an Open Ended Investment Company ('OEIC') managed by Baillie Gifford & Co, the Company's investment manager. The share class held in the OEIC does not attract a management fee. At 31 March the Company held:

	2016 C income shares held	2016 Value £'000	2016 % of fund held	2015 C income shares held	2015 Value £'000	2015 % of fund held
Baillie Gifford Global Discovery Fund	**2,554,821**	**18,607**	**7.8**	**2,554,821**	**18,438**	**10.3**

10 Debtors

	2016 £'000	2015 £'000
Amounts falling due within one year:		
Income accrued	2,917	2,950
Other debtors and prepayments	1,134	743
	4,051	**3,693**

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

	2016 £'000	2015 £'000
State Street Bank and Trust Company loan	34,787	111,149
National Australia Bank Limited loan	139,150	–
The Royal Bank of Scotland plc loan	114,799	–
Purchases for subsequent settlement	7,926	595
Other creditors and accruals	6,824	6,490
	303,486	**118,234**

Included in other creditors is £2,967,000 (2015 – £2,865,000) in respect of the investment management fee.

Borrowing facilities at 31 March 2016

A 1 year US$165 million revolving loan facility has been arranged with The Royal Bank of Scotland plc.
A 2 year US$50 million loan facility has been arranged with State Street Bank and Trust Company.
A 2 year US$200 million loan facility has been arranged with National Australia Bank Limited.
A 3 year US$85 million loan facility has been arranged with The Royal Bank of Scotland plc.

At 31 March 2016 drawings were as follows:

The Royal Bank of Scotland plc	US$165 million (revolving facility) at an interest rate (at 31 March 2016) of 1.1169%
	US$85 million at an interest rate of 1.945% (see note 12)
State Street Bank and Trust Company	US$50 million at an interest rate of 1.70% per annum
National Australia Bank Limited	US$200 million at an interest rate of 1.43% per annum

At 31 March 2015 drawings were as follows:

State Street Bank and Trust Company	US$165 million at an interest rate of 0.8112% per annum
	US$50 million at an interest rate of 1.70% per annum (see note 12)
National Australia Bank Limited	US$200 million at an interest rate of 1.43% per annum (see note 12)
The Royal Bank of Scotland plc	US$85 million at an interest rate of 1.945% per annum (see note 12)

The main covenants which are tested monthly relating to the above loans are:

(i) Total borrowings shall not exceed 35% of the Company's net asset value.
(ii) The Company's minimum net asset value shall be £760 million.
(iii) The Company shall not change the investment manager without prior written consent of the lenders.

During the year the US$165 million 1 year loan with State Street was repaid and replaced with a US$165 million 1 year loan from The Royal Bank of Scotland plc ('RBS').

Subsequent to the year end on 11 April 2016, the US$165 million 1 year loan with RBS was repaid and replaced with a US$165 million 1 year loan with RBS. Additionally, negotiations are underway to refinance, on 20 May 2016, the US$200 million 2 year loan with NAB with a revolving US$200 million 2 year loan with NAB.

12 Creditors – Amounts falling due after more than one year

	Nominal rate	Effective rate	2016 £'000	2015 £'000
Debenture stocks:				
£20 million 8–14% stepped interest debenture stock 2020	14.0%	12.3%	21,134	21,315
£75 million 6.875% debenture stock 2023	6.875%	6.9%	74,747	74,710
£50 million 6–12% stepped interest debenture stock 2026	12.0%	10.8%	53,523	53,707
£675,000 4½% irredeemable debenture stock			675	675
Bank loans:				
National Australia Bank Limited loan (see note 11)			–	134,726
State Street Bank and Trust Company (see note 11)			–	33,681
The Royal Bank of Scotland plc loan (see note 11)			59,139	57,258
			209,218	**376,072**

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 £4,404,000 (2015 – £4,732,000) over nominal value. The debenture stocks are secured by a floating charge over the assets of the Company.

Borrowing Limits

Under the terms of the Articles of Association and the Debenture Trust Deeds, total borrowings should not exceed a sum equal to one half of the adjusted total of capital and reserves at the Company's year end.

13 Called Up Share Capital

	2016 Number	2016 £'000	2015 Number	2015 £'000
Allotted, called up and fully paid ordinary shares of 5p each	1,312,524,485	65,626	1,245,674,485	62,284
Treasury shares of 5p each	109,206,395	5,460	176,056,395	8,802
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 2016 a total of 1,250,000 (2015 – 6,625,000) ordinary shares with a nominal value of £63,000 (2015 – £331,000) were bought back at a total cost of £3,199,000 (2015 – £13,730,000) and held in treasury. At 31 March 2016 the Company had authority to buy back a further 187,762,580 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 2016, the Company sold 68,100,000 ordinary shares from treasury at a premium to net asset value raising net proceeds of £179,873,000 (31 March 2015 – 25,600,000 ordinary shares raising net proceeds of £62,710,000). At 31 March 2016 the Company had authority to issue or sell from treasury a further 151,588,672 ordinary shares.

14 Capital and Reserves

	Share capital £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	Shareholders' funds £'000
At 1 April 2015	71,086	19,094	3,173,033	70,005	**3,333,218**
Gains on sales	–	–	236,024	–	**236,024**
Changes in investment holding gains and losses	–	–	(242,671)	–	**(242,671)**
Exchange differences	–	–	3,848	–	**3,848**
Exchange differences on loans	–	–	(11,060)	–	**(11,060)**
Shares bought back	–	–	(3,199)	–	**(3,199)**
Shares issued from treasury	–	–	180,023	–	**180,023**
Share issuance expenses	–	–	(150)	–	**(150)**
Investment management fee charged to capital	–	–	(8,642)	–	**(8,642)**
Finance costs of borrowings charged to capital	–	–	(13,704)	–	**(13,704)**
Dividends paid in year	–	–	–	(37,671)	**(37,671)**
Revenue return on ordinary activities after taxation	–	–	–	21,428	**21,428**
At 31 March 2016	**71,086**	**19,094**	**3,313,502**	**53,762**	**3,457,444**

The capital reserve includes investment holding gains of £1,533,836,000 (2015 – gains of £1,776,507,000) as disclosed in note 9. The revenue reserve and the capital reserve (to the extent it constitutes realised profits) are distributable.

15 Shareholders' Funds

	2016 £'000	2015 £'000
Total shareholders' funds are attributable as follows:		
Equity shares	**3,457,444**	**3,333,218**

Total shareholders' funds have been calculated in accordance with the provisions of FRS 102. However, the net asset value per share figures in note 16 have been calculated on the basis of shareholders' rights to reserves as specified in the Articles of Association of the Company. A reconciliation of the two figures is as follows:

	2016	2015
Shareholders' funds attributable to ordinary shares (as above)	£3,457,444,000	£3,333,218,000
Number of ordinary shares in issue at the year end*	1,312,524,485	1,245,674,485
Shareholders' funds per ordinary share	263.4p	267.6p
Additions/(deductions) – expenses of debenture issue	(0.1p)	(0.1p)
– allocation of interest on borrowings	0.5p	0.5p
Net asset value per ordinary share	**263.8p**	**268.0p**

* Excluding shares held in treasury.

16 Net Asset Value per Ordinary Share

The net asset value per ordinary share and the net assets attributable to the ordinary shareholders at the year end calculated in accordance with the Articles of Association were as follows:

	2016	2015	2016 £'000	2015 £'000
Ordinary shares	**263.8p**	**268.0p**	**3,461,848**	**3,337,950**

	2016 £'000	2015 £'000
The movements during the year of the assets attributable to the ordinary shares were as follows:		
Total net assets at the start of the year	3,337,950	2,602,735
Total recognised gains and losses for the year	(14,777)	722,070
Dividends paid in the year	(37,671)	(35,545)
Adjustment to debentures	(328)	(290)
Shares bought back	(3,199)	(13,730)
Shares issued from treasury	179,873	62,710
Total net assets at 31 March	**3,461,848**	**3,337,950**

Net asset value per ordinary share is based on net assets (adjusted to reflect the deduction of the debentures at par/nominal value (see note 19)) and on 1,312,524,485 (2015 – 1,245,674,485) ordinary shares, being the number of ordinary shares (excluding treasury shares) in issue at the year end. Shareholders' funds as reported on the face of the Balance Sheet have been calculated in accordance with the provisions of FRS 102. A reconciliation of the two sets of figures under these two conventions is given in note 15.

17 Related Party Transactions

The Directors' fees for the year are detailed in the Directors' Remuneration Report on page 31.

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$23,930,000 (2015 – US$12,136,000) in respect of four (2015 – three) subscription agreements: Innovation Works Development Fund, L.P. with a total commitment of US$15.00 million which expires on 21 May 2020, Innovation Works Development Fund III, L.P. with a total commitment of US$15.00 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 and WI Harper Fund VIII L.P. with a total commitment of US$10.00 million which expires on 31 July 2024. At 31 March 2016 US$12.83 million, US$1.50 million, US$8.74 million and US$3.00 million (2015 – US$12.65 million, US$8.21 million and US$2.00 million) have been drawn down on each of these agreements respectively.

19 Financial Instruments

As an Investment Trust, the Company invests in listed and unlisted equities 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 45 to 46.

19 Financial Instruments (continued)

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.

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 2016	Investments £'000	Cash and cash equivalents £'000	Loans and debentures £'000	Other debtors and creditors * £'000	Net exposure £'000
US dollar	2,389,758	11,196	(347,874)	(656)	**2,052,424**
Euro	745,466	–	–	(7,018)	**738,448**
Hong Kong dollar	190,964	–	–	–	**190,964**
Swedish krona	156,525	–	–	–	**156,525**
Brazilian real	17,241	–	–	408	**17,649**
Danish krone	54,045	–	–	61	**54,106**
Polish zloty	5,270	–	–	–	**5,270**
Japanese yen	7,826	–	–	68	**7,894**
Indonesian rupiah	12,933	–	–	–	**12,933**
Indian rupee	42,009	–	–	114	**42,123**
Total exposure to currency risk	**3,622,037**	**11,196**	**(347,874)**	**(7,023)**	**3,278,336**
Sterling	300,087	32,777	(150,080)	(3,676)	**179,108**
	3,922,124	**43,973**	**(497,954)**	**(10,699)**	**3,457,444**

* Includes net non-monetary assets of £34,000.

As at 31 March 2015	Investments £'000	Cash and cash equivalents £'000	Loans and debentures £'000	Other debtors and creditors * £'000	Net exposure £'000
US dollar	2,028,021	18,442	(336,814)	(1,073)	**1,708,576**
Euro	787,193	–	–	636	**787,829**
Hong Kong dollar	257,783	–	–	–	**257,783**
Swedish krona	181,055	–	–	–	**181,055**
Brazilian real	38,110	–	–	1,111	**39,221**
Danish krone	53,251	–	–	61	**53,312**
Polish zloty	7,909	–	–	–	**7,909**
Japanese yen	10,362	38	–	61	**10,461**
Turkish lira	12,544	–	–	–	**12,544**
Indonesian rupiah	14,940	–	–	–	**14,940**
Indian rupee	51,219	–	–	78	**51,297**
Total exposure to currency risk	**3,442,387**	**18,480**	**(336,814)**	**874**	**3,124,927**
Sterling	304,901	58,063	(150,407)	(4,266)	**208,291**
	3,747,288	**76,543**	**(487,221)**	**(3,392)**	**3,333,218**

* Includes net non-monetary assets of £12,000.

19 Financial Instruments (continued)

Currency Risk Sensitivity

At 31 March 2016, 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 2015.

	2016 £'000	2015 £'000
US dollar	102,621	85,429
Euro	36,922	39,391
Hong Kong dollar	9,548	12,889
Swedish krona	7,826	9,053
Indian rupee	2,106	2,565
Danish krone	2,705	2,666
Brazilian real	883	1,961
Polish zloty	264	395
Japanese yen	395	523
Turkish lira	–	627
Indonesian rupiah	647	747
	163,917	**156,246**

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

	2016 Fair value £'000	2016 Weighted average interest rate	2016 Weighted average period until maturity *	2015 Fair value £'000	2015 Weighted average interest rate	2015 Weighted average period until maturity *
Floating rate:						
Brazilian bonds (index linked)	17,241	11.0%	29 years	38,110	10.9%	30 years
Cash and short term deposits:						
Other overseas currencies	11,196	–	n/a	18,480	–	n/a
Sterling	32,777	0.3%	n/a	58,063	0.3%	n/a

* Based on expected maturity date.

The cash deposits generally comprise call or short term money market deposits of less than one month which are repayable on demand. The benchmark rate which determines the interest payments received on cash balances is the Interbank market rates.

Financial Liabilities

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

Interest Rate Risk Profile

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

	2016 £'000	2015 £'000
Floating rate – US$ denominated	114,799	111,149
Fixed rate – Sterling denominated	150,079	150,407
– US$ denominated	233,076	225,665
	497,954	**487,221**

Maturity Profile

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

	2016 Within 1 year £'000	2016 Between 1 and 5 years £'000	2016 More than 5 years £'000	2015 Within 1 year £'000	2015 Between 1 and 5 years £'000	2015 More than 5 years £'000
Repayment of loans and debentures	288,736	79,139	125,675 *	111,149	225,665	145,675 *
Accumulated interest on loans and debentures to maturity date	18,094	55,125	44,209	17,795	58,414	59,595
	306,830	**134,264**	**169,884**	**128,944**	**284,079**	**205,270**

* Includes £675,000 irredeemable debenture stock.

Interest Rate Risk Sensitivity

An increase of 100 basis points in bond yields as at 31 March 2016 would have decreased total net assets and total return on ordinary activities by £2,177,000 (2015 – £5,481,000) and would have increased the net asset value per share (with borrowings at fair value) by 0.84p (2015 – increased by 0.94p). 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 18 to 20. In addition, a geographical analysis of the portfolio, an analysis of the investment portfolio by broad industrial or commercial sector and a list of the 30 largest investments by their aggregate market value are contained in the Strategic Report.

99.5% (2015 – 106.8%) of the Company's net assets are invested in quoted equities. A 3% increase in quoted companies equity valuations at 31 March 2016 would have increased total assets and total return on ordinary activities by £103,177,000 (2015 – £106,766,000). A decrease of 3% would have had an equal but opposite effect.

Liquidity Risk

This is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities.

Liquidity risk is potentially significant but the majority of the Company's assets are investments in quoted securities that are believed to be readily realisable. The Board provides guidance to the Investment Managers as to the maximum exposure to any one holding and to the maximum aggregate exposure to substantial holdings.

The Company has the power to take out borrowings, which give it access to additional funding when required.

Credit Risk

This is the risk that a failure of a counterparty to a transaction to discharge its obligations under that transaction could result in the Company suffering a loss.

This risk is managed as follows:

- Where the Investment Managers make an investment in a bond or other security with credit risk, that credit risk is assessed and then compared to the prospective investment return of the security in question;
- The Board regularly receives information from the Investment Managers on the credit ratings of those bonds and other securities in which the Company has invested;
- the 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. The Depositary has delegated the custody function to Bank of New York Mellon SA/NV London Branch. 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.

Credit Risk Exposure

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

	2016 £'000	2015 £'000
Fixed interest investments	17,241	38,110
Cash and short term deposits	43,973	76,543
Debtors and prepayments	4,051	3,693
	65,265	**118,346**

None of the Company's financial assets are 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:

	2016 Par/nominal £'000	2016 Book £'000	2016 Fair £'000	2015 Par/nominal £'000	2015 Book £'000	2015 Fair £'000
8–14% stepped interest debenture stock 2020	20,000	21,134	29,540	20,000	21,315	30,702
6.875% debenture stock 2023	75,000	74,747	89,044	75,000	74,710	92,948
6–12% stepped interest debenture stock 2026	50,000	53,523	85,927	50,000	53,707	89,725
4½% irredeemable debenture stock	675	675	649	675	675	651
Total debentures	**145,675**	**150,079**	**205,160**	**145,675**	**150,407**	**214,026**
Fixed rate loans		233,076	233,687		225,665	227,178
Floating rate loans		114,799	114,799		111,149	111,149
Total borrowings		**497,954**	**553,646**		**487,221**	**552,353**

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 263.8p to 259.2p. Taking the market price of the ordinary shares at 31 March 2016 of 262.5p, this would have given a premium to net asset value of 1.3% as against a discount of 0.5% on a debt at par basis. At 31 March 2015 the effect would have been to reduce the net asset value from 268.0p to 262.4p. Taking the market price of the ordinary shares at 31 March 2015 of 267.2p, this would have given a premium to net asset value of 1.8% as against a discount of 0.3% on a debt at par basis.

Capital Management

The capital of the Company is its share capital and reserves as set out in notes 13 and 14 together with its borrowings (see notes 11 and 12). The objective of the Company is to maximise total return, whilst also generating dividend growth, from a focused and actively managed global portfolio. The Company's investment policy is set out on page 7 (the Board are proposing changes to the investment objective and policy – see the Circular which is being sent to Shareholders with this Annual Report). 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 27 and 28. The Company has the authority to issue and buy back its shares (see page 25) and changes to the share capital during the year are set out in notes 13 and 14. The Company does not have any externally imposed capital requirements other than the covenants on its loans which are detailed in notes 11 and 12.

20 Alternative Investment Fund Managers (AIFM) Directive

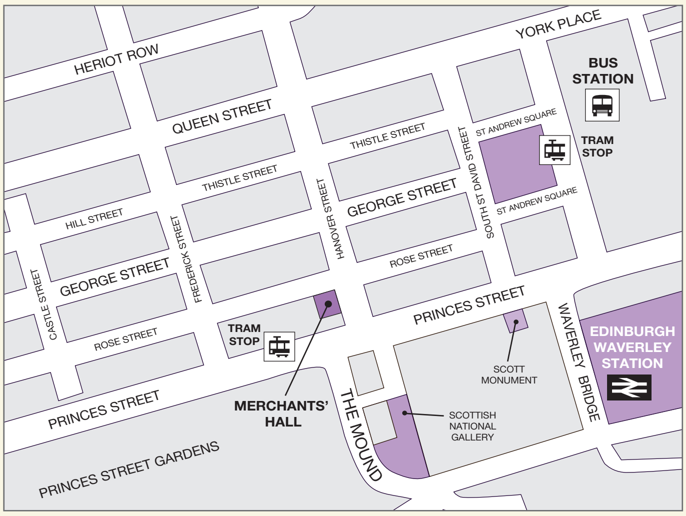
In accordance with the AIFM Directive, information in relation to the Company's leverage and the remuneration of the Company's AIFM, Baillie Gifford & Co Limited, is required to be made available to investors. In accordance with the Directive, the AIFM remuneration policy is available at **www.bailliegifford.com** or on request (see contact details on the back cover) and the numerical remuneration disclosures in respect of the AIFM's first relevant reporting period (year ended 31 March 2016) are available at **www.bailliegifford.com**.

The Company's maximum and actual leverage levels (see Glossary of Terms on page 61) at 31 March 2016 are shown below:

Leverage

	Gross method	Commitment method
Maximum limit	2.50:1	2.00:1
Actual	1.14:1	1.15:1

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, 30 June 2016 at 4.30pm.

Details of the resolutions to be proposed at the Annual General Meeting are contained in the Circular sent to shareholders with this Annual Report.

If you have any queries as to how to vote or how to attend the meeting, please call us on 0800 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 22 June – see page 61 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

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 58). 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

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

	2016 Number of shares held	2016 %	2015 Number of shares held	2015 %
Institutions	331,359,996	25.2	321,602,038	25.8
Intermediaries	750,905,520	57.2	693,300,828	55.7
Individuals	73,511,467	5.6	83,730,607	6.7
Baillie Gifford Share Plans/ISA	154,416,204	11.8	144,987,868	11.6
Marketmakers	2,331,298	0.2	2,053,144	0.2
	1,312,524,485	**100.0**	**1,245,674,485**	**100.0**

The Common Reporting Standard

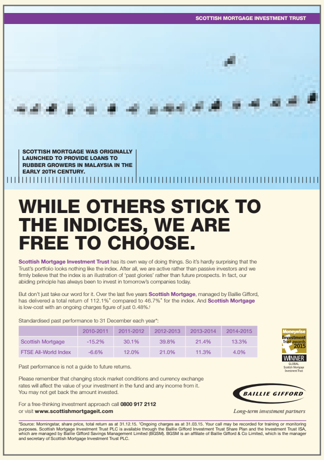
On 1 January 2016 a new piece of tax legislation, The OECD Common Reporting Standard for Automatic Exchange of Financial Account Information ('The Common Reporting Standard'), came into effect.

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

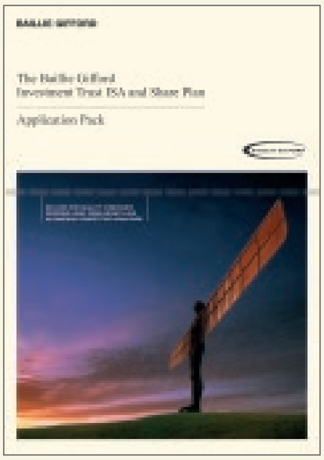
All new shareholders, excluding those whose shares are held in CREST, who come on to the share register with effect from 1 January 2016 will be sent a certification form for the purposes of collecting this information.

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**.

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



Press advertisement for Scottish Mortgage



The Share Plan and ISA brochure available at **www.scottishmortgageit.com**

Baillie Gifford Savings Management Limited offers a number of plans that enable you to buy and hold shares of Scottish Mortgage cost-efficiently. Purchases and sales are normally subject to a dealing price spread and Government stamp duty of 0.5% is payable on purchases.

The Baillie Gifford Investment Trust Share Plan

- No initial charge
- No annual wrapper charge
- Normally cheaper than dealing through a stockbroker
- Invest a lump sum from £250 or monthly from just £30
- No maximum investment limits
- Stop and start saving at any time with no charge
- Twice weekly dealing (usually Tuesday and Friday)
- A withdrawal charge of just £22

The Baillie Gifford Investment Trust ISA

- Tax-efficient investment
- No set-up charge
- Flat rate annual management charge currently of £32.50 + VAT
- Lump sum investment from £2,000 currently up to a maximum of £15,240 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 60).

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 75% of the investment management fee and 75% of borrowing costs to capital which reduces the capital value. Also, where income is low, the remaining expenses may be greater than the total income received, meaning Scottish Mortgage may not pay a dividend and the capital value would be further reduced.

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

— The favourable tax treatment of ISAs may change.

— Details of other risks that apply to investment in the savings vehicles shown on page 58 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.

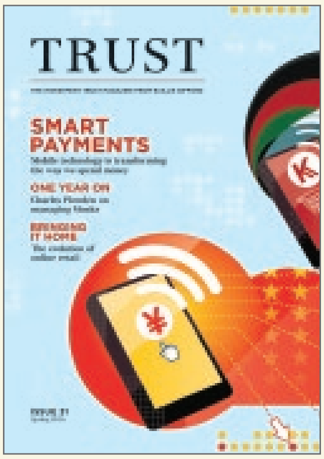
Further details of the risks associated with investing in the Company, including how charges are applied, can be found at **www.scottishmortgageit.com**, or by calling Baillie Gifford on 0800 917 2112.

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.

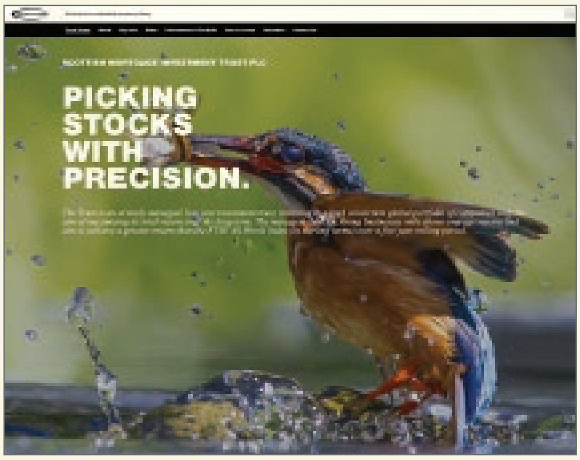
Baillie Gifford Savings Management Limited (BGSM) is the manager of The Baillie Gifford Investment Trust Share Plan, The Baillie Gifford Children's Savings Plan and The Baillie Gifford Investment Trust ISA. BGSM is wholly owned by Baillie Gifford & Co. BGSM and Baillie Gifford & Co are both authorised 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 58 in order to bring the merits of Scottish Mortgage to as wide an audience as possible.

Trust Magazine

Trust is the Baillie Gifford investment trust magazine which is published three times a year. It provides an insight to our investment approach by including interviews with our fund managers, as well as containing investment trust news, investment features and articles about the trusts managed by Baillie Gifford, including Scottish Mortgage. *Trust* plays an important role in helping to explain our products so that readers can really understand them. For a copy of *Trust*, please contact the Baillie Gifford Client Relations Team (see contact details opposite).

An online version of *Trust* can be found at **www.bgtrustonline.com**.

Scottish Mortgage on the Web

Up-to-date information about Scottish Mortgage is on the Scottish Mortgage pages of the Managers' website at **www.scottishmortgageit.com**. You will find full details of Scottish Mortgage, including recent portfolio information and performance figures.

Suggestions and Questions

Any suggestions on how communications with shareholders can be improved are welcome. Please contact the Baillie Gifford Client Relations Team (see contact details below) and give them your suggestions. They will also be very happy to answer any questions that you may have, either about Scottish Mortgage or the plans described on page 58.

Literature in Alternative Formats

It is possible to provide copies of literature in alternative formats, such as large print or on audio tape. Please contact the Baillie Gifford Client Relations Team for more information.

Client Relations Team Contact Details

Telephone: 0800 917 2112
Your call may be recorded for training or monitoring purposes.

E-mail: trustenquiries@bailliegifford.com
Website: www.bailliegifford.com
Fax: 0131 275 3955

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

Scottish Mortgage specific queries

Please use the following contact details:
Website: www.scottishmortgageit.com
E-mail: scottishmortgage@bailliegifford.com

Please note that Baillie Gifford is not permitted to give financial advice. If you would like advice or if you have any questions about the suitability of any of these plans for you, please ask an authorised intermediary.

The Scottish Mortgage Investor Forum

The Scottish Mortgage Investor Forum offers existing and prospective Scottish Mortgage shareholders the chance to hear presentations from joint managers James Anderson and Tom Slater.

At this evening event James and Tom will be discussing their investment enthusiasms, including why they believe that several industries are in the midst of structural change and why these advances are in general being driven by just a handful of companies. After the presentations attendees will have the opportunity to put their questions to the speakers. It is a fascinating opportunity to find out more about the UK's largest investment trust.

The Scottish Mortgage Investor Forum will take place at 6.00pm on Wednesday 22 June 2016 at the Andaz Hotel, 40 Liverpool Street, London EC2M 7QN.

Please register for this event at **www.scottishmortgageit.com**.

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

Glossary of Terms

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

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

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

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

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

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

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

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

Gearing represents borrowings at par less cash and cash equivalents (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.

Equity gearing is the Company's borrowings adjusted for cash and bonds 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:

JPHS Scott FCII FCSI DL

LJ Dowley FCA

Professor JA Kay CBE FBA FRSE

Professor PH Maxwell DPhil FRCP FMedSci

FC McBain ACA

WG McQueen CA FCIBS

Dr P Subacchi

Alternative Investment Fund Managers, Secretaries and Registered Office

Baillie Gifford & Co Limited

Calton Square

1 Greenside Row

Edinburgh

EH1 3AN

Tel: 0131 275 2000

www.bailliegifford.com

Registrar

Computershare Investor Services PLC

The Pavilions

Bridgwater Road

Bristol

BS99 6ZZ

Tel: 0370 707 1300

Company Broker

Cenkos Securities plc

6.7.8 Tokenhouse Yard

London

EC2R 7AS

Independent Auditor

KPMG LLP

Saltire Court

20 Castle Terrace

Edinburgh

EH1 2EG

Depositary

BNY Mellon Trust & Depositary (UK) Limited

BNY Mellon Centre

160 Queen Victoria Street

London

EC4V 4LA

www.scottishmortgageit.com

Company Registration No. SC007058

ISIN GB00BLDYK618

Sedol BLDYK61

Ticker SMT