

SAINTS

Investing for income and growth

Annual Report and Accounts

31 December 2006

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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 have sold or otherwise transferred all of your ordinary shares in The Scottish American Investment Company 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

Company data at 31 December 2006

Total assets†	Shareholders' funds	Market capitalisation
£462.7m	£373.6m	£319.6m

† before deduction of debenture

Company Summary

SAINTS aims to provide a valuable income that should grow steadily over time and at a faster rate than inflation, together with capital growth. It invests predominantly in UK and overseas equities, but also has investments in bonds and direct UK property.

Policy and Objective

The Scottish American Investment Company PLC (SAINTS) aims to achieve balanced growth in both income and capital to sustain a progressive dividend policy. It offers private investors a diversified portfolio through investment in a broad range of assets. The focus is on UK and overseas equities, other investments include bonds and direct UK property.

Company History

SAINTS was founded in 1873. Around 80 per cent of the Company's shares are held by private individuals.

Benchmark

The portfolio benchmark against which performance has been measured is 70% FTSE All-Share Index and 30% FTSE World Ex UK Index (in sterling terms).

In comparing NAV performance with this benchmark, both the Company's assets and liabilities are measured at market value.

Management Details

Baillie Gifford & Co were appointed as Investment Managers and Secretaries to the Company with effect from 1 January 2004. The management contract can be terminated at six months' notice. The property portfolio is managed by OIIM Limited. The agreement can be terminated on three months' notice.

Management Fees

Baillie Gifford & Co's annual management fees for the years ending 31 December 2006 and 2007 have been fixed at £1.55m and £1.75m respectively. Thereafter, Baillie Gifford & Co will receive an annual management fee of 0.45% of total assets less current liabilities, excluding the property portfolio, calculated on a quarterly basis.

OIIM Limited receives an annual fee of 0.5% of the value of the property portfolio subject to a minimum quarterly fee of £6,250.

Capital Structure

At the year end the Company's share capital consisted of 132,485,943 ordinary shares

of 25p each which were issued and fully paid. The Company has been granted the authority to buy back a limited number of its own shares. Long term gearing has been secured by the issue of £80 million (nominal value) of debenture stock.

ISA/PEP

ISA and PEP transfer facilities are available (see inside back cover).

AIC

The Company is a member of the Association of Investment Companies (formerly the Association of Investment Trust Companies - AITC).

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 Services Authority.

Year's Summary

The following information illustrates how SAINTS has performed over the year to 31 December 2006.

	31 December 2006	31 December 2005	% change
Total assets (before deduction of debenture)	£462.7m	£426.0m	
Debenture (book value)	£89.1m	£89.4m	
Equity shareholders' funds	£373.6m	£336.6m	
Net asset value per ordinary share (debenture at fair value)	272.6p	241.2p	13.0
Net asset value per ordinary share (debenture at book value)	282.0p	254.1p	11.0
Share price	241.3p	218.8p	10.3
FTSE All Share Index	3,221.4	2,847.0	13.2
FTSE World Ex UK Index (in sterling terms)	313.9	303.4	3.5
Benchmark composite index*			10.2
Discount (debenture at fair value)	11.5%	9.3%	
Discount (debenture at book value)	14.4%	13.9%	
Earnings per ordinary share	7.55p	6.80p	11.0
Dividends paid and proposed	7.40p	6.53p	13.3
Expense ratio	0.78%	0.80%	

	Year to 31 December 2006		Year to 31 December 2005	
Year's high and low	High	Low	High	Low
Net asset value (debenture at fair value)	274.3p	228.3p	241.2p	190.8p
Net asset value (debenture at book value)	282.0p	239.0p	254.1p	200.2p
Share price	247.5p	201.5p	218.8p	167.5p
Discount (debenture at fair value)	4.3%	13.1%	6.6%	15.0%
Discount (debenture at book value)	8.5%	16.3%	11.0%	18.4%

	Year to 31 December 2006	Year to 31 December 2005
Total return performance		
Net asset value (debenture at fair value)	16.1%	26.0%
Net asset value (debenture at book value)	13.9%	27.3%
Share price	13.7%	35.0%
Benchmark composite index*	13.4%	22.9%

One Year Performance

(figures plotted on a monthly basis rebased to 100 at 31 December 2005)

Past performance is no guarantee of future performance

Five Year Summary

The following charts indicate how SAINTS has performed relative to its benchmark and its underlying net asset value over the five year period to 31 December 2006.

5 Year Total Return Performance

(figures rebased to 100 at 31 December 2001)

Relative Annual Net Asset Value and Share Price Total Returns (relative to the benchmark* total return)

Discount to Net Asset Value

(plotted on a monthly basis)

Dividend and RPI Growth Rate

(figures rebased to 100 at 31 December 2001)

The line at 31 December 2003 signifies the appointment of Baillie Gifford & Co as Managers and Secretaries

Past performance is no guarantee of future performance

* On 1 January 2004 the Company changed its benchmark from 65% FTSE All-Share Index and 35% FTSE World Ex UK Index to 70% FTSE All-Share Index and 30% FTSE World Ex UK Index. For the purposes of the above graphs the returns on both benchmarks for their respective periods have been linked to form a single benchmark

† On 1 January 2004 the Company changed its main measure of NAV performance from NAV at book value to NAV at fair value. Where possible (as indicated by †), NAVs at fair value have either replaced or been provided in addition to NAVs at book value in the above graphs since 1 January 2004

Highlights

- Proposed total dividend increase of 13% for 2006
- NAV total return for 2006 ahead of benchmark
- Over 3 years, a 31% increase in dividend and strong capital returns

Chairman's Statement

I am pleased to report very satisfactory rises in your Company's net asset value, earnings per share and dividend per share over 2006. For the third year in a row, SAINTS portfolio has outperformed its benchmark.

Results

The net asset value total return, with the debenture valued at its market price, was 16.1%. This compares to a benchmark return of 13.4%. The benchmark is a composite index comprising 70% FTSE All Share Index and 30% FTSE World Ex UK Index.

Asset allocation was positive, with our commercial property portfolio producing a total return of 18.5%. In the equity portfolios, the contribution to return from stock selection was marginally negative this year. However, having now been with Baillie Gifford for three years, we are able to assess their choice of stocks over a more meaningful period than just twelve months and, since their appointment, stock selection has made a positive contribution to performance. We had a rewarding experience in fixed interest markets where, despite finding the general level of markets unattractive, we were able to invest in a small number of specific overseas opportunities which produced good returns.

Past performance is no guarantee of future performance.

Dividend

The capital performance of the portfolio has been matched by similar strength in the revenue account with the level of earnings per share rising from 6.80p last year to 7.55p in 2006. Consequently, SAINTS was able to pay quarterly dividends for the first three quarters of the year that were significantly higher than for the same period in 2005.

We are recommending that the final dividend payment be set at 2p per share. If approved at the AGM, this would give a total dividend for 2006 of 7.4p, a 13% increase on the 2005 total.

Discount

At the start of 2006, SAINTS' share price was 218.75p and the net asset value per share (with the debenture at market value) was 241.2p. By the end of the year, the share price had risen to 241.25p and the net asset value per share to 272.6p. This means that the discount to net asset value

(the difference between the share price and the net asset value per share) widened from 9.3% to 11.5% despite the strong capital performance and the dividend increase achieved in 2006. However, the underlying trend over the last three years has been for the discount to narrow reflecting SAINTS' success in delivering growth in both capital and income.

Buy backs and Treasury Shares

The power to buy back shares was renewed at last year's Annual General Meeting. The Board is mindful of the enhancement to net asset value that can accrue to shareholders through use of buy-backs and of the desire of shareholders to avoid undue volatility in the discount. However, because the widening in the discount was modest, the Board chose not to buy back shares during 2006. The Board intends asking for the authority to be renewed at this year's AGM so that it is available should future circumstance make a buy-back more appropriate.

Borrowings

The Company's current borrowings are in the form of a single debenture due for repayment in April 2022, on which date £80m will be repaid to debenture holders (compared to its current book value of £89m)

The debenture was issued in three tranches during the course of the 1990s. Because the general level of interest rates has fallen since then, the market price of longer dated bonds such as SAINTS' debenture has risen. This explains why the market value of the debenture, at £102m, is substantially higher than either the book value or the repayment amount. However, in 2006, the market value of the debenture fell from its prior year level, enhancing net asset value total returns for the year by two percentage points. This fall was reflective of a general move in the sterling bond market towards higher yields and lower prices as investors reassessed the likely path of future inflation and short term interest rates

It is also worth noting that, because of the sharp rise in the value of the investment portfolio, the size of borrowings relative to the size of shareholders' funds has fallen. If one goes back three years, the book value of the debenture was equivalent to some 35% of shareholders' funds. By the end of 2006, it had fallen to 24%

Property

The Board has reviewed the level of exposure to property investments. In doing so, it has considered both the directly held portfolio of mainly high street properties outside London and the exposure in the quoted equity portfolios to UK, Japanese and European commercial property.

The performance of the directly held portfolio has been exceptionally good since its inception with an average annual return of 14.5%. However, the Board is mindful of the historically low levels to which commercial property yields have fallen in the UK. It has

therefore decided to reduce the directly held portfolio. Substantial reductions have also been made to the UK property exposure in the quoted equity portfolio.

The Board and the AGM

Dr Janet Morgan and Mr David Price, who have been on the Board for more than nine years, offer themselves for re-election at the AGM. The Board confirms that it considers Dr Morgan and Mr Price to be independent and recommends their re-election based on their experience, contribution and expertise. Dr Morgan has intimated that she intends to retire at the AGM in 2008. Mr Eric Hagman and I retire by rotation and offer ourselves for re-election. After a performance evaluation, the Board considers that we continue to be effective and remain committed to the Company and recommends our re-election.

I hope that you will be able to attend the Annual General Meeting which will be held

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at Baillie Gifford's offices at Calton Square, 1 Greenside Row, Edinburgh on Thursday 5 April 2007 at 11.00am. There is a map with directions on page 49. The Managers will make a short presentation and the Directors look forward to meeting you.

Outlook

We expect 2007 to be another strong year for the global economy. This should allow companies again to increase their profits and raise the dividends that they pay to their shareholders.

Despite this upbeat assessment of growth and corporate profits, SAINTS begins the year with a slightly reduced exposure to equity markets compared to either of the last two years. Strong economic growth is leading to the re-emergence of some inflationary pressures and this will probably

make for a less supportive environment than we have been used to in recent years.

However, we do still expect equities to outperform other asset classes. We also have every confidence in our Managers who have delivered such good returns in the three years since they were appointed. We are therefore happy to remain fully invested for the time being.

Sir Brian Ivory CBE
Chairman
16 February 2007

Directors and Management

Members of the Board come from a broad variety of backgrounds. The Board can draw on an extensive pool of knowledge and experience. Baillie Gifford & Co, a leading UK investment management firm established in 1908, have acted as Manager and Secretaries since 1 January 2004.

Directors

1 Sir Brian G Ivory, CBE, CA

Sir Brian, who is 57, joined the Board in 2000 and was appointed Chairman in 2001. He is also the chairman of the Nominations Committee. He is a director of HBOS Plc, Retec Digital plc and of Remy Cointreau SA and is chairman of the Trustees of the National Galleries of Scotland. He was formerly chairman of Highland Distillers Plc.

2 Eric Hagman, CBE, CA

Mr Hagman, who is 60, joined the Board in 2005. He joined Arthur Anderson in 1971 and became the managing partner in Scotland in 1982. He spent the last five years until 2002 in London as a managing partner on the UK Leadership Team. He is a director of British Polythene Industries plc, The Royal College of Art and Glen Group plc. He was formerly a trustee of the National Galleries of Scotland and a director of Scottish Financial Enterprise and Scottish Enterprise.

3 Lord Kerr of Kinlochard, GCMG

Lord Kerr, who is 65, joined the Board in 2002 and is chairman of the Audit Committee. He was Head of the Diplomatic Service from 1997 to 2002, having previously been Ambassador to the European Union and then to the United States. He is deputy chairman of Royal Dutch Shell plc, a director of Rio Tinto Plc and chairman of Imperial College London.

4 Peter Moon

Mr Moon, who is 57, joined the Board in 2005. He has been chief investment officer of the Universities Superannuation Scheme limited fund since 1992. He is a director of MBNA Europe and is a former Member of the National Association of Pension Funds Investment Committee. Prior to joining Universities Superannuation Scheme, Mr Moon managed investments at the British Airways Pension Fund and the National Provident Institution, which he joined in 1978.

5 Dr Janet Morgan, D Phil

Dr Morgan, who is 61, joined the Board in 1991. She is a director of Stagecoach, The Scottish Oriental Smaller Companies Trust, Murray International Trust and Close Enterprise VCT PLC. She is also chairman of the Nuclear Liabilities Fund and the Nuclear Trust.

6 David J W Price

Mr Price, who is 59, joined the Board in 1997 and is the senior independent director. He is chairman of Aberdeen All Asia Investment Trust PLC and is a director of Melchior Japan Investment Trust plc. He was formerly deputy chairman of Mercury Asset Management Group plc and chairman of F&C Management Limited.

All Directors are members of the Nomination and Audit Committees.

Managers and Secretaries

SAINTS is managed by Baillie Gifford & Co, an investment management firm formed in 1927 out of the legal firm Baillie & Gifford, W.S., which had been involved in investment management since 1908

Baillie Gifford & Co is one of the largest investment trust managers in the UK and currently manages eight investment 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 & Co total around £50 billion. Based in Edinburgh, they are one of the leading privately owned investment management firms in the UK, with 29 partners and a staff of over 450

The manager of SAINTS' portfolio is Patrick Edwardson, a partner of Baillie Gifford & Co. Patrick is responsible for SAINTS' equity investments, working closely with all of Baillie Gifford's equity investment teams. SAINTS' bond investments are managed by specialists in Baillie Gifford's fixed income team. The property investments are managed separately by OIM Limited, a specialist property manager.

The firm of Baillie Gifford & Co are authorised and regulated by the Financial Services Authority.

Performance Attribution for the year to 31 December 2006

Portfolio breakdown	Average allocation		Total return		Contribution to relative return %	Stock Selection %	Asset Allocation %
	SAINTS %	Benchmark %	SAINTS %	Benchmark %			
UK Quoted Equities	70.0	70.0	16.9	16.8	0.2	0.2	-
Global (ex UK) Quoted Equities	35.0	30.0	4.6	5.6	(0.8)	(0.4)	(0.4)
Quoted Fixed Interest	5.8	-	7.2	-	(0.2)	-	(0.2)
Properties	11.4	-	18.5	-	0.6	-	0.6
Unquoted	1.1	-	(7.6)	-	(0.2)	-	(0.2)
Deposits and Other Items	1.8	-	-	-	0.1	-	0.1
Debenture at book value	(25.1)	-	6.8	-	1.5	-	1.5
Portfolio Total Return (debenture at book value)			14.7	13.4	1.2	(0.2)	1.4
Adjustment for change in fair value of debenture			2.2				
Portfolio Total Return (debenture at fair value)			16.9	13.4	3.1		
Expenses			(0.8)				
Fund Total Return (debenture at fair value)			16.1				

The above returns are calculated on a total returns basis with net income reinvested. Source: Baillie Gifford & Co.

Manager's Overview

Baillie Gifford & Co have now been managing SAINTS' investment portfolio for three years. The total return on net asset value over that period has been 62.3% which compares to a total return on SAINTS' benchmark of 55.2%.

The global economy has grown very strongly over the last three years, corporate profits have increased significantly and low levels of interest rates and bond yields in many countries have allowed a high level of liquidity to support financial markets and asset prices. In short, it has been a very good period in which to be investing.

These benign conditions continued throughout 2006 during which period SAINTS' net asset value total return was 16.1%, ahead of the 13.4% total return on the benchmark. The

best returns were achieved on the property investments where the total return was 18.5%. Stock selection was marginally helpful to our UK equity returns but the 16.9% figure achieved for the year largely reflects a strong market performance. After a very strong year in 2005, the overseas equity returns were considerably lower this year at 4.6%. The main cause of this was the strength of the pound which caused good local currency returns to appear far more modest once translated back into sterling. Our choice of stocks in overseas markets also detracted slightly from returns, as did the decision to have an above benchmark weighting in such markets. However, our choice of fixed interest investments was more astute and the 7.2% return compares favourably to SAINTS' own borrowing costs for the year.

With economic growth strong and profitability high in 2006, most quoted companies felt able to increase their dividend payments. This meant that SAINTS' income also increased, by 10% over the 2005 level which fed through to an 11% increase in earnings per share.

Patrick Edwardson
16 February 2007

Past performance is no guarantee of future performance

DISTRIBUTION OF PORTFOLIO AND INVESTMENT CHANGES

Distribution of Portfolio

Asset Allocation 2006 (2005)

Quoted Equities by Sector 2006 (2005)

Investment Changes (£'000)

	Valuation at 31 Dec 2005	Net acquisitions/ (disposals)	Appreciation/ (depreciation)	Valuation at 31 Dec 2006
Quoted equities				
United Kingdom	241,205	(11,890)	31,939	261,254
North America	60,861	2,451	(8,222)	55,090
Continental Europe	19,025	5,504	5,025	29,554
Japan	3,361	4,471	243	8,075
Asia Pacific/Emerging Markets	39,944	(9,506)	6,377	36,815
Total quoted equities	364,396	(8,970)	35,362	390,788
Unquoted	5,021	(1,420)	(536)	3,065
Quoted fixed interest	17,331	6,383	459	24,173
Properties	38,700	318	4,682	43,700
Total investments	425,448	(3,689)	39,967	461,726
Net liquid assets	573	330	44	947
Total assets	426,021	(3,359)	40,011	462,673

The figures above for total assets are made up of total net assets before deduction of the debenture

Thirty Largest Equity Holdings

Name	Region	Sector	2006		2005
			Value £'000	% of total assets	Value £'000
Royal Bank of Scotland	United Kingdom	Banks	19,335	4.2	14,598
Barclays	United Kingdom	Banks	15,854	3.4	13,004
GlaxoSmithKline	United Kingdom	Pharmaceuticals and biotechnology	15,411	3.3	14,989
HSBC	United Kingdom	Banks	14,250	3.1	9,472
Petrobras	Brazil	Oil and gas producers	12,297	2.7	10,612
HBOS	United Kingdom	Banks	12,175	2.6	10,637
BP	United Kingdom	Oil and gas producers	10,619	2.3	9,117
Royal Dutch Shell	United Kingdom	Oil and gas producers	9,070	2.0	7,642
Rio Tinto	United Kingdom	Mining	8,933	1.9	6,093
Diageo	United Kingdom	Beverages	8,274	1.8	6,937
Aviva	United Kingdom	Life insurance	8,010	1.7	8,030
Lonmin	United Kingdom	Mining	7,505	1.6	4,020
Vodafone	United Kingdom	Mobile telecommunications	7,157	1.5	14,460
Atlas Copco	Sweden	Industrial engineering	6,947	1.5	6,117
Wolseley	United Kingdom	Support services	6,818	1.5	-
Altria	North America	Tobacco	6,528	1.4	6,489
Prudential	United Kingdom	Life insurance	6,198	1.3	4,878
Man Group	United Kingdom	General financial	6,195	1.3	5,839
Carnival	United Kingdom	Travel and leisure	5,243	1.1	-
Rutley European Property	United Kingdom	Real estate	5,125	1.1	-
Samsung Electronics	South Korea	Electronic and electrical equipment	5,074	1.1	5,730
Moody's	North America	General financial	4,912	1.1	8,080
BHP Billiton 6% 2007	United Kingdom	Mining	4,782	1.0	-
Topps Tiles	United Kingdom	General retailers	4,585	1.0	-
Yell	United Kingdom	Media	4,526	1.0	-
Tesco	United Kingdom	Food and drug retailers	4,449	1.0	-
eBay	North America	General retailers	4,434	1.0	2,845
SAP	Germany	Software and computer services	4,422	1.0	4,280
Canon	Japan	Electronic and electrical equipment	4,252	0.9	3,361
Low & Bonar	United Kingdom	Construction and materials	4,247	0.9	-
			237,627	51.3	177,230

Property Portfolio

Location	Type	Tenant	2006		2005
			Value £'000	% of total assets	Value £'000
Ashford	Shop	W H Smith Plc	1,800	0.4	1,650
Dundee	Public House	J D Wetherspoon plc	1,450	0.3	1,250
Dunfermline	Shop	W H Smith Plc	2,950	0.6	2,750
Kenilworth	Nursing Home	Southern Cross Plc	5,250	1.1	4,150
Kingston upon Hull	Public House	Whitbread Plc	1,100	0.2	950
Milton Keynes	Hotel	CHE plc	8,500	1.8	7,400
Newcastle under Lyme	Shop	W H Smith Plc	1,650	0.4	1,550
New Romney	Holiday Village	Leisure Group GB plc	5,500	1.2	5,000
Nottingham	Public House/Restaurant	Morland Plc	5,000	1.1	4,750
Oban	Shop	W H Smith Plc	1,500	0.3	1,250
Portsmouth	Public House	J D Wetherspoon plc	2,950	0.6	2,650
Reading	Restaurant	Bright Reasons Restaurants Ltd	1,450	0.3	1,350
St Andrews	Shop	W H Smith Plc	1,100	0.2	950
Torquay	Public House	Ind Coope (Oxford & West) Ltd	1,350	0.3	1,250
Weybridge	Restaurant	City Centre Restaurants (UK) Ltd	850	0.2	800
Winchester	Public House	Fuller Smith & Turner Plc	1,300	0.3	1,000
			43,700	9.3	38,700

Classification of Investments

Classification	UK %	Global (ex UK) %	2006 Total %	2005 Total %
Quoted Equities				
Oil and gas producers	5.0	4.3	9.3	9.4
Oil and Gas	5.0	4.3	9.3	9.4
Mining	4.5	0.7	5.2	3.0
Basic Materials	4.5	0.7	5.2	3.0
Construction and materials	0.9	0.8	1.7	1.8
Electronic and electrical equipment	-	2.0	2.0	2.1
Industrial transportation	-	0.4	0.4	0.4
Industrial engineering	-	2.3	2.3	3.1
Support services	3.7	0.9	4.6	0.9
Industrials	4.6	6.4	11.0	8.3
Automobiles and parts	-	1.1	1.1	1.0
Beverages	1.8	-	1.8	1.6
Food producers	-	0.4	0.4	1.5
Household goods	-	0.5	0.5	0.5
Personal goods	-	1.5	1.5	1.2
Tobacco	0.8	1.4	2.2	4.4
Consumer Goods	2.6	4.9	7.5	10.2
Healthcare equipment and services	-	0.5	0.5	1.5
Pharmaceuticals and biotechnology	3.3	0.4	3.7	4.5
Health Care	3.3	0.9	4.2	6.0
Food and drug retailers	1.0	1.2	2.2	1.6
General retailers	1.6	2.6	4.2	3.3
Media	1.9	0.9	2.8	2.1
Travel and leisure	1.6	0.6	2.2	2.6
Consumer Services	6.1	5.3	11.4	9.6
Mobile telecommunications	1.5	-	1.5	4.1
Telecommunications	1.5	-	1.5	4.1
Electricity	-	-	-	0.6
Utilities	-	-	-	0.6
Banks	14.8	0.7	15.5	14.6
Nonlife insurance	2.9	0.6	3.5	2.9
Life insurance	3.8	-	3.8	3.7
Real estate	3.7	0.6	4.3	3.5
General financial	1.3	1.1	2.4	6.4
Equity investment instruments	1.3	-	1.3	0.5
Nonequity investment instruments	0.4	-	0.4	0.4
Financials	28.2	3.0	31.2	32.0
Software and computer services	0.6	2.7	3.3	2.3
Technology	0.6	2.7	3.3	2.3
Total Quoted Equities	56.4	28.2	84.6	
Total Equities – 2005	56.6	28.9		85.5
Unquoted	0.6	-	0.6	1.2
Quoted Fixed interest	-	5.3	5.3	4.1
Properties	9.3	-	9.3	9.1
Net Liquid Assets	0.2	-	0.2	0.1
Total Assets	66.5	33.5	100.0	
Total Assets – 2005	70.0	30.0		100.0
Debenture	(19.2)	-	(19.2)	(21.0)
Equity Shareholders' Funds	47.3	33.5	80.8	
Equity Shareholders' Funds – 2005	49.0	30.0		79.0
Number of equity investments	49	40	89	

Diageo

Ownership of some of the strongest brands in the drinks industry is driving profits growth at Diageo. Photograph reproduced with the permission of Diageo plc

Manager's Portfolio Review

The Investment Portfolio

SAINTS aims to achieve balanced growth in both income and capital in order to sustain a progressive dividend policy. The focus of the investment portfolio is on quoted equities and the starting position for the investment of shareholders' funds is to have 70% placed in UK equities and 30% in non-UK equities. The portfolio is actively managed which means that the total amount invested in quoted equities, the split between UK and overseas markets and the choice of individual stocks held will vary according to where we see the best opportunities. We will also look to exploit attractive investment opportunities in debt and property markets.

SAINTS, like all investment trusts, is able to gear up shareholder returns by borrowing money. Current borrowings consist of a single debenture issue, the book value of which at the end of 2006 was a little under one quarter the size of shareholders' funds. During 2006 this borrowed money supported a range of profitable investments in equity, bond and property markets.

Past performance is no guarantee of future performance

UK Equities

SAINTS' UK equity investments produced a total return of 16.9% in 2006, marginally ahead of the 16.8% return on the FTSE All Share Index.

The absolute level of this return is very satisfying and far higher than one can reasonably expect from equity markets in the long run. However, the very slender margin by which our stocks beat the market was frustrating.

A particular feature of the UK market during 2006 was the high level of takeover activity and related speculation. We got some benefit from this trend through holdings such as RHM, the food producer, which was bid for by a rival and Lonmin, the precious metals miner, whose share price received regular support from takeover speculation. However, we also missed out on a number of stocks which saw takeover related share price gains.

Small and mid-sized companies appeared to gain most benefit from the takeover speculation. At the start of last year we felt their valuations were stretched after a long period of outperformance against larger stocks. This view turned out to be wrong and mid-caps

again performed more strongly than their larger brethren. However, this now leaves them at a substantial valuation premium compared to the larger companies that dominate our portfolio and it is difficult to foresee earnings growth being sufficient to sustain this premium. We have identified some prospects that look appealing – stocks such as tile retailer Topps Tiles, flooring manufacturer Low and Bonar and the motor insurance company Highway Insurance – but we remain cautious about prospects for the mid-cap sector as a whole.

Our preference for large caps is most easily seen in our holdings of financial sector stocks, particularly banks. After underperforming significantly in 2005, it was pleasing to see the bank holdings perform well in 2006 with the share prices of Northern Rock and Barclays especially strong. However, we think the valuations of our UK bank holdings are still too low given our expectations for their earnings growth and they therefore remain a prominent feature of the portfolio. Our other financial stocks also did well, notably hedge fund manager Man Group which produced another splendid operational result. The positions in insurance stocks also proved profitable, particularly those of Amlin and Hiscox.

1 Topps Tiles

Topps Tiles is the leading specialist retailer of tiles in the UK and is also expanding in continental Europe
 Photograph reproduced with permission of Topps Tiles plc

2 Low and Bonar

A new holding in the portfolio this year was Low and Bonar, a manufacturer of and supplier of yarns, fabrics and flooring products to a broad range of customers
 Photograph reproduced with the permission of Low and Bonar plc

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The share prices of property stocks such as British Land and DTZ rose very sharply, driven up by rising commercial property values in the UK and market enthusiasm for the creation of real estate investment trusts. Most of those stocks which gave exposure to the UK property market have now been sold but we have been enthusiastic buyers of UK listed property companies exposed to the European and Japanese property markets

We had mixed success with our investments in the mining sector. Lonmin, mentioned earlier, was one of our best performing UK stocks but the position in Rio Tinto made a negative contribution. We remain favourably inclined toward mining companies, largely because of a bullish view on world economic growth, and have increased the exposure by buying an instrument that gives high yielding exposure to the BHP Billiton share price. Our underweight position in oil helped relative performance.

Our one utility holding, Scottish and Southern Energy, did very well, so much so that valuation arguments persuaded us to sell it before the end of the year. In aggregate though we were underweight in utilities and this proved a mistake.

In short, rather a mixed bag for the year. But, at the year end, the companies in which we were invested typically offered a premium yield to the wider market and the valuations on which they traded put them on a discount to the market multiple despite them having, in our estimation, strong growth prospects. We believe this is a firm foundation for outperforming the market in the years to come.

Global Equities

The return on the global equity portfolio was low, just 4.6%. It was also behind the 5.6% return on the FTSE World Ex-UK Index. The main reason for such low returns from overseas markets was the strength of sterling, particularly against the US dollar.

In 2006, overseas stock selection detracted 0.4% from overall performance. This is disappointing but the deliberately concentrated nature of the portfolio (it numbers just forty stocks) means that performance is likely to be volatile over short periods. The best illustration of this is that despite underperforming in two of the three years since we were appointed as manager, the aggregate performance of the overseas portfolio over the full three year period is well ahead of the benchmark.

On average through the year we had an amount equal to 35% of shareholders' funds invested in overseas stocks, five percentage points more than the benchmark weighting. This asset allocation decision made a small negative contribution to performance because the appreciation of the pound meant that good local market returns were much reduced once translated back into sterling.

The above benchmark weighting in overseas markets during 2006 was a reflection of the number of individual stock opportunities that we encountered rather than a particular view of regional growth or exchange rate movements. We believe strongly that as global trade increases, and the barriers between individual economies and markets break down, it will become ever more important to approach investment from a global perspective. We are happy to continue with the weighting for as long as we have confidence in the underlying stocks.

Prior to 2006, the global equity portfolio focused on companies with high organic growth prospects and which consequently tended to have a low dividend yield. This year we purchased a number of stocks

1 Travis Perkins

Travis Perkins, the UK distributor of building materials, saw a big recovery in its share price in 2006. Photograph reproduced with the permission of Travis Perkins plc

2 Pulte Homes

Housebuilders in the US faced difficult market conditions in 2006 but we believe well-run companies such as Pulte Homes will deliver good shareholder returns from here. Photograph reproduced with permission of Pulte Homes

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which, in addition to the potential for capital growth, also offer a more attractive level of immediate income. Initial results of this move are encouraging and we shall continue to develop this aspect of the portfolio.

The concentrated nature of the portfolio usually ensures that each individual holding has a noticeable impact on the overall performance and 2006 was no exception. The oil stocks Petrobras, Gazprom and Lukoil made material positive contributions. Infosys Technologies, an Indian software company purchased during the year, was a strong performer. Shares listed on European markets did well, with Swedish engineering firms Atlas Copco and Sandvik enjoying a very prosperous year both in terms of share price performance and the progress of their businesses, the share price of Porsche, the German car manufacturer, rose sharply despite its decision to invest significantly in the less impressive Volkswagen group. We benefited from a takeover of one of our stocks when Golden West, the US mortgage bank was acquired.

However, the negative performances outweighed the positive ones. US listed stocks were the worst offenders, largely because of the move in the dollar sterling exchange

rate. on-line auction stock eBay, photographic image company Getty Images and web-based retailer Amazon each detracted from relative performance, the slowdown in the US housing market took its toll on floorings manufacturer Mohawk Industries and housebuilder Pulte Homes and a selection of other US holdings all saw double digit declines in the sterling value of their share prices. Exchange rate factors also explain the negative returns from Meitec Corporation and Fukuoka Real Estate Investment Trust, two of our three Japanese stocks.

Fixed Interest

As a percentage of the overall portfolio, the allocation to bonds changed only slightly through the course of 2006, beginning the year at 4% of gross assets and finishing at 5%. However, the nature of these investments changed significantly.

At the start of the year, our bond holdings were the result of our policy of investing unused debenture proceeds in a portfolio of sterling denominated, investment grade bonds the return on which would broadly match the cost of the debenture. By the end of the year, this matching portfolio had been sold and the exposure was to three specific investment opportunities.

We first identified a short-dated bond issued by the Ford Motor Company which, when initially purchased, was priced at a level consistent with Ford's sub-investment grade credit rating. Our research suggested that the repayment of this bond, due in 2008, was guaranteed by a much more highly rated financial institution and consequently the bond deserved to trade at a much higher price. Second, we purchased index-linked bonds issued by the Brazilian government, the real yield on which was approximately 9% at the time of our first purchase. We saw this as anomalously high given the significant recent improvement in the macroeconomic fundamentals of the Brazilian economy. Third, we also invested in bonds (Bay Haven 'B' and 'C') where our return will effectively depend on the frequency and size of insurance industry losses arising from a number of weather and seismic related events across various geographies over the next three years. Here the opportunity, as we saw it, arose from the market's unfamiliarity with this new type of investment, causing it to be priced at a level we considered very attractive when viewed alongside established risk models.

1 Petrobras

Petrobras, the Brazilian integrated oil company, is growing production volumes strongly. Photograph reproduced with permission of Petroleo Brasileiro S.A.

2 Zhejiang Expressway

Zhejiang Expressway operates toll-roads in the Zhejiang region of China. Photograph reproduced with the permission of Zhejiang Expressway Company Ltd.

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Commercial Property

The direct investments in commercial property are managed by OLIM Ltd, a specialist in property investment. The portfolio consists of 16 individual properties and these are listed on page 13 of this report. No new properties were acquired during the year but a small incremental investment was made at the New Romney property.

The low level of bond yields, the willingness of lenders to provide financing for property purchases and enthusiastic buying by investors combined to produce another very strong year for the UK commercial property market. Once again, SAINTS' property portfolio benefited from this very supportive backdrop and produced a total return of 18.5%, a combination of a capital gain of approximately 12.5% and rental income equivalent to 6% of the portfolio's value.

Unquoted Investments

SAINTS has a small number of unquoted investments with a total value of £3.1m. £2.9m of this is an investment in a high coupon loan note issued by International Mezzanine

Investment NV and an ordinary shareholding in the same fund. IMI is a fund that was established in 1995 to invest in the mezzanine debt and equity of companies undergoing leveraged buy-outs or capital reconstructions. It is now gradually being liquidated as opportunities arise to sell the underlying investments. Two repayments of capital on the loan note were received in 2006.

Outlook

Although interest rates are now rising in many countries, it seems to us that monetary policy in most parts of the world is still more likely to stimulate than restrict growth. We therefore expect 2007 to be another year of strong growth in the global economy with corporate earnings rising again.

Ordinarily, this assessment would support a distinctly bullish investment stance for the portfolio. But this time we see several reasons for caution. First, consensus earnings forecasts for most companies and markets suggest higher corporate earnings are already anticipated. There is therefore less scope for a positive surprise. Second, the last three or four years

have been characterised by an unusually strong appetite for risk. Any negative surprise might see this decline. Finally, we are concerned that inflation could prove a more widespread and stubborn problem than is commonly thought. It is important to be clear that we do not envisage a return to the very high levels of inflation that prevailed twenty or thirty years ago, but we do think it possible that upward pressure on prices will become more widespread than in the last five years or so. If we are correct in this view, interest rates around the world will move higher than currently forecast.

We therefore start 2007 with a slightly lower level of gearing to equity markets than in either of the two previous years and are prepared to adopt a more cautious stance still should conditions justify.

Patrick Edwardson
16 February 2007

Classification	Name	Value £'000	%
United Kingdom Quoted Equities			
Oil and gas producers	BG Group	3,044	
	BP	10,619	
	Royal Dutch Shell	9,070	
		<u>22,733</u>	5.0
Mining	BHP Billiton 6% 2007*	4,782	
	Lonmin	7,505	
	Rio Tinto	8,933	
		<u>21,220</u>	4.5
Construction and materials	Low & Bonar	4,247	0.9
Support services	Capita	2,200	
	Dawson Holdings	2,294	
	Experian	2,319	
	Travis Perkins	3,418	
	Wolseley	6,818	
		<u>17,049</u>	3.7
Beverages	Diageo	8,274	1.8
Tobacco	British American Tobacco	3,719	0.8
Pharmaceuticals and biotechnology	GlaxoSmithKline	15,411	3.3
Food and drug retailers	Tesco	4,449	1.0
General retailers	Next	2,564	
	Topps Tiles	4,585	
		<u>7,149</u>	1.6
Media	BskyB	2,401	
	Euromoney Institutional Investor	1,822	
	Yell	4,526	
		<u>8,749</u>	1.9
Travel and leisure	Carnival	2,489	
	Ladbrokes	2,041	
	William Hill	3,357	
		<u>7,887</u>	1.6
Mobile telecommunications	Vodafone	7,157	1.5
Banks	Barclays	15,854	
	HBOS	12,175	
	HSBC	14,250	
	Northern Rock	3,108	
	Royal Bank of Scotland	19,335	
	Standard Chartered	3,890	
		<u>68,612</u>	14.8
Nonlife insurance	Amlin	3,539	
	Highway Insurance	4,095	
	Hiscox	3,150	
	Jardine Lloyd Thomson	2,095	
		<u>12,879</u>	2.9

*Structured note linked to share price of BHP Billiton

LIST OF INVESTMENTS AS AT 31 DECEMBER 2006

Classification	Name	Value £'000	%
United Kingdom Quoted Equities (continued)			
Life insurance	Aviva	8,010	
	Friends Provident	3,550	
	Prudential	6,198	
		<u>17,758</u>	3.8
Real estate	ING UK Real Estate Income Trust	1,508	
	Invista European Real Estate Trust	2,930	
	Japan Residential Investment Company	4,140	
	Rutley European Property	5,125	
	Wichford	3,663	
		<u>17,366</u>	3.7
General financial	Man Group	<u>6,195</u>	1.3
Equity investment instruments	Kenmore European Industrial Fund	3,375	
	Value & Income Trust	2,643	
		<u>6,018</u>	1.3
Nonequity investment instruments	Investors Capital Trust General Units	<u>1,737</u>	0.4
Software and computer services	Sage	<u>2,645</u>	0.6
Total United Kingdom Quoted Equities		<u>261,254</u>	<u>56.4</u>
Global (ex UK) Quoted Equities			
Oil and gas producers	Gazprom	4,239	
	Lukoil	3,235	
	Petrobras	12,297	
		<u>19,771</u>	4.3
Mining	CVRD	<u>3,346</u>	0.7
Construction and materials	Pulte Homes	<u>3,901</u>	0.8
Electronic and electrical equipment	Canon	4,252	
	Samsung Electronics	5,074	
		<u>9,326</u>	2.0
Industrial transportation	Zhejiang Expressway	<u>1,982</u>	0.4
Industrial engineering	Atlas Copco	6,947	
	Sandvik	3,835	
		<u>10,782</u>	2.3
Support services	Fastenal	1,518	
	Iron Mountain	1,457	
	Meitec	1,161	
		<u>4,136</u>	0.9
Automobiles and parts	Hero Honda Motors	1,719	
	Porsche	3,149	
		<u>4,868</u>	1.1
Food producers	William Wrigley	<u>1,746</u>	0.4

Classification	Name	Value £'000	%
Global (ex UK) Quoted Equities (continued)			
Household goods	Mohawk Industries	2,104	0.5
Personal goods	L'Oreal	1,809	
	Hermes International	3,036	
	Pool	1,832	
		<u>6,677</u>	1.5
Tobacco	Altria	6,528	1.4
Healthcare equipment and services	VCA Antech	2,398	0.5
Pharmaceuticals and biotechnology	Teva Pharmaceuticals	1,830	0.4
Food and drug retailers	Walgreen	3,971	
	Whole Foods Market	1,582	
		<u>5,553</u>	1.2
General retailers	Amazon.com	3,266	
	Duty Free Shops	2,574	
	eBay	4,434	
	Wal Mart Stores	1,612	
		<u>11,886</u>	2.6
Media	Getty Images	1,836	
	Omnicom	2,189	
		<u>4,025</u>	0.9
Travel and leisure	Carnival Corp	2,754	0.6
Banks	D Carnegie	2,028	
	M & T Bank	1,380	
		<u>3,408</u>	0.7
Nonlife insurance	Progressive	2,729	0.6
Real estate	Fukuoka REIT	2,662	0.6
General financial	Moody's	4,912	1.1
Software and computer services	Exact	1,754	
	Infosys Technologies	3,093	
	Microsoft	2,941	
	SAP	4,422	
		<u>12,210</u>	2.7
Total Global (ex UK) Quoted Equities		<u>129,534</u>	<u>28.2</u>
Total Quoted Equities		<u>390,788</u>	<u>84.6</u>
Total Quoted Fixed Interest		24,173	5.3
Total Unquoted Investments		3,065	0.6
Total Property		43,700	9.3
Net Liquid Assets		947	0.2
Total Assets		<u>462,673</u>	<u>100.0</u>

Capital

At 31 December	Total assets £'000	Debenture stocks and loans £'000	Equity shareholders' funds £'000	Net asset value per share (book) * p	Net asset value per share (fair) * p	Share price p	Discount † (book) %	Discount † (fair) %
1996	564,652	100,343	464,309	207.6	-	170.8	17.7	-
1997	643,527	124,764	518,763	232.0	-	191.5	17.5	-
1998	702,578	125,424	577,154	258.1	-	210.0	18.6	-
1999	716,058	176,044	540,014	319.9	-	267.8	16.3	-
2000	543,251	78,471	464,780	296.8	-	254.5	14.3	-
2001	422,850	90,274	332,576	225.7	-	192.3	14.8	-
2002	312,634	89,767	222,867	161.9	-	132.8	18.0	-
2003	340,546	89,260	251,286	185.8	181.9	149.3	19.6	17.9
2004 ▲	361,691	89,760	271,931	205.3	197.1	167.5	18.4	15.0
2005	426,021	89,430	336,591	254.1	241.2	218.8	13.9	9.3
2006	462,673	89,079	373,594	282.0	272.6	241.3	14.4	11.5

* Net asset value per ordinary share has been calculated after deducting the debenture at either book value or fair value

† Discount is the difference between SAINTS' quoted share price and its underlying net asset value at either book value or fair value

Revenue

Year to 31 December	Gross revenue £'000	Available for ordinary shareholders £'000	Earnings per ordinary share ‡ p	Dividend pre ordinary share (net) p	Expense ratio § %	Gearing Ratios	
						Actual gearing ¶	Potential gearing ††
1996	20,638	11,170	5.00	5.18	0.59	112	122
1997	23,545	12,846	5.74	5.37	0.55	108	124
1998	25,070	14,290	6.39	6.45 **	0.55	108	122
1999	17,911	11,693	5.84	5.51	0.70	115	133
2000	13,346	7,794	4.87	5.53	0.41	103	117
2001	12,551	8,337	5.46	5.57	0.20	100	127
2002	12,075	7,932	5.64	5.61	0.23	99	140
2003	11,412	7,913	5.82	5.65	0.13	103	136
2004 ▲	13,707	8,379	6.30	6.00	0.96	106	133
2005	13,986	9,000	6.80	6.53	0.80	110	127
2006	15,326	10,002	7.55	7.40	0.78	105	124

‡ The calculation of earnings per ordinary share is based on the revenue column of the return on ordinary activities after taxation in the Income Statement and the weighted average number of ordinary shares in issue

§ Ratio of total operating costs to average shareholders' funds

¶ Total assets (including all debt used for investment purposes) less cash, fixed interest securities (ex convertibles) and property divided by shareholders' funds

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

** Includes a special 125th anniversary dividend of 1.00p

Cumulative Performance (taking 1996 as 100)

At 31 December	Net asset value per share	Net asset value total return	Share price	Share price total return	Benchmark	Benchmark total return	Earnings per ordinary share	Dividend per ordinary share (net)	Retail price index
1996	100	100	100	100	100	100	100	100	100
1997	112	115	112	116	119	122	115	104	104
1998	124	132	123	132	136	143	128	125	106
1999	154	168	157	174	169	181	117	106	108
2000	143	159	149	169	157	171	97	107	112
2001	109	123	113	130	133	148	109	108	112
2002	78	91	78	94	98	112	113	108	116
2003	89	108	87	110	115	135	116	109	119
2004 ▲	99	124	98	128	124	150	126	116	123
2005	122	157	128	173	148	185	136	126	126
2006	136	178	141	197	163	210	151	143	130

Compound annual returns

5 year	4.6%	7.7%	4.6%	8.7%	4.2%	7.2%	6.7%	5.8%	3.0%
10 year	3.1%	5.9%	3.5%	7.0%	5.0%	7.7%	4.2%	3.6%	2.6%

Baillie Gifford & Co was appointed as Investment Managers and Secretaries of the Company with effect from 1 January 2004. On the same date the Company also changed its benchmark from 65% FTSE All-Share Index and 35% FTSE World Ex UK Index to 70% FTSE All-Share Index and 30% FTSE World Ex UK Index. For the purposes of the above tables the returns on both benchmarks for their respective periods have been linked to form a single benchmark.

▲ The figures prior to 2004 have not been restated for the changes in accounting policies implemented in 2005.

Past performance is no guarantee of future performance.

Directors' Report

The Directors have pleasure in submitting their Annual Report together with the results of the Company for the year to 31 December 2006

Business Review

Business and Status

The Company is an investment company within the meaning of section 266 of the Companies Act 1985

The Company carries on business as an investment trust. It was approved by the Inland Revenue as an investment trust under section 842 of the Income and Corporation Taxes Act 1988 for the year ended 31 December 2005, subject to any matters that may arise from any subsequent enquiry by the Inland Revenue into the Company's tax return. In the opinion of the Directors the Company has subsequently conducted its affairs so as to enable it to continue to seek approval under section 842 of the Income and Corporation Taxes Act 1988 each year.

Objective and Strategy

The Company's objective is to achieve balanced growth in both income and capital in order to sustain a progressive dividend policy. The Company aims to provide an income which will grow at a rate

above inflation. The focus of the investment portfolio is on quoted UK and overseas equities, other investments include bonds and direct holdings in UK property.

The equity and bond investments are managed by Baillie Gifford & Co. The equity portfolio currently consists of a diversified list of around 50 UK quoted companies and 40 overseas quoted companies.

The property portfolio is managed by OLIM Limited. The portfolio currently consists of 16 commercial properties, most of which are retail high street properties, situated outside of London but spread around the United Kingdom.

Gearing

Borrowings are invested in equities, property and bonds when it is considered that the investment outlook merits the Company taking a geared position in these markets. Gearing levels are discussed by the Board and Managers at every Board meeting.

Discount

The Board has powers to buy back its own shares and to hold such shares in treasury for subsequent re-issue at a premium. Buy-back powers have been used in the

past in circumstances when large lines of stock cannot be absorbed by the market. The discount, in absolute terms and relative to other similar investment trust companies, and the composition of the share register is discussed at every Board meeting. While there is no discount target the Board is aware that discount volatility is unwelcome to many shareholders and that share price performance is the measure used by most investors. The Board oversees the Managers' marketing programme that is designed to stimulate demand for the Company's shares, provide effective communication to existing and potential shareholders and maintain the profile of the Company.

Performance

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

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 debentures at fair value) compared to the benchmark,

- the movement in the share price,
- the discount (after deducting debentures at fair value),
- the total expense ratio,
- earnings per share, and
- dividend per share

A historical record of these measures are shown on pages 3, 5 and 22

In addition to the above, the Board considers peer group comparative performance

A review of the year and the investment outlook is contained in the Chairman's Statement, the Manager's Overview and the Manager's Portfolio Review

Principal Risks and Uncertainties

The principal risks facing the Company relate to the Company's investment activities and include market risk, interest rate risk, credit risk, liquidity risk, foreign currency risk and loss of investment trust status. An explanation of these risks and how they are managed are contained in note 19 to the accounts on pages 46 to 48

Financials

The financial highlights for the year under review are as follows: the net asset value per share increased by 13.0% during the year, compared to an increase in the benchmark of 10.2%, dividends increased by 13.3% to 7.40p per share and the discount widened from 9.3% to 11.5%

Dividends

The Board recommends a final dividend of 2.0p per ordinary share which, together with the interim dividends already paid, makes a total of 7.40p for the year

If approved, the recommended final dividend on the ordinary shares will be paid on 10 April 2007 to shareholders on the register at the close of business on 16 March 2007

Corporate Governance

The Board is committed to achieving and demonstrating high standards of Corporate Governance. This statement outlines how the principles of the Combined Code on Corporate Governance, published in June 2006 (the "Combined Code") were applied throughout the financial year

Compliance

The Company has complied throughout the year under review with the provisions set out in section 1 of the Code, except that no limit has been imposed on the overall length of service of Directors

The Directors recognise the importance of succession planning for company boards and the Board 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. Consequently, no limit has been imposed on the overall length of service. All Directors are, however, required to retire and, if appropriate seek re-election at least every three years. Directors who have more than nine years' service submit themselves for re-election annually.

The Board is also adhering to the principles of the AIC Code in all material respects

The Board

The Board has overall responsibility for the Company's affairs and it has set out a

number of matters that are subject to Board approval including strategy, investment policy, currency hedging, gearing, 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.

The Board currently comprises six Directors all of whom are non-executive. The executive responsibility for investment management has been delegated to the Company's Managers and Secretaries, Baillie Gifford & Co, and, in the context of a Board comprised entirely of non-executive Directors, there is no chief executive officer. The senior independent director is David Price.

The Directors believe that the Board has a balance of skills and experience which 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 page 9.

There is an agreed procedure for Directors to seek independent professional advice if necessary at the Company's expense. The Company also maintains Directors' and Officers' Liability insurance.

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 which could interfere with the exercise of their independent judgement.

Directors' Attendance at Meetings

	Board	Audit Committee	Nomination Committee
Number of meetings	7	2	1
Sir Brian Ivory	7	2	1
Eric Hagman	7	2	1
Lord Kerr of Kinlochard	7	2	1
Peter Moon	6	1	1
Dr Janet Morgan	7	1	1
David Price	7	2	1

Dr Janet Morgan and Mr David Price have served on the Board for more than nine years and offer themselves for re-election annually. The Board subscribes to the view expressed in the AIC Code that long serving Directors should not be prevented from being considered independent. Following a formal performance evaluation, the Board has concluded that, notwithstanding their length of service Dr Janet Morgan and Mr David Price remain independent. Their actions and decisions have confirmed their independence and the Directors believe their length of service has been a benefit to the Board.

Dr Janet Morgan intends to retire from the Board at the conclusion of the Annual General Meeting in 2008.

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 above shows the attendance record for the Board and Committee meetings held during the year. All of the Directors attended the Annual General Meeting.

Nomination Committee

The Nomination Committee consists of the whole Board 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 terms of reference are available on request from the Company and on the Managers' website www.bailliegifford.com

Performance Evaluation

The Nomination Committee met to assess the performance of the Chairman, each Director, the Board as a whole and its committees, after inviting each Director and the Chairman to consider and respond to a set of questions. The appraisal of the Chairman was led by Mr David Price. The appraisals and evaluations considered amongst other criteria the balance of skills of the Board, the contribution of individual Directors and the overall effectiveness of the Board and its Committees. 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 were no significant changes to the Chairman's other commitments during the year.

Terms of Appointment and Re-elections

Letters which specify the terms of appointment, are issued to new Directors. The letters of appointment 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. Directors are required to submit themselves for re-election at least once every three years and Directors who have served for more than nine years offer themselves for re-election annually. The names of Directors retiring and offering themselves for re-election together with the reasons why the Board supports the re-elections are set out on page 27.

Induction and Training

New Directors are provided with an induction programme which is tailored to the particular circumstances of the appointee. Directors receive other relevant training as necessary.

Remuneration

As all the Directors are non-executive, the provisions of the Combined Code in respect of Directors' remuneration are not relevant to the Company except to the extent that they relate specifically to non-executive directors. Consequently 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 29 and 30.

Internal Controls and Risk Management

The Directors acknowledge their responsibility for the Company's system of internal controls and for reviewing its effectiveness. The system of internal controls is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. The Directors confirm that they have reviewed the effectiveness of the system and they have procedures in place to ensure regular future reviews.

Substantial Holdings

Name	No of ordinary 25p shares held	% of issue
Legal & General Group Plc	4,704,412	3.6
DC Thomson & Co Ltd	4,150,000	3.1
Barclays Plc	4,021,509	3.0

The above information has been intimated to the Company as at 15 February 2007

The Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company in accordance with the guidance "Internal Control Revised Guidance for Directors on the Combined Code"

The practical measures to ensure compliance with regulation and company law, and to provide effective and efficient operations and investment management, have been delegated to the Managers and Secretaries, Baillie Gifford & Co, under the terms of the Management Agreement. The Board acknowledges its responsibilities to supervise and control the discharge by the Managers and Secretaries of their obligations.

Baillie Gifford & Co have been delegated responsibility for the design, implementation and maintenance of control policies and procedures to safeguard the assets of the Company and to manage its affairs properly. This responsibility also extends to maintaining effective operational and compliance controls and risk management.

The Baillie Gifford & Co Heads of Business Risk & Internal Audit and Regulatory Risk provide the Board with regular reports on Baillie Gifford & Co's 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 (FRAG21). This report is independently reviewed by Baillie Gifford & Co's auditors and a copy is submitted to the Board.

The Company's investments are segregated from those of Baillie Gifford & Co and its

other clients through the appointment of The Bank of New York as independent custodian of the Company's investments.

A detailed risk map is prepared which identifies the significant risks faced by the Company and the key controls to manage these risks are confirmed as in place and operating effectively.

These procedures ensure that consideration is given regularly to the nature and extent of the risks facing the Company and that they are being actively monitored. Where changes in risk have been identified during the year they also provide a mechanism to assess whether further action is required to manage the risks identified. The Board confirms that these procedures have been in place throughout the Company's financial year and continue to be in place up to the date of approval of this Report.

Internal Audit

The Audit Committee carries out an annual review of the need for an internal audit function. The Committee continues to believe that the compliance and internal control 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.

Accountability and Audit

The respective responsibilities of the Directors and the Auditors in connection with the Financial Statements are set out on pages 31 to 33.

The accounts have been prepared on the going concern basis as it is the Directors'

opinion that the Company will continue in operational existence for the foreseeable future.

Audit Committee

An Audit Committee has been established in compliance with the Combined Code consisting of all Directors. Its authority and duties are clearly defined within its written terms of reference which are available on request from the Company and on the Managers' website. Lord Kerr of Kinlochard is chairman of the Audit Committee. The Committee's responsibilities, which were discharged during the year, include:

- monitoring and reviewing the integrity of the interim and annual financial statements and the internal financial controls,
- making recommendations to the Board in relation to the appointment of the external auditors and approving the remuneration and terms of their engagement,
- developing and implementing policy on the engagement of the external auditors to supply non audit services,
- reviewing and monitoring the independence, objectivity and effectiveness of the external auditors,
- reviewing 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 insofar as they may affect the Company,
- reviewing the terms of the Investment Management Agreement, and
- considering annually whether there is a need for the Company to have its own internal audit function.

Directors' Interests

Name	Nature of interest	Ordinary 25p shares held at	
		31 December 2006	31 December 2005
Sir Brian Ivory	Beneficial	23,000	23,000
Eric Hagman	Beneficial	2,000	2,000
Lord Kerr of Kinlochard	Beneficial	30,000	30,000
Peter Moon	Beneficial	10,000	10,000
Dr Janet Morgan	Beneficial	9,423	9,423
David W J Price	Beneficial	10,000	10,000

The Directors at the year end, and their interests in the Company, were as shown above. There have been no changes intimated in the Directors' interests up to 15 February 2007.

The Audit Committee considers the experience and tenure of the audit director and staff and the nature and level of services provided. The Committee receives confirmation from the auditors that they have complied with the relevant UK professional and regulatory requirements on independence. Non audit fees for the year to 31 December 2006 were £1,000 and related to the certification of results for the debenture trustee. The Committee does not believe that this has impaired the auditors' independence.

Relations with Shareholders

The Board places great importance on communication with shareholders. The Company's Managers meet regularly with shareholders and report shareholders' views to the Board. The Chairman is available to meet with shareholders as appropriate. Shareholders wishing to communicate with any members of the Board may do so by writing to them at the Company's registered office.

The Company's Annual General Meeting provides a forum for communication with all shareholders. The level of proxies lodged for each resolution is announced at the meeting and is published on the Managers' website subsequent to the meeting. The notice period for the Annual General Meeting is at least twenty working days. Shareholders and potential investors may obtain up-to-date information on the Company from the Managers' website, www.bailliegifford.com.

Voting Policy and Socially Responsible Investment

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

economic interests. The Company believes that it is in the shareholders' interests to consider environmental, social and governance factors when selecting and retaining investments and have asked the Managers to take these issues into account as long as the investment objectives are not compromised. The Managers do not exclude companies from their investment universe purely on the grounds of environmental, social or governance issues but adopt a positive engagement approach whereby matters are discussed with management with the aim of improving the relevant policies and management systems. The Managers' policy has been reviewed and endorsed by the Board. The Managers are signatories to the Carbon Disclosure Project and take an active interest in companies' policies and management systems to mitigate risks associated with greenhouse gas emissions and global warming.

Investment Managers

An Investment Management Agreement between the Company and Baillie Gifford & Co sets out the matters over which the Managers have authority in accordance with the policies and directions of, and subject to restrictions imposed by, the Board. The Management Agreement is terminable on not less than six months' notice. Details of the fee arrangements with Baillie Gifford & Co are shown on page 40.

The Board considers the Company's investment management and secretarial arrangements for the Company on an ongoing basis and a formal review is conducted annually. The Board considers, amongst others, the following topics in its review: the quality of policy guidance, success of investment strategy and

investment performance, the administrative services provided by the Secretaries, quality and coverage of Board papers, the marketing efforts undertaken by the Managers, comparative costs, and communication with shareholders. Following the most recent review it is the opinion of the Directors that the continuing appointment of Baillie Gifford & Co as Managers, on the terms agreed, is in the interests of shareholders as a whole.

Under a formal management agreement, OLIM Limited is appointed manager of the Company's property portfolio. Details of its fees are shown on page 40. The agreement can be terminated on three months' notice. On termination, OLIM is entitled to a pro rata proportion of its fees to the date of termination. It is the Board's view that the continuation of OLIM's appointment on the terms agreed is in the interest of shareholders as a whole as OLIM has produced consistently good returns.

Directors

Information about the Directors, including their relevant experience, can be found on page 9.

Sir Brian Ivory, Eric Hagman, David Price and Dr Janet Morgan will offer themselves for re-election at the Annual General Meeting. Sir Brian Ivory and Eric Hagman are retiring by rotation and David Price and Dr Janet Morgan, having served for more than nine years, are subject to annual re-election. Following formal performance evaluation, the performance of Sir Brian Ivory, Eric Hagman, David Price and Dr Janet Morgan continues to be effective and each remains committed to the Company. The Board recommends their re-election to shareholders.

Purchase of Shares

The Company's buy-back authority was last renewed at the AGM on 30 March 2006 in respect of 19,859,642 shares of 25p each (equivalent to 14.99% of its then issued share capital). No shares were bought back during the year under review.

The principal reasons for share buy-backs are

- (i) to enhance the net asset value for continuing shareholders by purchasing shares at a discount to the prevailing net asset value, and
- (ii) to address any imbalance between the supply of and demand for the SAINTS shares that results in a discount of the quoted market price to the published net asset value per share.

The Directors are seeking shareholders' approval at the Annual General Meeting to renew the authority to make market purchases of up to 14.99% of the Company's ordinary shares in issue at the date of passing of the resolution, such authority to expire at the Annual General Meeting of the Company to be held in 2008, or on 4 October 2008, whichever is the earlier. Any such shares purchased shall either be cancelled or held in treasury. In accordance with the Listing Rules of the UK Listing Authority, the maximum price (excluding expenses) that may be paid on the exercise of the authority must not exceed the higher of

- (i) 105 per cent of the average of the middle market quotations for the Shares over the five business days immediately preceding the date of purchase, and
- (ii) the higher of the last independent bid and the highest current independent bid on the London Stock Exchange.

The minimum price that may be paid will be 25p per share. Purchases of shares will be made within guidelines established, from time to time, by the Board. The Company does not have any warrants or options in issue. Your attention is drawn to resolution 10 in the Notice of Annual General Meeting.

Authority to Allot Shares and Disapply Pre-emption Rights

The current authority for Directors to allot authorised but unissued ordinary shares and to sell shares out of treasury without first offering them to existing shareholders in accordance with the statutory pre-emption procedure expires at this year's AGM. The Directors believe it to be in shareholders' interests to continue to have such an authority for the forthcoming year and accordingly will seek to renew the authority to disapply pre-emption rights at this year's AGM, such authority to expire at the Annual General Meeting of the Company to be held in 2008, or on 4 October 2008, whichever is the earlier.

The Directors consider that the authority to issue/sell shares is advantageous should the shares trade at a premium to the net asset value and natural liquidity is unable to meet demand. The Directors do not intend to use these powers to issue/sell shares at a discount to net asset value.

This authority will cover the allotment, sale or transfer of shares with an aggregate nominal amount of up to £3,312,148.50, being 10% of the total issued shares as at the date of this Directors' Report. Your attention is drawn to resolution 11 in the Notice of Annual General Meeting.

Creditor Payment Policy

It is the Company's payment policy to obtain the best terms for all business. In general, the Company agrees with its suppliers the terms on which business will take place and it is its policy to abide by these terms. The Company had no trade creditors at either 31 December 2005 or 31 December 2006.

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 auditors are 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 auditors are aware of that information.

Independent Auditors

The auditors, KPMG Audit Plc, are willing to continue in office and in accordance with section 385 and section 390A of the Companies Act 1985 resolutions concerning their re-appointment and remuneration will be submitted to the Annual General Meeting.

Recommendation

The Board unanimously recommends you to vote in favour of the resolutions to be proposed at the Annual General Meeting.

By order of the Board

BAILLIE GIFFORD & CO
Managers and Secretaries
16 February 2007

Directors' Emoluments for the Year (audited)

	Fees 2006 £'000	Fees 2005 £'000
Directors who served during the year		
Sir Brian Ivory (Chairman)	28	28
Eric Hagman (appointed 9 February 2005)	15	13
Lord Kerr of Kinlochard	15	15
Peter Moon (appointed 29 July 2005)	15	6
Dr Janet Morgan	15	15
David Price	15	15
	103	92
Past Directors		
William Berry (retired 24 March 2005)	-	4
	103	96

Directors' Remuneration Report

The Board has prepared this report, in accordance with the requirements of Schedule 7A to the Companies Act 1985. 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 auditors to audit certain of the disclosures provided. Where disclosures have been audited, they are indicated as such. The auditors' opinion is included in their report on pages 32 and 33.

Remuneration Committee

The Company has six Directors, all of whom are non-executive. There is no separate remuneration committee and the Board as a whole considers changes to Directors' fees from time to time. Baillie Gifford & Co, who have been appointed by the Board as Managers and Secretaries, provide advice and comparative information when the Board considers the level of Directors' fees.

Policy on Directors' fees

The Board's policy is that the remuneration of non-executive Directors should reflect the experience of the Board as a whole, be fair and comparable to that of other investment trusts that are of similar size (net assets £200 million to £400 million), capital structure (ordinary shares and debenture stock), and investment objective (global growth and income). It is intended that this policy will continue for the year ended 31 December 2007 and subsequent years.

The fees for the non-executive Directors are set within limits determined by the Company, from time to time, in general meeting. Currently, Directors' remuneration shall not exceed £20,000 per annum per Director with a maximum additional remuneration of £20,000 per annum for the Chairman. Non-executive Directors are not eligible for any other remuneration apart from the reimbursement of allowable expenses.

The Board carried out a review of the level of Directors' fees during the year. It concluded that, with effect from 1 January 2007, the Chairman's fee should remain unchanged at £28,000 per annum, the other Directors' fees should be increased from £15,000 to £16,000 per annum and the Chairman of the Audit Committee should receive an additional fee of £2,000 per annum.

Sums Paid to Third Parties (audited)

The Directors' fees payable to Peter Moon were paid to Universities Superannuation Scheme Limited. The payment was for making his services available as a Director of the Company.

Directors' Service Contracts

It is the Board's policy that none of the Directors has a service contract. All of the Directors have been provided with revised appointment letters. These provide that

Directors' Service Details

	Date of appointment	Due date for election/re-election
Sir Brian Ivory	13 September 2000	AGM held in 2007
Eric Hagman	9 February 2005	AGM held in 2007
Lord Kerr of Kinlochard	18 September 2002	AGM held in 2008
Peter Moon	29 July 2005	AGM held in 2008
Dr Janet Morgan	18 December 1991	AGM held in 2007
David Price	19 November 1997	AGM held in 2007

Directors shall retire and be subject to re-election at the first Annual General Meeting after their appointment. Thereafter Directors are obliged to retire by rotation, and, if they wish, offer themselves for re-election, no longer than every 3 years after that. Any Director who has served on the Board for more than 9 years will submit themselves for re-election annually. There is no notice period and no provision for compensation upon early termination of appointment.

Company Performance

The graph opposite 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 Benchmark Index. This index was chosen for comparison purposes, as it is the index against which the Company has measured its performance over the period covered by the graph.

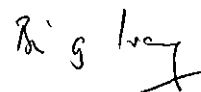
Performance Graph

(figures rebased to 100 at 31 December 2001)

Approval

The Directors' Remuneration Report on pages 29 and 30 was approved by the Board of Directors and signed on its behalf on 16 February 2007.

SIR BRIAN IVORY
Chairman



The line at 31 December 2003 signifies the appointment of Baillie Gifford & Co as Managers and Secretaries.

*On 1 January 2004 the Company changed its benchmark from 65% FTSE All Share Index and 35% FTSE World Ex UK Index to 70% FTSE All Share Index and 30% FTSE World Ex UK Index. For the purposes of the above graph the returns on both benchmarks for their respective periods have been linked to form a single benchmark.

Past performance is no guarantee of future performance.

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

The Directors are responsible for preparing the Annual 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 the Directors have elected to prepare the financial statements in accordance with UK Accounting Standards

The financial statements are required by law to 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 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 proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities

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

Independent Auditors' Report

to the members of The Scottish American Investment Company P.L.C.
(‘the Company’)

We have audited the financial statements of The Scottish American Investment Company PLC for the year ended 31 December 2006 which comprise the Income Statement, Balance Sheet, Cash Flow Statement, Statement of Total Recognised Gains and Losses and Reconciliation of Movements in Shareholders' Funds and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as

a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 31.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have

been properly prepared in accordance with the Companies Act 1985. The information given in the Directors' Report includes the specific information presented in the Year's Summary, the Five Year Summary, the Chairman's Statement, the Managers' Overview, the Managers' Portfolio Review, and the Ten Year Record that is cross referenced from the Business Review section of the Directors' Report. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority,

and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of Audit Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial

statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2006 and of its profit for the year then ended,
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
Edinburgh
16 February 2007

INCOME STATEMENT AND STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

Income Statement*

	Notes	For the year ended 31 December 2006			For the year ended 31 December 2005		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gains on investments – securities	9	–	35,285	35,285	–	63,771	63,771
Currency gains/(losses)	14	–	44	44	–	(691)	(691)
Income	2	15,326	–	15,326	13,986	–	13,986
Management fees	3	(991)	(991)	(1,982)	(812)	(812)	(1,624)
Other administrative expenses	4	(800)	–	(800)	(796)	–	(796)
Net return before finance costs and taxation		13,535	34,338	47,873	12,378	62,268	74,646
Finance costs of borrowings	5	(3,027)	(3,025)	(6,052)	(3,035)	(3,035)	(6,070)
Return on ordinary activities before taxation		10,508	31,313	41,821	9,343	59,233	68,576
Tax on ordinary activities	6	(506)	412	(94)	(343)	205	(138)
Return on ordinary activities after taxation		10,002	31,725	41,727	9,000	59,438	68,438
Return per ordinary share		7.55p	23.95p	31.50p	6.80p	44.86p	51.66p

Statement of Total Recognised Gains and Losses

	Notes	For the year ended 31 December 2006			For the year ended 31 December 2005		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Return on ordinary activities after taxation		10,002	31,725	41,727	9,000	59,438	68,438
Gains on investments – property	9	–	4,682	4,682	–	4,728	4,728
Total recognised gains for the year		10,002	36,407	46,409	9,000	64,166	73,166
Total recognised gains per ordinary share		7.55p	27.48p	35.03p	6.80p	48.43p	55.23p

*The total column of the Income statement is the profit and loss account of the Company

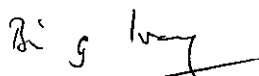
All revenue and capital items in these statements derive from continuing operations

The accompanying notes on pages 38 to 48 are an integral part of these statements

	Notes	At 31 December 2006		At 31 December 2005	
		£'000	£'000	£'000	£'000
Fixed assets					
Investments – securities	9	418,026		386,748	
Investments – property	9	43,700		38,700	
			461,726		425,448
Current assets					
Debtors	10	1,621		1,393	
Cash and deposits	19	1,414		1,095	
		3,035		2,488	
Creditors					
Amounts falling due within one year	11	(2,088)		(1,915)	
Net current assets			947		573
Total assets less current liabilities			462,673		426,021
Creditors					
Amounts falling due after more than one year	12		(89,079)		(89,430)
			373,594		336,591
Share capital and reserves					
Called-up share capital	13		33,121		33,121
Capital redemption reserve	14		22,781		22,781
Capital reserve – realised	14		200,533		172,099
Capital reserve – unrealised	14		103,050		95,077
Revenue reserve	14		14,109		13,513
Shareholders' funds			373,594		336,591
Net asset value per ordinary share (Debenture at fair value)	15		272 6p		241.2p
Net asset value per ordinary share (Debenture at book value)	15		282 0p		254 1p

The Financial Statements were approved and authorised for issue by the Board on 16 February 2007

SIR BRIAN IVORY
Chairman



The accompanying notes on pages 38 to 48 are an integral part of this statement

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

For the year ended 31 December 2006

	Notes	Share capital £'000	Capital redemption reserve £'000	Capital reserve – realised £'000	Capital reserve – unrealised £'000	Revenue reserve £'000	Total shareholders' funds £'000
Shareholders' funds at 1 January 2006		33,121	22,781	172,099	95,077	13,513	336,591
Total recognised gains for the year	14	–	–	28,434	7,973	10,002	46,409
Dividends appropriated in the year	7	–	–	–	–	(9,406)	(9,406)
Shareholders' funds at 31 December 2006		33,121	22,781	200,533	103,050	14,109	373,594

For the year ended 31 December 2005

	Notes	Share capital £'000	Capital redemption reserve £'000	Capital reserve – realised £'000	Capital reserve – unrealised £'000	Revenue reserve £'000	Total shareholders' funds £'000
Shareholders' funds at 1 January 2005		33,121	22,781	165,912	37,098	13,019	271,931
Total recognised gains for the year		–	–	6,187	57,979	9,000	73,166
Dividends appropriated in the year	7	–	–	–	–	(8,506)	(8,506)
Shareholders' funds at 31 December 2005		33,121	22,781	172,099	95,077	13,513	336,591

The accompanying notes on pages 38 to 48 are an integral part of this statement

	Notes	For the year ended 31 December 2006		For the year ended 31 December 2005	
		£'000	£'000	£'000	£'000
Net cash inflow from operating activities	16		12,629		11,665
Servicing of finance					
Interest paid		(6,402)		(6,400)	
Net cash outflow from servicing of finance			(6,402)		(6,400)
Taxation					
Overseas tax		(94)		(136)	
Income tax refunded		-		16	
Total tax paid			(94)		(120)
Financial investment					
Acquisitions of investments		(136,202)		(86,327)	
Disposals of investments		139,993		89,162	
Forward currency contracts		-		(472)	
Currency (losses)/gains		(199)		128	
Net cash inflow from financial investment			3,592		2,491
Equity dividends paid			(9,406)		(10,453)
Increase/(decrease) in cash	17		319		(2,817)
Reconciliation of net cash flow to movement in net debt	17				
Increase/(decrease) in cash			319		(2,817)
Other non-cash changes			351		330
Movement in net debt in the year			670		(2,487)
Net debt at 1 January			(88,335)		(85,848)
Net debt at 31 December			(87,665)		(88,335)

The accompanying notes on pages 38 to 48 are an integral part of this statement

Notes to Accounts

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1 Principal Accounting Policies

These financial statements have been prepared on the basis of the accounting policies set out in the Company's Annual Financial Statements at 31 December 2005

(a) Basis of Accounting

The accounts are prepared 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 continue to be granted

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 is subject to the UK's regulatory environment

The accounts have been prepared in accordance with applicable UK accounting standards and with the SORP issued in 2003, revised in 2005

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

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

(b) Investments

Purchases and sales of investments are accounted for on a trade date basis

Investments in securities are valued at fair value through profit or loss. The fair value of listed security investments is bid value, or in the case of FTSE 100 constituents, last traded prices issued by the London Stock Exchange. The fair value of unlisted security investments uses valuation techniques, determined by the Directors, based upon latest dealing prices, stockbroker valuations, net asset values and other information, as appropriate

Investments in property are valued at fair value and changes in fair value are recognised through the Statement of Total Recognised Gains and Losses. The valuation of property held at the year end has been estimated by professional valuers, King Sturge LLP in accordance with the RICS appraisal and valuation manual

(c) 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 yield basis
- (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

(d) Expenses

All expenses are accounted for on an accruals basis. Expenses are charged through the revenue account except as follows: (i) where they relate directly to the acquisition or disposal of an investment, in which case they are recognised as capital, and (ii) where they are connected with the maintenance or enhancement of the value of investments. In this respect investment and property management fees are allocated 50% to revenue and 50% to capital, in line with the Board's expectation of returns from the Company's investments over the long term in the form of revenue and capital respectively

(e) Long Term Borrowings and Finance Costs

Long term borrowings are carried in the balance sheet at the cumulative amount of net proceeds on issue plus accrued finance costs. The finance costs of such borrowings are allocated 50% to revenue and 50% to capital, in line with the Board's expectation of returns from the Company's investments over the long term in the form of revenue and capital respectively. Finance costs include the difference between the repayable value on maturity and the proceeds received on issue which are written off on an effective interest rate basis over the life of the borrowings. Gains and losses on the repurchase or early settlement of debt is wholly charged to capital

(f) 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

(g) 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

(h) Capital Reserves

- (i) Capital Reserves Realised
Gains and losses on realisation of investments and realised exchange differences of a capital nature are dealt with in this reserve. Purchases of the Company's own shares for cancellation are also funded from this reserve. 50% of management fees, including related VAT, and finance costs are allocated to the realised capital reserve in accordance with the Company's objective of combining capital and income growth
- (ii) Capital Reserves Unrealised
Unrealised appreciation represents the amount by which assets and liabilities valued at market value differs from their book value and is dealt with in this reserve

2 Income

	2006 £'000	2005 £'000
Income from investments		
Franked investment income	8,597	8,199
UK unfranked investment income	789	1,255
Overseas dividends	2,230	1,582
Overseas interest	954	290
	12,570	11,326
Other income		
Deposit interest	230	155
Rental income	2,511	2,491
Other income	15	14
	2,756	2,660
Total income	15,326	13,986
Total income comprises		
Dividends	10,827	9,781
Interest from investments	1,743	1,545
Other income	2,756	2,660
	15,326	13,986
Income from investments		
Listed UK	9,160	8,904
Listed overseas	3,244	2,132
Unlisted	166	290
	12,570	11,326

3 Management Fees

	Revenue £'000	2006 Capital £'000	Total £'000	Revenue £'000	2005 Capital £'000	Total £'000
Investment management fees						
Investment management fee	775	775	1,550	625	625	1,250
Irrecoverable VAT thereon	109	109	218	97	97	194
	884	884	1,768	722	722	1,444
Property management fees						
Property management fee	105	105	210	88	88	176
Irrecoverable VAT thereon	2	2	4	2	2	4
	107	107	214	90	90	180
	991	991	1,982	812	812	1,624

Baillie Gifford & Co are employed by the Company as investment managers and secretaries under a management agreement which can be terminated at six months' notice. Prior to 1 January 2006 Baillie Gifford were entitled to an annual fee of £1.25 million, together with an annual secretarial fee of £100,000. The annual management fees for the years ending 31 December 2006 and 2007 have been fixed at £1.55m and £1.75m respectively. Thereafter, Baillie Gifford & Co will receive an annual management fee of 0.45% of total assets less current liabilities, excluding the property portfolio, calculated on a quarterly basis. No secretarial fee is payable.

The property portfolio is managed by OLIM Limited, which receives an annual fee of 0.5% of the value of the property portfolio, subject to a minimum quarterly fee of £6,250. The agreement can be terminated on three months' notice.

4 Other Administrative Expenses – all charged to revenue

	2006 £'000	2005 £'000
General administrative expenses	681	586
Auditors' remuneration for audit services	15	14
Auditors' remuneration for non-audit services – reporting on debenture covenants	1	–
Directors' fees (see Directors' Remuneration Report on pages 29 and 30)	103	96
Secretarial fees	–	100
	800	796

5 Finance Costs of Borrowings

	Revenue £'000	2006 Capital £'000	Total £'000	Revenue £'000	2005 Capital £'000	Total £'000
Debenture	3,025	3,025	6,050	3,035	3,035	6,070
Bank overdraft	2	–	2	–	–	–
Debenture	3,027	3,025	6,052	3,035	3,035	6,070

6 Tax on Ordinary Activities

	Revenue £'000	2006 Capital £'000	Total £'000	Revenue £'000	2005 Capital £'000	Total £'000
UK corporation tax	573	(573)	–	343	(343)	–
Overseas taxation	161	–	161	138	–	138
Double taxation relief	(161)	161	–	(138)	138	–
Total current tax	573	(412)	161	343	(205)	138
Recovery of refundable tax written off in previous years	(67)	–	(67)	–	–	–
	506	(412)	94	343	(205)	138

	2006 £'000	2005 £'000
The tax charge for the year is lower than the standard rate of corporation tax in the UK of 30% (2005 – 30%) The differences are explained below		
Revenue return on ordinary activities before taxation	10,508	9,343
Revenue return on ordinary activities before taxation multiplied by the standard rate of corporation tax in the UK	3,152	2,803
Income not taxable (franked investment income)	(2,579)	(2,460)
Overseas tax	161	138
Double tax relief	(161)	(138)
Current revenue tax charge for the year	573	343

At 31 December 2006 the Company had a potential deferred tax asset of £2,813,000 (2005 – £2,019,000) in respect of taxable losses which are available to be carried forward and offset against future taxable profits. A deferred tax asset has not been provided on these losses as it is considered unlikely that the Company will make suitable taxable revenue profits in excess of deductible expenses in future periods. As an investment trust, the Company's capital gains are not taxable.

7 Ordinary Dividends

	2006	2005	2006 £'000	2005 £'000
Amounts recognised as distributions in the year				
Previous year's final (paid 31 March 2006)	1 70p	1 59p	2,252	2,106
First interim (paid 30 June 2006)	1 70p	1 59p	2,252	2,106
Second interim (paid 29 September 2006)	1 85p	1 62p	2,451	2,147
Third interim (paid 29 December 2006)	1 85p	1 62p	2,451	2,147
	7.10p	6.42p	9,406	8,506

We also set out below the total dividends paid and proposed in respect of the financial year, which is the basis on which the requirements of section 842 of the Income and Corporation Taxes Act 1988 are considered. The revenue available for distribution out of current year profits by way of dividend for the year is £10,002,000 (2005 – £9,000,000)

	2006	2005	2006 £'000	2005 £'000
Dividends paid and proposed in the year				
First interim (paid 30 June 2006)	1 70p	1 59p	2,252	2,106
Second interim (paid 29 September 2006)	1 85p	1 62p	2,451	2,147
Third interim (paid 29 December 2006)	1 85p	1 62p	2,451	2,147
Current year's proposed final dividend (payable 10 April 2007)	2 00p	1 70p	2,650	2,252
	7.40p	6.53p	9,804	8,652

8 Returns per Ordinary Share

	Revenue	2006 Capital	Total	Revenue	2005 Capital	Total
Return per ordinary share (Income Statement)	7 55p	23 95p	31.50p	6.80p	44.86p	51 66p
Total recognised gains per ordinary share	7 55p	27.48p	35 03p	6.80p	48.43p	55 23p

Return per ordinary share is based on the return on ordinary activities after taxation figures in the Income Statement and on 132,485,943 ordinary shares of 25p, being the weighted average number of ordinary shares in issue during each year. Total recognised gains per ordinary share is based on the total recognised gains for the year in the Statement of Total Recognised Gains and Losses and on 132,485,943 ordinary shares of 25p, being the weighted average number of ordinary shares in issue during each year.

There are no dilutive or potentially dilutive shares in issue.

9 Investments

	2006		2005	
	£'000	£'000	£'000	£'000
Securities				
Listed – UK	261,254		251,609	
– Overseas	153,707		130,118	
Unlisted investments	3,065		5,021	
		418,026		386,748
Property				
Freehold	38,450		34,600	
Long leasehold	5,250		4,100	
		43,700		38,700
		461,726		425,448

	Listed in UK £'000	Listed overseas £'000	Unlisted £'000	Property £'000	Total £'000
Cost of investments held at 1 January 2006	211,687	90,492	3,661	24,531	330,371
Unrealised appreciation at 1 January 2006	39,922	39,626	1,360	14,169	95,077
Value of investments held at 1 January 2006	251,609	130,118	5,021	38,700	425,448
Movements in year					
Purchases at cost	81,180	54,704	–	318	136,202
Sales – proceeds	(103,218)	(35,355)	(1,420)	–	(139,993)
– realised gains/(losses) on sales	20,008	12,440	(211)	–	32,237
Amortisation of fixed income book cost	(9)	111	–	–	102
Increase/(decrease) in unrealised appreciation	11,684	(8,311)	(325)	4,682	7,730
Value of investments held at 31 December 2006	261,254	153,707	3,065	43,700	461,726
Cost of investments held at 31 December 2006	209,648	122,392	2,030	24,849	358,919
Unrealised appreciation at 31 December 2006	51,606	31,315	1,035	18,851	102,807
Value of investments held at 31 December 2006	261,254	153,707	3,065	43,700	461,726

The purchases and sales proceeds figures above include transaction costs of £373,000 (2005 – £322,000) and £136,000 (2005 – £72,000) respectively

	2006			2005		
	Securities £'000	Property £'000	Total £'000	Securities £'000	Property £'000	Total £'000
Gains on investments						
Realised gains on sales	32,237	–	32,237	10,173	–	10,173
Increase in unrealised appreciation	3,048	4,682	7,730	53,598	4,728	58,326
	35,285	4,682	39,967	63,771	4,728	68,499

Of the realised gains on sales during the year of £32,237,000 (2005 – £10,173,000) a net gain of £21,386,000 (2005 – £5,637,000) was included in unrealised appreciation at the previous year end

The property was valued on an open market basis by King Sturge LLP as at 31 December 2006

Details of material investments in unquoted companies are as follows

	Total cost £'000	Carrying value at 31 12 06 £'000	Carrying value at 31 12 05 £'000
International Mezzanine 8% 2003	1,685	1,408	3,158
International Mezzanine	69	1,469	1,675

10 Debtors

	2006 £'000	2005 £'000
Amounts falling due within one year		
Income accrued	1,304	1,284
Rental income accrued	21	70
Taxation recoverable	7	7
Unrealised gain on forward currency contract	243	-
Other debtors and prepayments	46	32
	1,621	1,393

11 Creditors – Amounts falling due within one year

	2006 £'000	2005 £'000
Interest payable	1,438	1,438
Rental income prepaid	328	233
Other creditors and accruals	322	244
	2,088	1,915

12 Creditors – Amounts falling due after more than one year

The 8% Debenture Stock 2022 is redeemable at par value on 10 April 2022. It is secured by a floating charge over the property of the Company.

The carrying value of the 8% Debenture Stock has been calculated as follows

	2006 £'000	2005 £'000
Nominal value of 8% Debenture Stock	80,000	80,000
Premium less issue expenses	11,009	11,009
	91,009	91,009
Net amortisation in prior years	(1,579)	(1,249)
Net amortisation during the year	(351)	(330)
Carrying value of 8% Debenture Stock at end of year	89,079	89,430

13 Called up Share Capital

	2006		2005	
	Number	£'000	Number	£'000
Authorised ordinary shares of 25p each	280,000,000	70,000	280,000,000	70,000
Allotted, called-up and fully paid ordinary shares of 25p each	132,485,943	33,121	132,485,943	33,121

At 31 December 2006 the Company had authority to buy back 19,859,642 shares in accordance with the authority granted at the AGM in March 2006. No shares were bought back during the year under review.

14 Reserves

	Share capital £'000	Capital redemption reserve £'000	Capital reserve – realised £'000	Capital reserve – unrealised £'000	Revenue reserve £'000	Total shareholders' funds £'000
At 1 January 2006	33,121	22,781	172,099	95,077	13,513	336,591
Gains on investments – securities	–	–	32,237	3,048	–	35,285
Gains on investments – property	–	–	–	4,682	–	4,682
Management fees charged to capital	–	–	(991)	–	–	(991)
Finance costs charged to capital	–	–	(3,025)	–	–	(3,025)
Taxation credit to capital	–	–	412	–	–	412
Currency gains on forward currency contracts	–	–	–	243	–	243
Other currency losses	–	–	(199)	–	–	(199)
Revenue return on ordinary activities after taxation	–	–	–	–	10,002	10,002
Dividends appropriated in the year	–	–	–	–	(9,406)	(9,406)
At 31 December 2006	33,121	22,781	200,533	103,050	14,109	373,594

15 Net Asset Value per Ordinary Share

The net asset value per ordinary share and the net asset value attributable to the ordinary shareholders at the year end were as follows

	2006	2005	2006 £'000	2005 £'000
Ordinary shares of 25p	282.0p	254.1p	373,594	336,591

Net asset value per ordinary share is based on the net assets as shown above and 132,485,943 (2005 – 132,485,943) ordinary shares, being the number of ordinary shares in issue at the year end

Deducting borrowings at fair value would have the effect of reducing net asset value per ordinary share from 282.0p to 272.6p. Taking the market price of the ordinary shares at 31 December 2006 of 241.3p, this would have given a discount to net asset value of 11.5% as against 14.4% on a traditional basis. At 31 December 2005 the effect would have been to reduce net asset value per ordinary share from 254.1p to 241.2p. Taking the market price of the ordinary shares at 31 December 2005 of 218.8p, this would have given a discount to net asset value of 9.3% as against 13.9% on a traditional basis.

16 Reconciliation of Net Return before Finance Costs and Taxation to Net Cash Inflow from Operating Activities

	2006 £'000	2005 £'000
Net return before finance costs and taxation	47,873	74,646
Gains on investments – securities	(35,285)	(63,771)
Currency (gains)/losses	(44)	691
Decrease in accrued income	124	111
Increase in other debtors	(15)	–
Increase/(decrease) in creditors	78	(60)
Other non-cash changes	(102)	48
	12,629	11,665

17 Analysis of Change in Net Debt

	At 1 January 2006 £'000	Cash flows £'000	Other non-cash changes £'000	At 31 December 2006 £'000
Cash at bank and in hand	1,095	319	–	1,414
Debenture stock	(89,430)	–	351	(89,079)
	(88,335)	319	351	(87,665)

18 Contingencies, Guarantees and Financial Commitments

At 31 December 2006 the Company had no contingencies, guarantees or financial commitments (2005 £nil)

19 Derivatives and Other Financial Instruments

The Company operates as an investment trust in accordance with section 842 of the Income and Corporation Taxes Act 1988. As such, the Company is exempt from capital gains tax on the sale of its investments. The Managers monitor investment movements, the level of forecast income and expenditure and the amount of the proposed dividends to ensure that the provisions of section 842 are not breached. The international nature of the Company's investment activities provides opportunities for both market appreciation and currency gains, but leaves it exposed to the risk of market volatility and currency fluctuations.

In the case of an investment trust, capital profits from investing activities and currency gains are not recognised in the revenue account, but are credited directly to a separate capital reserve which the Company is prohibited from distributing in the form of dividends.

The Company has long term borrowings, detailed in note 12, the aim of which is to achieve improved performance in rising markets. Further information on the Company's gearing policy is given in the Chairman's Statement.

The Company's revenue account may be affected by fluctuations in short term interest rates, income from overseas investment can be affected by currency fluctuations.

The Company's financial instruments, which provide finance for investment activities, currently comprise its debenture stocks and its cash and liquid resources. In addition to the equity portfolio, the Company maintains investments in property and UK and overseas corporate bonds as part of its investment strategy.

The Company may, from time to time, enter into derivative transactions with the prior approval of the Board where such transactions are for purposes of hedging against possible adverse fluctuations in the values of the Company's borrowings, investments or cash. No options were purchased or written in the year under review. Trading in financial instruments is not within the normal activities of an investment trust, nor is it the Company's policy to trade in such instruments. Transactions in financial instruments generally arise as a result of strategic investment decisions. All borrowing facilities require Board authorisation.

The Board agrees policies for managing risk with the Company's Managers. The main risks arising from the Company's financial instruments are market risk, interest rate risk, credit risk, liquidity risk and foreign currency risk.

Market Risk

The Company is exposed to market risk due to fluctuations in the market prices of its investments. The Company's Managers actively monitor market and economic data and report to the Board, which considers investment policy on a regular basis.

Interest Rate Risk

The Company finances its operations by means of equity shareholders' funds, bank borrowings and the issue of debenture stocks. The value of the Company's bond portfolio is subject to interest rate risk. It is not the Company's policy to hedge this risk. The Company maintains a £10 million undrawn overdraft facility with the Royal Bank of Scotland. The Company has issued a fixed interest debenture stock.

Any changes to the interest rates relevant for particular instruments may result in the Company being unable to secure similar returns on the expiry of contracts.

Credit Risk

In addition to interest rate risk, the Company's investments in bonds are also subject to credit risk. Credit risk reflects the possibility that a borrower will not be able to meet its obligation to make payments of interest or principal when they fall due. The Managers analyse the credit risk of the Company's bond investments prior to purchase and continue to monitor developments in credit quality subsequently.

Liquidity Risk

The Company's policy with regard to liquidity is to ensure continuity of funding. Short term flexibility is achieved by overdraft facilities. The Company's assets comprise mainly readily realisable securities which can be sold freely to meet funding commitments if necessary.

Foreign Currency Risk

The international nature of the Company's investment activities gives rise to a currency risk which is inherent in the performance of its overseas investments. It is not the Company's policy to hedge this risk on a continuing basis, but the Company may from time to time match specific overseas investment with foreign currency borrowings. During the year the Company took out a forward currency contract to hedge against further dollar weakness. At 31 December there was an unrealised gain of £243,00 in respect of this contract. The revenue account is subject to currency fluctuation. The Company does not hedge this currency risk.

19 Derivatives and Other Financial Instruments (continued)

Exposure to currency risk through asset allocation is indicated below

	2006			2005		
	Investments £'000	Cash and deposits £'000	Short term debtors * £'000	Investments £'000	Cash and deposits £'000	Short term debtors £'000
Sterling	305,142	1,414	7,598	297,424	989	1,011
US dollar	94,819	-	(6,121)	91,954	-	344
Euro	16,744	-	7	10,112	-	7
Brazilian real	12,268	-	107	-	-	-
Swedish krona	12,810	-	-	8,913	-	-
Indian rupee	4,812	-	-	6,135	106	-
Japanese yen	8,075	-	30	3,361	-	31
Hong Kong dollar	1,982	-	-	1,819	-	-
Korean won	5,074	-	-	5,730	-	-
	461,726	1,414	1,621	425,448	1,095	1,393

*Short term debtors, includes a net unrealised gain on a forward currency contract to sell US dollars and buy sterling. The currency exposure on this contract at 31 December 2006 is as follows: sterling £7,011,000, US dollar (£6,768,000)

The following currency amounts are included in current and long term liabilities

	2006		2005	
	Debtore £'000	Other creditors and accruals £'000	Debtore £'000	Other creditors and accruals £'000
Sterling	89,079	2,088	89,430	1,915

Interest Rate Risk

The interest rate risk profile of financial assets and financial liabilities at 31 December was

Financial Assets

	2006			2005		
	Fair value £'000	Weighted average interest rate	Weighted average period until maturity	Fair value £'000	Weighted average interest rate	Weighted average period until maturity
Fixed rate						
UK perpetual bonds	-	-	-	3,086	5.5%	13 years *
Other UK fixed interest†	4,782	6.0%	1 year	14,245	5.0%	18 years
US bonds	6,543	10.5%	1 year	3,316	8.0%	1 year
Floating rate						
US bonds (interest rate linked to US dollar LIBOR)	6,770	14.2%	3 years	-	-	-
Brazilian bonds (interest rate linked to Brazilian CPI)	12,268	9.6%	38 years	-	-	-

*Based on expected maturity dates

†The 2006 figures relate to a structured note linked to the share price of BHP Billiton

The cash deposits generally comprise call or short term money market deposits of less than one month

Short term debtors have been excluded from the disclosure of financial assets

19 Derivatives and Other Financial Instruments (continued)

Financial Liabilities

	2006 £'000	2005 £'000
The interest rate risk profile of the Company's financial liabilities at 31 December was		
Fixed rate – Sterling	89,079	89,430
The maturity profile of the Company's financial liabilities at 31 December was		
In more than five years (16 years)	89,079	89,430

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 the long term borrowings which are stated in accordance with FRS 25. The fair value of the debenture stock is shown below

Fair value of financial assets

A full list of the Company's investments is given on pages 19 to 21. 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 equity investments by their aggregate fair value are contained in the Managers' Review Section.

Fair value of financial liabilities

The Company's borrowings are included in the accounts in accordance with FRS 25. A comparison with the fair value (closing offer value) is as follows

	Nominal £'000	2006 Book £'000	Fair £'000	Nominal £'000	2005 Book £'000	Fair £'000
8% debenture stock 2022	80,000	89,079	101,558	80,000	89,430	106,426

Gains and losses on hedges

At 31 December 2006 there was an unrealised gain of £243,000 in respect of a forward currency contract.

Realised currency gains/losses are taken to the capital reserve and are not reflected in the revenue account unless they are of a revenue nature.

The Annual General Meeting of the Company will be held at the offices of Baillie Gifford & Co, Calton Square, 1 Greenside Row, Edinburgh EH1 3AN, on Thursday, 5 April 2007 at 11 00 am

If you have any queries as to how to vote or how to attend the meeting, please call us on 0800 027 0133

Baillie Gifford may record your call

Notice of Annual General Meeting

Notice is hereby given that the one hundred and thirty-fourth Annual General Meeting of The Scottish American Investment Company PLC will be held within the Registered Office of the Company, Calton Square, 1 Greenside Row, Edinburgh EH1 3AN on Thursday, 5 April 2007 at 11 00 am. Coffee will be available after the meeting and the Portfolio Manager responsible for SAINTS will give a short presentation on the investment outlook. The following resolutions will be proposed at the AGM.

Ordinary Business

- 1 To receive and approve the Accounts of the Company for the year to 31 December 2006 with the Reports of the Directors and of the Auditors thereon
- 2 To approve the Directors' Remuneration Report
- 3 To declare a final dividend
- 4 To re-elect Sir Brian Ivory as a Director
- 5 To re-elect Mr Eric Hagman as a Director
- 6 To re-elect Dr Janet Morgan as a Director
- 7 To re-elect Mr David Price as a Director
- 8 To reappoint KPMG Audit Plc as Independent Auditors
- 9 To authorise the Directors to determine the remuneration of the Independent Auditors

Special Business

To consider, and, if thought fit, to pass the following resolutions as special resolutions

- 10 That, in substitution for any existing authority under section 166 of the Companies Act 1985 (the "Act"), but without prejudice to the exercise of any such authority prior to the date hereof, the Company be authorised, in accordance with section 166 of the Act, to make market purchases (within the meaning of section 163(3) of the Act) of ordinary shares of 25p each in the capital of the Company ('Shares'), (either for retention as treasury shares for future re-issue and resale or transfer, or cancellation), provided that
 - (a) the maximum aggregate number of Shares hereby authorised to be purchased shall be 14.99% of the issued ordinary share capital on the date on which this resolution is passed,
 - (b) the minimum price which may be paid for a Share shall be 25p,
 - (c) the maximum price (exclusive of expenses) which may be paid for a Share shall be not more than the higher of
 - (i) 105 per cent of the average of the middle market quotations (as derived from the Daily Official List of the London Stock Exchange) for the Shares for the five business days immediately preceding the date of purchase, and
 - (ii) the higher of the last independent bid and the highest current independent bid on the London Stock Exchange, and
 - (d) unless previously varied, revoked or renewed by the Company in general meeting, the authority hereby conferred shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2008 or, on 4 October 2008, whichever is the earlier, save that the Company may, prior to such expiry, enter into a contract to purchase Shares under such authority which will or might be completed or executed wholly or partly after the expiration of such authority and may make a purchase of Shares pursuant to any such contract

11 That, in substitution for any existing power under section 95 of the Companies Act 1985 (the "Act"), but without prejudice to the exercise of any such power prior to the date hereof, the Directors be and they are hereby generally empowered pursuant to section 95 of the Act to allot equity securities (as defined in sections 94(2) and 94(3A) of the Act) for cash pursuant to the authority conferred on them by resolution passed at the Annual General Meeting of the Company held on 24 March 2005 or otherwise, as if section 89(1) of the Act did not apply to any such allotment and to sell or transfer relevant shares (as defined in sections 94(2) to 94(3A) of the Act) if, immediately before the sale or transfer, such shares are held by the Company as treasury shares (as defined in section 162A of the Act) ("treasury shares") for cash as if subsection (1) of section 89 of the Act did not apply to any such sale or transfer provided that this power shall be limited to

(a) the allotment of equity securities in connection with a rights issue in favour of the holders of ordinary shares of 25p each in the Company ("Shares") where the equity securities respectively attributable to the interests of all such shareholders are proportionate (as nearly as may be) to the respective number of Shares held (or deemed or nationally

held) by them but subject to such exclusions or other arrangements as the Directors may think fit in relation to fractional entitlements or to deal with problems under the laws, or requirements of, any recognised body or stock exchange in any territory, and

(b) the allotment and the sale or transfer of treasury shares (other than pursuant to paragraph (a) of this resolution) of up to an aggregate nominal value of £3,312,148.50 being 10% of the Company's issued Share capital as at 15 February 2007,

and shall expire at the conclusion of the next Annual General Meeting of the Company to be held in 2008 or on 4 October 2008, whichever is the earlier, save that the Company may, before such expiry, make any offer or agreement which would or might require equity securities or treasury shares to be allotted, sold or transferred after such expiry, and the Directors may allot equity securities or sell or transfer treasury shares in pursuance of such offer or agreement as if the power conferred hereby had not expired

By order of the Board

Baillie Gifford & Co
Managers and Secretaries
5 March 2007



Notes

- 1 A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, vote on his/her behalf. A proxy need not be a member of the Company. A Form of Proxy for the use of members is enclosed and to be valid must be lodged with the Registrars of the Company not later than 48 hours before the time set for the meeting, or any adjourned meeting.
- 2 Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that only those shareholders entered on the Register of Members of the Company as at 11.00am on 3 April 2007 or, in the event that the meeting is adjourned, on the Register of Members 48 hours before the time of any adjourned meeting, shall be entitled to attend or vote at the meeting in respect of the number of ordinary shares registered in their name at that time. Changes to the entries on the Register of Members after 11.00am on 3 April 2007 or, in the event that the meeting is adjourned, in the Register of Members 48 hours before the time of any adjourned meeting, shall be disregarded in determining the rights of any person to attend or vote at the meeting, notwithstanding any provisions in any enactment, the Articles of Association of the Company or other instrument to the contrary.
- 3 Shareholders participating in the Baillie Gifford Investment Trust Share Plan, Children's Savings Plan or the Baillie Gifford Investment Trust ISA/PEP who wish to vote and/or attend the meeting must complete and return the enclosed reply-paid Form of Direction.
- 4 No Director has a contract of service with the Company.

Dividend Dates for 2007

	Final 2006	First Interim *	Second Interim *	Third Interim *
Dividend announced	9/2/07	24/5/07	27/7/07	21/11/07
Ex-dividend date	14/3/07	6/6/07	5/9/07	5/12/07
Record date	16/3/07	8/6/07	7/9/07	7/12/07
Dividend paid	10/4/07	29/6/07	28/9/07	31/12/07

*Anticipated dates

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 inside back cover for details). You can also find specific details about investing in SAINTS at www.saints-it.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 Baillie Gifford website at www.bailliegifford.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.

Dividend Dates

The table above gives the actual and anticipated quarterly dividend dates.

The ex-dividend date is the date on which entitlement to receive the net dividend is established. The record date is the date on which shares must be registered following purchase to receive the dividend direct. Otherwise you will have to claim it from the agent through whom you purchased your shares.

Interest

Interest is paid on the 8% Debenture Stock in April and October.

Announcement of Results and Reports

SAINTS' results for the half year to 30 June will be announced in July and the results for the year to 31 December will be announced in mid February. The Interim Report will be posted to shareholders in August and the Annual Report in February or early March. The 2006 AGM is being held on 5 April.

How You are Taxed

• **Capital** As an investment trust, SAINTS pays no capital gains tax. This means that, while assets remain invested in SAINTS, they are managed free of such tax. However, should you decide to sell your SAINTS shares, you may be subject to capital gains tax. As an individual you pay no capital gains tax on the total net gains from all sources in any one year up to £8,800. However, any gains in excess of £8,800 are chargeable at your highest rate of tax, a maximum 40%. These figures apply for the fiscal year ending 5 April 2007.

Up to 5 April 1998 the cost of investments for capital gains tax purposes was adjusted in line with inflation. However, this indexation allowance was frozen at 5 April 1998 and has been replaced by a taper relief. Therefore, from 6 April 1998, chargeable gains are reduced according to how long the investment has been held.

If you held SAINTS shares prior to 1 April 1982 you can currently choose to substitute the 31 March 1982 market value for your original purchase cost if this would reduce your capital gains tax liability. The market value of the ordinary shares (adjusted for present capital) at 31 March 1982 was 33 125p.

- **Income** The dividends you receive from your SAINTS shares are taxed as income. If you pay tax at the starting (10%) or basic (22%) rates you will have no further liability to tax. If you pay tax at the higher rate (40%), you will be liable to a further amount of tax. Dividends received, including the relevant tax credits, should be declared on your Tax Return.

Shareholders are recommended to consult their professional adviser as to their tax position.

Share Register Enquiries

Computershare Investor Services PLC maintains the share register on behalf of the Company. In the event of queries regarding shares registered in your own name, please contact the Registrars on 0870 707 1282. 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 price of each shareholding,
- view price histories and trading graphs,

Analysis of Shareholders

	At 31 December 2006		At 31 December 2005	
	Number	%	Number	%
Institutions	29,798,683	22.5	27,860,552	21.0
Intermediaries	47,078,685	35.5	43,659,400	33.0
Individuals	35,168,327	26.6	37,997,165	28.7
Baillie Gifford Share Plan/PEP/ISA	19,789,816	14.9	20,398,970	15.4
Marketmakers	650,432	0.5	2,569,856	1.9
	132,485,943	100.0	132,485,943	100.0

- update bank mandates and change address details, and
- use online dealing services

To take advantage of this service, please log in at www-uk.computershare.com/investor and enter your Shareholder Reference Number and Company Code (this information can be found on the last dividend voucher or your share certificate)

SAINTS is an investment trust Investment trusts offer investors the following

- Participation in a diversified portfolio of shares
- Constant supervision by experienced professional managers
- The Company is free from capital gains tax on capital profits realised within its portfolio

These accounts have been approved by the Directors of SAINTS. Baillie Gifford Savings Management Limited is the ISA Manager of the Baillie Gifford Investment Trust ISA, the PEP Manager of the Baillie Gifford Investment Trust PEP, the Manager of the Baillie Gifford Investment Trust Share Plan and Children's Savings Plan and the promoter of the Baillie Gifford Select Pension Alliance Trust Savings

Limited is the provider, trustee and administrator of the Alliance Trust Personal Pension Plan through which the Baillie Gifford Select Pension is made available. Baillie Gifford Savings Management Limited is wholly owned by Baillie Gifford & Co. Both are authorised and regulated by the Financial Services Authority. Baillie Gifford only provides information about its products and does not provide investment advice. The staff of Baillie Gifford may have positions in SAINTS and may buy or sell such shares from time to time, subject to Baillie Gifford's personal account dealing rules.

Risks

Past performance is no guarantee of future performance.

The value of your investment and any income from it is not guaranteed and may go down as well as up and you may not get back the amount invested. This is because the share price is determined by the changing conditions in the relevant stockmarkets in which the trust invests and by the supply and demand for the trust's shares. You should regard your investment as medium to long-term.

SAINTS has borrowed money to make further investments. This is commonly referred to as gearing. The risk is that when this money is

repaid by the trust, the value of these investments may not be enough to cover the borrowing and interest costs, and the trust will make a loss. If the trust's investments fall in value, gearing will increase the amount of this loss. The more highly the trust is geared, the greater this effect will be.

As SAINTS 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.

SAINTS has some direct investments in property which may be difficult to sell. Valuations of property are only estimates based on the valuer's opinion rather than of fact. These estimates may not be achieved when the property is sold and this would have the effect of reducing the value of the trust. Property values are affected by such factors as the level of interest rates, economic growth, fluctuations in property yields and tenant default. Therefore on the realisation of any property, the trust may receive less than the original amount invested.

Tax rates and reliefs, as well as the tax treatment of ISAs and PEPs, may change at any time in the future. The value of any tax benefits will depend on your individual circumstances.

SAINTS' 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 £250 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 £250 or from £30 per month.

Baillie Gifford's Investment Trust PEP Transfer

You can transfer an existing PEP to access a different market or to change your investment manager (minimum value of £2,000).

Baillie Gifford Select Pension

The Baillie Gifford Select Pension provided by Alliance Trust Savings Limited is a self invested personal pension. The minimum contribution is £50.

Further Information

Retail Investments Department
Baillie Gifford Savings Management Limited
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1 Greenside Row
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Tel 0800 027 0133
We may record your call

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website www.bailliegifford.com

Fax 0131 275 3955

For SAINTS specific queries, please use the following contact details

E mail saints@bailliegifford.com
website www.saints.it.com

Directors

Chairman
Sir Brian Ivory, CBE, CA
E Hagman, CBE, CA
Lord Kerr of Kinlochard, GCMG
PG Moon
Dr J Morgan, DPhil
DWJ Price

Registrar

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Investor Services PLC
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Bridgwater Road
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Company Broker

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Managers, Secretaries and Registered Office

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