

THE BAILLIE GIFFORD JAPAN TRUST PLC



Interim Financial Report
28 February 2018





Policy and Objective

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

Benchmark

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

Principal Risks and Uncertainties

The principal risks facing the Company are financial risk, investment strategy risk, discount risk, regulatory risk, custody and depositary risk, smaller company risk, operational risk, leverage risk and political risk. An explanation of these risks and how they are managed is set out on page 8 of the Company's Annual Report and Financial Statements for the year to 31 August 2017 and is available on the Company's website: www.japantrustplc.co.uk. The principal risks and uncertainties have not changed since the date of that report.

Responsibility Statement

We confirm that to the best of our knowledge:

- a) the condensed set of Financial Statements has been prepared in accordance with FRS 104 'Interim Financial Reporting';
- b) the Interim Management Report includes a fair review of the information required by Disclosure and Transparency Rules 4.2.7R (indication of important events during the first six months, their impact on the Financial Statements and a description of the principal risks and uncertainties for the remaining six months of the year); and
- c) the Interim Financial Report includes a fair review of the information required by Disclosure and Transparency Rules 4.2.8R (disclosure of related party transactions and changes therein).

On behalf of the Board
Nick AC Bannerman
Chairman
23 March 2018

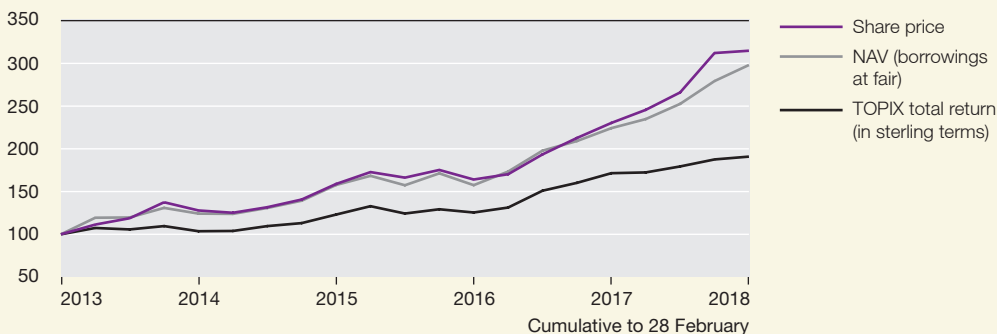
Summary of Unaudited Results*

	28 February 2018	31 August 2017	% change
Shareholders' funds	£721.4m	£575.2m	
Net asset value per share (after deducting borrowings at fair value)	805.4p	682.4p	18.0
Net asset value per share (after deducting borrowings at par value)	809.1p	685.8p	18.0
Share price	842.0p	711.5p	18.3
TOPIX total return (in sterling terms)†			6.4
Premium (borrowings at fair value)	4.5%	4.3%	
Premium (borrowings at par value)	4.1%	3.7%	
Active share*	85%	85%	

	Six months to 28 February 2018		Year to 31 August 2017	
Period's high and low	High	Low	High	Low
Net asset value per share (after deducting borrowings at fair value)	831.1p	658.2p	683.2p	521.5p
Net asset value per share (after deducting borrowings at par value)	834.8p	661.4p	686.6p	526.7p
Share price	882.0p	683.0p	711.5p	511.8p
Premium/(discount) (borrowings at fair value)	10.6%	3.8%	6.2%	(5.2%)
Premium/(discount) (borrowings at par value)	10.1%	3.3%	5.4%	(6.1%)

Five Year Performance†

(figures rebased to 100 at 28 February 2013)



* See Glossary of Terms on page 16 for definition of terms.

† Source: Thomson Reuters/Baillie Gifford and relevant underlying data providers. See disclaimer on page 15.

Past performance is not a guide to future performance.

Interim Management Report

The six months to the end of February 2018 have seen further gains in the share prices of growth companies in Japan and as a result the NAV of your Company, after deducting borrowings at fair value, has increased by 18% to 805.4p whilst the share price has risen by 18.3%. The TOPIX rose by 6.4% in sterling terms during the same period. Over the longer term, which we believe is a fairer way of looking at performance, the Company's benchmark is up by 55.2% and the NAV and share price by 89.1% and 98.1% respectively over the past three years.

The recent outperformance has been driven by gains in a wide range of companies rather than one specific theme or area. The largest contributor was Yaskawa Electric, the robot manufacturer, which has continued to see strong order growth and record profitability. SBI Holdings, Japan's largest online brokerage, which is developing its fintech businesses, rose strongly, whilst iStyle, the cosmetic review website, has seen business growth reaccelerate. Most startling is the contribution from Katitas, a company which only listed in December, and which refurbishes existing homes and sells them at affordable prices. The share price has more than doubled since the IPO. SanBio, one of the cluster of healthcare companies that we hold, and which has stem cell technology to repair brain injury, also was a top ten contributor to outperformance as confidence grows that they will be able to successfully commercialise their technology.

The benign economic conditions that have existed in Japan over the past few years have continued with further expansion in the last two quarters of 2017. Growth estimates continue to be revised up and early indications are that wage rises for 2018 will be higher than in the recent past. Employment remains strong, with the numbers of both female and foreign workers at record levels. Despite this deployment of additional pools of staff, to which must be added the increase in those working after the age of 65, the labour shortage is deepening. We expect that this will lead to positive change by corporate Japan as companies are forced to adopt new strategies. They can no longer solve problems by simply hiring people and there are already signs that investment in labour saving technology in the service sectors is accelerating. There will be fundamental mindset

changes within traditional companies about how many divisions are appropriate. It is one thing to have a substandard business area that continues to employ people as part of a social contract, but there is no need for its existence when labour is short and may be better deployed in core business divisions of the company. It is interesting in this context that return on equity figures for Japan in 2018 will be over 10%, an all-time high reflecting the early stages of this trend along with the strong demand conditions that corporate Japan is experiencing. There will of course be some companies that suffer though and some reductions in holdings have already been made as a result.

During the period we have sold five holdings either of companies that had achieved what we initially expected or where the holding size had become small and we did not wish to add. We have bought one new holding in our healthcare cluster, Noritsu Koki, which has undergone a transition from minilab manufacturer to biotech innovator. There have also been purchases in Katitas, the house renovator, Shimano, the global leader in cycle gears and Zenkoku Hoshu which guarantees mortgages and is expanding its market share.

This is the last report that I will be writing as portfolio manager of Baillie Gifford Japan Trust after a very enjoyable career managing the portfolio for your Company. It is pleasing that the long term returns from Japanese growth companies, as embodied in Baillie Gifford Japan Trust, have more than kept up with those from global investment over five and ten years. I retire from Baillie Gifford at the end of April and leave the management of the Trust in the very capable hands of my colleagues Matthew Brett and Praveen Kumar. I remain optimistic about the prospects for further growth as the number of good companies to choose from is greater than when I started investing in Japan in the 1980s, their growth is reliant on global trends not mature domestic demand and Japan is still a very underappreciated market.

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

See Glossary of Terms on page 16 for definition of terms.

Total return information is sourced from Thomson Reuters/Baillie Gifford. See disclaimer on page 15. Past performance is not a guide to future performance.

Historic Growth Sector Distribution and Recent Portfolio Activity

Portfolio Allocation %	28 February 2018	New buys	Complete sales
<p>The chart displays the quarterly portfolio allocation from Q113 to Q417. The categories and their percentages are: Secular Growth (63.4%), Growth Stalwarts (6.3%), Special Situations (4.9%), Cyclical Growth (22.4%), and Cash (3.0%).</p>	Secular Growth 63.4%	Noritsu Koki Shimano	Cookpad Japan Exchange Group Kakaku Wirelessgate
	Growth Stalwarts 6.3%	Zenkoku Hosho	
	Special Situations 4.9%		
	Cyclical Growth 22.4%	Katitas	Nippon Electric Glass
	Cash 3.0%		

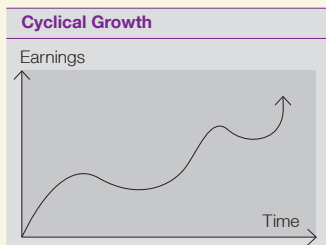
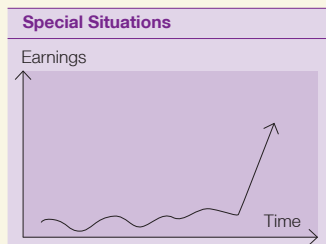
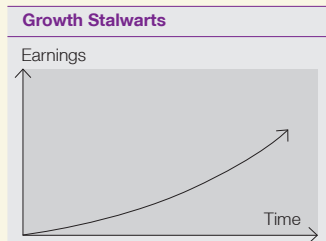
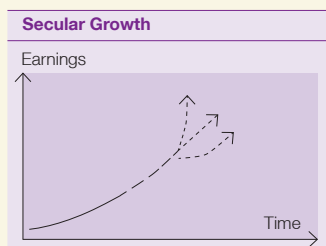
Past performance is not a guide to future performance.

Equity Portfolio by Growth Category as at 28 February 2018

Secular Growth	%*	Growth Stalwarts	%*
SoftBank	3.7	Nitori	1.5
Yaskawa Electric	3.3	Zenkoku Hosho Co Ltd	1.2
Outsourcing	3.1	Mitsubishi UFJ Lease & Finance	1.1
SBI	2.9	Park24	0.9
IRISO Electronics	2.6	Fukuoka Financial	0.8
Misumi Group	2.3	Sawai Pharmaceutical	0.4
Sysmex	2.3	Secom	0.4
Nidec	2.2	Total	6.3
Fanuc	2.2		
M3	2.1	Special Situations	%*
Start Today	2.1	Sony	2.0
Don Quijote	2.1	Tokyo Tatemono	1.6
GMO Internet	2.1	Renesas Electronics	0.8
CyberAgent	2.1	Hikari Tsushin	0.3
Inpex	2.0	Colopl	0.2
Digital Garage	1.9	Total	4.9
H.I.S.	1.8		
Pigeon	1.8	Cyclical Growth	%*
SMC	1.7	Persol Holdings	2.4
Shimadzu	1.6	Disco	1.9
Recruit Holdings	1.6	Nifco	1.9
Kubota	1.5	Itochu	1.9
iStyle	1.5	Sumitomo Metal Mining	1.6
Rakuten	1.3	Toyo Tire & Rubber	1.6
Subaru	1.2	Mitsubishi Electric	1.6
Toyota Tsusho	1.2	Katitas	1.4
Lifull	1.0	Sumitomo Mitsui Trust	1.4
Topcon	1.0	Iida Group	1.0
SanBio	0.9	Isuzu Motors	0.9
Broadleaf	0.8	Advantest	0.9
MonotaRO	0.7	Murata Manufacturing	0.9
Cyberdyne	0.7	Invincible Investment	0.8
Peptidream	0.7	Mazda Motor	0.8
Keyence	0.6	Suruga Bank	0.7
Asics	0.6	Takara Leben	0.7
Infomart	0.5	Total	22.4
Noritsu Koki	0.5		
Nippon Ceramic	0.5		
Shimano	0.4		
Healios K.K.	0.3		
Total	63.4		

* Percentage of total assets.

A definition of growth categories can be found in the Managers' Report on page 10 of the Annual Report and Financial Statements.



Twenty Largest Holdings at 28 February 2018

Name	Business	Value £'000	% of total * assets
SoftBank	Telecom operator and technology investor	31,013	3.7
Yaskawa Electric	Robots and factory automation	27,278	3.3
Outsourcing	Employment placement services	25,591	3.1
SBI	Online financial services	24,541	2.9
IRISO Electronics	Specialist auto connectors	22,098	2.6
Persol Holdings	Employment and outsourcing services	20,399	2.4
Misumi Group	Online distributor of precision machinery parts	19,685	2.3
Sysmex	Medical equipment	19,623	2.3
Nidec	Specialist motors	18,619	2.2
Fanuc	Robotics manufacturer	18,222	2.2
M3	Online medical database	18,054	2.1
Start Today	Internet fashion retailer	18,036	2.1
Don Quijote	Discount store chain	18,019	2.1
GMO Internet	Internet conglomerate	17,484	2.1
CyberAgent	Internet advertising and content	17,478	2.1
Inpex	Oil and gas producer	16,966	2.0
Sony	Consumer electronics, films and finance	16,953	2.0
Digital Garage	Internet business investor	16,141	1.9
Disco	Specialist cutting for semiconductors	16,084	1.9
Nifco	Value-added plastic car parts	15,942	1.9
Grand Total		398,226	47.2

* Before deduction of bank loans.

Income Statement (unaudited)

	For the six months ended 28 February 2018			For the six months ended 28 February 2017		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gains on sales of investments	–	26,651	26,651	–	5,902	5,902
Changes in investment holding gains	–	74,391	74,391	–	46,759	46,759
Currency gains	–	2,046	2,046	–	1,588	1,588
Income from investments and interest receivable	4,908	–	4,908	4,075	–	4,075
Investment management fee	(2,097)	–	(2,097)	(1,477)	–	(1,477)
Other administrative expenses	(305)	–	(305)	(262)	–	(262)
Net return before finance costs and taxation	2,506	103,088	105,594	2,336	54,249	56,585
Finance costs of borrowings	(1,238)	–	(1,238)	(802)	–	(802)
Net return on ordinary activities before taxation	1,268	103,088	104,356	1,534	54,249	55,783
Tax on ordinary activities	(490)	–	(490)	(407)	–	(407)
Net return on ordinary activities after taxation	778	103,088	103,866	1,127	54,249	55,376
Net return per ordinary share (note 5)	0.90p	119.32p	120.22p	1.43p	68.90p	70.33p

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

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

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

Balance Sheet (unaudited)

	At 28 February 2018 £'000	At 31 August 2017 £'000
Fixed assets		
Investments held at fair value through profit or loss (note 6)	818,358	652,597
Current assets		
Debtors	3,416	788
Cash and cash equivalents	23,630	10,585
	27,046	11,373
Creditors		
Amounts falling due within one year:		
Bank loans (note 7)	(10,202)	(31,731)
Other creditors	(1,598)	(6,249)
	(11,800)	(37,980)
Net current assets/(liabilities)	15,246	(26,607)
Total assets less current liabilities	833,604	625,990
Creditors		
Amounts falling due after more than one year:		
Bank loans (note 7)	(112,227)	(50,769)
Net assets	721,377	575,221
Capital and reserves		
Share capital	4,458	4,194
Share premium	164,724	122,698
Capital redemption reserve	203	203
Capital reserve	552,973	449,885
Revenue reserve	(981)	(1,759)
Shareholders' funds	721,377	575,221
Net asset value per ordinary share* (after deducting borrowings at fair value)	805.4p	682.4p
Net asset value per ordinary share* (after deducting borrowings at par value)	809.1p	685.8p
Ordinary shares in issue (note 8)	89,154,925	83,879,925

* See Glossary of Terms on page 16.

Statement of Changes in Equity (unaudited)

For the six months ended 28 February 2018

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Capital reserve * £'000	Revenue reserve £'000	Shareholders' funds £'000
Shareholders' funds at 1 September 2017	4,194	122,698	203	449,885	(1,759)	575,221
Shares Issued	264	42,026	–	–	–	42,290
Net return on ordinary activities after taxation	–	–	–	103,088	778	103,866
Shareholders' funds at 28 February 2018	4,458	164,724	203	552,973	(981)	721,377

For the six months ended 28 February 2017

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Capital reserve * £'000	Revenue reserve £'000	Shareholders' funds £'000
Shareholders' funds at 1 September 2016	3,937	89,123	203	335,728	(3,994)	424,997
Net return on ordinary activities after taxation	–	–	–	54,249	1,127	55,376
Shareholders' funds at 28 February 2017	3,937	89,123	203	389,977	(2,867)	480,373

* The Capital Reserve balance at 28 February 2018 includes investment holding gains on investments of £409,233,000 (28 February 2017 – gains of £282,078,000).

Condensed Cash Flow Statement (unaudited)

	Six months to 28 February 2018 £'000	Six months to 28 February 2017 £'000
Cash flows from operating activities		
Net return on ordinary activities before taxation	104,356	55,783
Net gains on investments	(101,042)	(52,661)
Currency gains	(2,046)	(1,588)
Finance costs of borrowings	1,238	802
Overseas withholding tax	(427)	(350)
Changes in debtors and creditors	(2,178)	(559)
Cash from operations	(99)	1,427
Interest paid	(1,027)	(764)
Net cash (outflow)/inflow from operating activities	(1,126)	663
Cash flows from investing activities		
Acquisitions of investments	(117,343)	(27,528)
Disposals of investments	47,249	21,166
Exchange differences	269	(115)
Net cash outflow from investing activities	(69,825)	(6,477)
Shares issued	42,290	–
Bank loans drawn down	62,873	10,360
Bank loans repaid	(20,045)	–
Net cash inflow from financing activities	85,118	10,360
Increase in cash and cash equivalents	14,167	4,546
Exchange movements	(1,122)	82
Cash and cash equivalents at 1 September	10,585	2,473
Cash and cash equivalents at 28 February*	23,630	7,101

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

Notes to the Condensed Financial Statements (unaudited)

- 1 The condensed Financial Statements for the six months to 28 February 2018 comprise the statements set out on the previous pages together with the related notes on pages 11 and 12. They have been prepared in accordance with FRS 104 'Interim Financial Reporting' and the AIC's Statement of Recommended Practice issued in November 2014, updated in January 2017 with consequential amendments and have not been audited or reviewed by the Auditor pursuant to the Auditing Practices Board Guidance on 'Review of Interim Financial Information'. The Financial Statements for the six months to 28 February 2018 have been prepared on the basis of the same accounting policies as set out in the Company's Annual Report and Financial Statements at 31 August 2017.

Going Concern

Having considered the Company's principal risks and uncertainties, as set out on the inside front cover, together with its current position, investment objective and policy, its assets and liabilities, and projected income and expenditure, it is the Directors' opinion that the Company has adequate resources to continue in operational existence for the foreseeable future. The Company's assets, the majority of which are investments in quoted securities which are readily realisable, exceed its liabilities significantly. All borrowings require the prior approval of the Board. Gearing levels and compliance with borrowing covenants are reviewed by the Board on a regular basis. In accordance with the Company's Articles of Association, shareholders have the right to vote annually at the Annual General Meeting on whether to continue the Company. The next continuation vote will be in December 2018. The Directors have no reason to believe that the continuation resolution will not be passed at the Annual General Meeting. Accordingly, the Directors consider it appropriate to adopt the going concern basis of accounting in preparing these Financial Statements and confirm that they are not aware of any material uncertainties which may affect the Company's ability to continue to do so over a period of at least twelve months from the date of approval of these Financial Statements.

- 2 The financial information contained within this Interim Financial Report does not constitute statutory accounts as defined in sections 434 to 436 of the Companies Act 2006. The financial information for the year ended 31 August 2017 has been extracted from the statutory accounts which have been filed with the Registrar of Companies. The Auditor's Report on those accounts was not qualified and did not contain statements under sections 498(2) or (3) of the Companies Act 2006.
- 3 Baillie Gifford & Co Limited, a wholly owned subsidiary of Baillie Gifford & Co, has been appointed by the Company as its Alternative Investment Fund Manager and Company Secretary. The investment management function has been delegated to Baillie Gifford & Co. The management agreement can be terminated on not less than 6 months' notice, or on shorter notice in certain circumstances. The annual management fee is 0.95% on the first £50 million of net assets and 0.65% on the next £200 million of net assets and 0.55% on the remaining net assets, calculated and payable quarterly.
- 4 No interim dividend will be declared.

	Six months to 28 February 2018 £'000	Six months to 28 February 2017 £'000
5 Net return per ordinary share		
Revenue return on ordinary activities after taxation	778	1,127
Capital return on ordinary activities after taxation	103,088	54,249

Net return per ordinary share is based on the above totals of revenue and capital and on 86,399,787 ordinary shares (28 February 2017 – 78,734,925), being the weighted average number of ordinary shares in issue during each period. There are no dilutive or potentially dilutive shares in issue.

Notes to the Condensed Financial Statements (unaudited)

6 Fair Value

The fair value hierarchy used to analyse the basis on which the fair values of financial instruments held at fair value through the profit or loss account are measured is described below. Fair value measurements are categorised on the basis of the lowest level input that is significant to the fair value measurement.

Level 1 – using unadjusted quoted prices for identical instruments in an active market;

Level 2 – using inputs, other than quoted prices included within Level 1, that are directly or indirectly observable (based on market data); and

Level 3 – using inputs that are unobservable (for which market data is unavailable).

The fair value of listed investments is the last traded price which is equivalent to the bid price on Japanese markets.

The financial assets designated as valued at fair value through profit or loss are all categorised as Level 1 in the above hierarchy. None of the financial liabilities are designated at fair value through profit or loss in the Financial Statements.

All of the Company's investments fall into Level 1 for the periods reported.

- 7** Bank loans of £122.4 million (¥18.0 billion) have been drawn down under yen loan facilities which are repayable between August 2020 and November 2024 (31 August 2017 – £82.5 million (¥11.7 billion)). The revolving loan facilities are shown under short term creditors as the current drawn downs are repayable within one year.
- 8** The Company has the authority to issue shares/sell treasury shares at a premium to net asset value as well as to buy back shares at a discount to net asset value. During the period, 5,275,000 shares (28 February 2017 – nil) were issued at a premium to net asset value raising net proceeds of £42,290,043 (28 February 2017 – nil). Between 1 March 2018 and 23 March 2018, the Company issued a further 125,000 shares at a premium to net asset value raising proceeds of £1,048,000.
- 9** Transaction costs incurred on the purchase and sale of the investments are added to the purchase cost or deducted from the sales proceeds, as appropriate. During the period, transaction costs on purchases amounted to £54,000 (28 February 2017 – £9,000) and transaction costs on sales amounted to £29,000 (28 February 2017 – £12,000).

10 Related Party Transactions

There have been no transactions with related parties during the first six months of the current financial year that have materially affected the financial position or the performance of the Company during that period and there have been no changes in the related party transactions described in the last Annual Report and Financial Statements that could have had such an effect on the Company during that period.

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

Further Shareholder Information

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

Baillie Gifford's Investment Trust Share Plan

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

Baillie Gifford's Investment Trust ISA

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

Baillie Gifford's Children's Savings Plan

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

Online Management Service

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

- obtain current valuations;
- make lump sum investments, except where there is more than one holder;
- switch between investment trusts, except where there is more than one holder;
- set up a direct debit to make regular investments, except where there is more than one holder;
- sell part or all of your holdings, 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.

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

Automatic Exchange of Information

In order to fulfil its obligations under UK tax legislation relating to the automatic exchange of information, The Baillie Gifford Japan Trust PLC is required to collect and report certain information about certain shareholders.

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

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

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

Further Shareholder Information

Risk Warnings

Past performance is not a guide to future performance.

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

As Baillie Gifford Japan invests in overseas securities, changes in the rates of exchange may also cause the value of your investment (and any income it may pay) to go down or up.

Baillie Gifford Japan has borrowed money to make further investments (sometimes known as 'gearing' 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.

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

Market values for securities which have become difficult to trade may not be readily available, and there can be no assurance that any value assigned to such securities will accurately reflect the price the Company might receive upon their sale.

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

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

Baillie Gifford Japan can make use of derivatives which may impact on its performance. Currently the Company does not make use of derivatives.

The aim of the Trust is to achieve capital growth and it is unlikely that the Company will provide a steady, or indeed any, income.

Charges are deducted from income. Where income is low, the expenses may be greater than the total income received, meaning the Trust may not pay a dividend and the capital value would be reduced.

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

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

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

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

Further details of the risks associated with investing in the Company, including a Key Information Document and how charges are applied, can be found at www.japantrustplc.co.uk, or by calling Baillie Gifford on 0800 917 2112.

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Benchmark

The Benchmark for the Company where stated in the Interim Financial Report is the TOPIX total return (in sterling terms).

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 (Borrowings at Fair Value)

Borrowings are valued at an estimate of their market worth. The Company's yen denominated loan is fair valued with reference to a Japanese Government bond of composite yield and maturity.

Net Asset Value (Borrowings at Par Value)

Borrowings are valued at their nominal par value. The Company's yen denominated loan is valued at its sterling equivalent.

Net Liquid Assets

Net liquid assets comprise current assets less current liabilities, excluding borrowing.

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 ex-dividend.

Ongoing Charges

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 is the Company's borrowings at par less cash and cash equivalents expressed as a percentage of shareholders' funds.

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

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.

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