

**The Scottish American Investment Company P.L.C.**

**ANNUAL REPORT AND ACCOUNTS  
31 DECEMBER 2011**

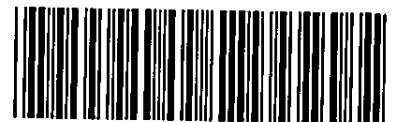
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**SAINTS**

**For Income and Growth**

**Annual Report and Financial  
Statements 31 December 2011**

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**BAILLIE GIFFORD**

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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 P.L.C., 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 2011

Total assets*	Shareholders' funds	Market capitalisation
£381m	£294m	£277m

\*Total net assets before deduction of debenture.

# Company Summary

SAINTS aims to be a core investment for private investors seeking income. Its objective is to achieve capital and income growth in order to grow the dividend at a faster rate than inflation. The focus of the portfolio is on listed equities, both UK and overseas, but investments are also made in bonds, property and other asset types.

## Objective

SAINTS' objective is to increase capital and grow income in order to deliver real dividend growth.

## Investment Policy

SAINTS' policy is to invest flexibly and actively across a broad range of assets and markets. Listed equities, both UK and overseas, form the largest part of the portfolio. Investments are also made in bonds, property and other asset classes. Full details of the Company's investment policy are contained within the Business Review on pages 20 and 21.

## Company History

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

## Benchmark

The portfolio benchmark against which performance has been measured is 50% FTSE All-Share Index and 50% FTSE All-World Ex UK Index (in sterling terms).

In comparing NAV performance to the benchmark the Company's assets and liabilities are measured at fair 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 on six months' notice. The property portfolio is managed by OLIM Property Limited. The agreement can be terminated on three months' notice.

## Management Fees

Baillie Gifford & Co's annual management fee is 0.45% of total assets less current liabilities, excluding the property portfolio, calculated on a quarterly basis.

OLIM Property 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 132,675,943 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 for cancellation or retention as treasury shares as well as to issue shares/sell treasury shares at a premium to NAV. Long term gearing has been secured by £80 million (nominal value) of debenture stock, which was issued in three tranches between April 1997 and January 2001.

## Saving Vehicles

SAINTS' shares can be held through a variety of savings vehicles (see page 49 for details).

## AIC

The Company is a member of the Association of Investment Companies.

## 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.

# One Year Summary

	31 December 2011	31 December 2010	% change	
Total assets (before deduction of debenture)	£381.2m	£418.3m		
Debenture (book value)	£87.0m	£87.5m		
Shareholders' funds	£294.2m	£330.8m		
Net asset value per ordinary share (debenture at fair value)	205.3p	242.5p	(15.3)	
Net asset value per ordinary share (debenture at book value)	221.7p	249.7p	(11.2)	
Share price	208.5p	245.5p	(15.1)	
FTSE All-Share Index	2,857.9	3,062.8	(6.7)	
FTSE All-World Ex UK Index (in sterling terms)	188.0	207.5	(9.4)	
Benchmark composite index*				(8.0)
Premium – debenture at fair value	1.6%	1.2%		
Discount (debenture at book value)	(6.0%)	(1.7%)		
Revenue earnings per ordinary share	9.32p	8.51p	9.5	
Dividends paid and payable in respect of the year	9.45p	9.25p	2.2	
Expense ratio	0.89%	0.90%		
<b>Year to 31 December</b>	<b>2011</b>	<b>2011</b>	<b>2010</b>	<b>2010</b>
<b>Year's high and low</b>	<b>High</b>	<b>Low</b>	<b>High</b>	<b>Low</b>
Net asset value (debenture at fair value)	247.9p	190.1p	247.2p	196.4p
Net asset value (debenture at book value)	256.0p	205.1p	253.8p	203.3p
Share price	252.0p	202.0p	245.5p	178.7p
Premium/(discount) – debenture at fair value	9.5%	(4.4%)	2.3%	(12.1%)
Premium/(discount) – debenture at book value	2.1%	(7.3%)	(1.4%)	(13.5%)
<b>Year to 31 December</b>	<b>2011</b>	<b>2010</b>		
<b>Total return performance</b>				
Net asset value (debenture at fair value)	(11.8%)	22.8%		
Net asset value (debenture at book value)	(7.6%)	24.3%		
Share price	(11.5%)	41.8%		
Benchmark composite index*	(5.2%)	15.8%		

## One Year Performance

(figures plotted on a monthly basis rebased to 100 at 31 December 2010)

Past performance is not a guide to future performance.

## Five Year Summary

### 5 Year Total Return Performance

(figures rebased to 100 at 31 December 2006)

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

### Premium/(discount) to Net Asset Value

(plotted on a monthly basis)

### Dividend and RPI Growth Rate

(figures rebased to 100 at 31 December 2006)

Past performance is not a guide to future performance.

\* With effect from 1 January 2009 the portfolio benchmark against which performance has been measured is 50% FTSE All-Share Index and 50% FTSE All-World Ex UK Index (in sterling terms). For the earlier years covered by the above graphs the Company's benchmark was 70% FTSE All-Share Index and 30% FTSE World Ex UK Index (in sterling terms). For the purposes of the above graphs the returns on both benchmarks for their respective periods have been linked to form a single benchmark.

# Chairman's Statement

## Overview

2011 was a more difficult year for the global economy and for SAINTS, and stockmarkets gave back some of the gains from the previous two years. In particular, markets were overshadowed by the Eurozone crisis and the possibility of a double dip recession. However, I am happy to report that the income received from SAINTS' investment portfolio rose over the year, with particularly strong increases in the dividends from our equity investments. I am hopeful that SAINTS will deliver real dividend growth in the years ahead.

## Performance

The performance of the portfolio was more or less in line with the index but the debenture priced at fair value acted as a considerable drag on overall performance. The net asset value total return, with the debenture at fair value, was -11.8%. Taking the debenture at its book value, the total return was -7.6%. These figures compare to a benchmark total return of -5.2%.

The share price total return for the year was -11.5%. The share price began the year at a small premium to net asset value (again with the debenture at fair value) and this was maintained throughout the year. At the year end, the premium was 1.6%.

A fuller explanation of investment performance is provided in the Managers' Review on pages 8 to 11 and the longer term record for net asset value, the share price and discounts can be found on page 19.

## Revenues and Dividend

Total income was £17.3m in 2011 compared to £16.4m in 2010, a rise of 6%. Dividend income received from our listed equity investments rose 20% to £11.3m, income from our bond investments fell from £4.4m to £3.3m reflecting some changes in the portfolio while the rental income on our directly held properties rose from £2.3m to £2.7m as we benefited from some modest rent increases across the portfolio and the acquisition of some new properties.

This increase in our investment income fed through to a 9.5% increase in earnings per share, from 8.51p in 2010 to 9.32p this year. It also means that we are required to draw only modestly on our revenue reserves (which stand at 9.8p per share) to pay this

year's dividend. Three payments of 2.35p have already been made and we propose to pay a final dividend of 2.40p, making a total of 9.45p for the year as a whole.

A dividend of 9.45p for 2011 represents an increase on the prior year of 2.2% and therefore falls short of the increase recorded in the Retail Prices Index last year. However, over the long term, SAINTS has grown its dividend at a faster rate than inflation and we aim to continue to do so. The historic record of how the dividend has grown in real terms since Baillie Gifford were appointed as Investment Managers on 1 January 2004 is illustrated in the chart on page 5.

## Borrowings

SAINTS' borrowings take the form of a single debenture due for repayment in April 2022. The book value of these borrowed funds is £87.0m. However, since the debenture was issued at a premium to its par value, the final repayment amount will be £80m. At the start of the year, the book value of the debenture was equivalent to approximately 26% of shareholders' funds.

During 2011, this borrowed money was used as funding for a range of higher yielding investments across bond markets and in UK commercial property. The income from these investments makes a significant contribution to our total investment income but capital performance in 2011 was mixed with the property investments holding their value but the bond investments experiencing declines in sympathy with broader market movements.

Fluctuations in the fair value of the debenture also affect our net asset value. During 2011, the prices of UK gilts rose and this caused the market price of the debenture to rise from £97m to £109m. This rise in the market value of the debenture was a drag on the performance of net assets and explains much of the shortfall against the composite index that we use for performance comparison purposes.

## Supply and Demand for the Company's Shares

I remarked last year that the relatively high and growing dividend offered by SAINTS was, in a world of low interest rates and falling gilt yields, an increasingly attractive proposition to private investors. This favourable trend has allowed our shares to trade at premiums to net asset value during the last year.

Past performance is not a guide to future performance.

Issuing shares when the price is at a premium to net asset value advantages existing shareholders, allows new shareholders to join the register with relative ease and enhances market liquidity for SAINTS' shares. We submitted a block listing application to the London Stock Exchange in May this year and by September the share price was trading at a sufficient level for us to issue a small amount of new shares.

We will continue to look to issue new shares when it is appropriate to do so, particularly when the share price stands at a premium to the net asset value per share with the debenture priced at book value.

Notwithstanding the above, we also intend to seek shareholders' approval at this year's AGM for the renewal of the Company's authority to buy back its own shares at a discount to net asset value. Although this has not been used in recent years, the Board believes that buy backs can be useful in certain circumstances for reducing volatility in the discount and enhancing net asset value for continuing shareholders.

### Dividend & RPI Growth rate

(figures rebased to 100 at 31 December 2003)

### Outlook

We expect our revenue account to show further improvement during 2012 and are hopeful that the year ahead will see a return to real growth in our dividend.

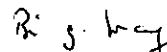
The levels of stockmarkets and those of the other asset classes and investment markets in which SAINTS can invest will, we expect, remain volatile. There are still many significant challenges facing the global economy and these make it difficult to foresee with great conviction any significant uplift in economic activity or corporate profits.

However, such environments can sometimes present as many opportunities as they do threats and we and our Managers will endeavour to profit from them. In this regard, we are pleased to announce the appointment of Dominic Neary as Deputy Manager. Dominic will assist the current Manager, Patrick Edwardson, with particular responsibility for the equity portfolio.

### The Board and the AGM

David Price, who has served on the Board for 14 years, has decided to retire from the Board after the forthcoming AGM. I am very grateful for his considerable contribution, full commitment and valued support over that period. He will be succeeded as Senior Independent Director by Lord Kerr.

The AGM will be held at 11 am on Thursday 5 April at Baillie Gifford's offices at Calton Square, 1 Greenside Row, Edinburgh (see map on page 53). The Managers will make a presentation on the investment portfolio. There will also be an opportunity to ask questions and the Directors and Managers look forward to meeting you there.



Sir Brian Ivory, CBE  
Chairman  
20 February 2012

# 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 Managers and Secretaries since 1 January 2004.

## Directors

### Sir Brian Ivory, CBE, CA

Sir Brian joined the Board in 2000 and was appointed Chairman in 2001. He is also the Chairman of the Nomination Committee. He is a director of Remy Cointreau SA, Orpar SA, Insight Investment Management Ltd and is chairman of Marathon Asset Management (Services) Ltd, Retec Digital plc and Arcus European Infrastructure Fund GP LLP and deputy chairman of Shawbrook Bank Limited. He was formerly chairman of Highland Distillers Plc and of the Trustees of the National Galleries of Scotland and a director of HBOS Plc.

### The Rt Hon Sir Menzies Campbell, CBE, QC, MP

Sir Menzies joined the Board in December 2007. He was Leader of the Liberal Democrat party until October 2007. He was elected as an MP in 1987, and was Foreign Affairs Spokesman before becoming Deputy Leader of his party. He qualified as an advocate in Scotland, being admitted to the Faculty of Advocates in 1968 and becoming Queen's Counsel in 1982.

### Eric Hagman, CBE, CA

Mr Hagman joined the Board in 2005 and became the Chairman of the Audit Committee after the 2009 AGM. He joined Arthur Andersen 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 The Royal College of Art. He was formerly a trustee of the National Galleries of Scotland and a director of British Polythene Industries plc, Glen Group plc, Scottish Financial Enterprise and Scottish Enterprise.

### Lord Kerr of Kinlochard, GCMG

Lord Kerr joined the Board in 2002. 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 and is a director of Rio Tinto Plc and Scottish Power.

### Rachel Lomax

Ms Lomax joined the Board in 2008. She served as Deputy Governor of the Bank of England between 2003 and 2008, having previously been Permanent Secretary at the Department for Transport, the Department for Work and Pensions and the Welsh Office. She was previously Chief of Staff to the President of the World Bank, Head of the Economic and Domestic Secretariat at the Cabinet Office. She worked for many years at HM Treasury, where she was Principal Private Secretary to the Chancellor of the Exchequer and deputy Chief Economic Adviser. She is a director of HSBC Holdings, BAA Limited, the Reinsurance Group of America (RGS), Imperial College London, the Centre for Economic Policy Research (CEPR) and the Supervisory Board of Arcus European Infrastructure Fund GP LLP and is president of the Institute of Fiscal Studies.

### Peter Moon

Mr Moon joined the Board in 2005. He was chief investment officer of the Universities Superannuation Scheme Limited fund from 1992 until August 2009. He is chairman of Bell Potter (UK) Limited and is a director of First Property plc and Arden Partners plc and is a former 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.

### David Price

Mr Price joined the Board in 1997 and is the senior independent director. He was formerly deputy chairman of Mercury Asset Management Group plc, chairman of F&C Management Limited.

All Directors are members of the Nomination and Audit Committees.

From left to right: David Price, The Rt Hon Sir Menzies Campbell, Rachel Lomax, Sir Brian Ivory, Eric Hagman, Peter Moon, Lord Kerr of Kinlochard

### Managers and Secretaries

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

Baillie Gifford & Co are one of the largest investment trust managers in the UK and currently manage eight investment trusts. Baillie Gifford & Co also manage unit trusts and Open Ended Investment Companies, together with investment portfolios on behalf of pension funds, charities and other institutional clients, both in the UK and overseas. Funds under the management or advice of Baillie Gifford & Co total around £77 billion. Based in Edinburgh, they are one of the leading privately owned investment management firms in the UK, with 36 partners and a staff of around 700.

The manager of SAINTS is Patrick Edwardson, a partner of Baillie Gifford & Co. The deputy manager is Dominic Neary. Patrick has overall responsibility for the portfolio and asset allocation, Dominic has particular responsibility for the equity portfolio. Both work closely with the other specialist equity, bond and multi-asset class investors at Baillie Gifford. The property investments are managed separately by OLM Property Limited, a specialist property manager.

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

# Managers' Review

## Overview

2011 presented us with a challenging investment environment. The year began well with the global economy expanding briskly and financial markets buoyant. However, these conditions were not maintained and optimism gave way to pessimism as growth slowed in the second half of the year.

The portfolio was fully invested through the year, predominantly in equities but also in higher yielding bonds and commercial property. This mix proved successful in terms of generating a high level of income but it meant we suffered capital declines.

While gearing as part of the long term strategy is sound, last year this had an adverse impact on the NAV total return due to the relative movements in equity and fixed interest markets. The total return on the portfolio was -6.5% which was slightly worse than the -5.2% return on the composite benchmark that we use for performance comparisons. At the net asset value level, the total return was -7.6% with the debenture at its book value but the result with the debenture at fair value was worse, -11.8%. This difference in the two measures reflects an increase in the estimated fair value of the debenture and this is explained in more detail below.

## Economies and Markets

Economic and market developments last year should, we believe, be seen in the context of a world still recovering from the grave financial crisis of 2007–2009. That episode exposed significant imbalances in the world economy and serious misjudgements in how it was financed. It was always likely that full recovery from such a situation would take time and be interrupted by periods when growth would appear to falter and crises threaten.

The most obvious threat during 2011 came from Europe. The financial crisis and the associated recession saw government deficits and debt levels soar in many of the euro area economies. Financial markets lost confidence, particularly as efforts to reduce borrowing through austerity programmes cut into the economic growth needed to generate tax revenues. A vicious circle emerged in which declining confidence led to higher bond yields which in turn made debt burdens ever more unviable.

The European Central Bank has been providing large amounts of emergency lending and euro area governments have been inching their way towards the sort of joint fiscal arrangements that might make a common currency work. So far, a true crisis has been avoided. However, the threat of euro member states defaulting, the possible break-up of the euro and the likely subsequent collapse in Europe's banking system have been, and remain, an ominous shadow over financial markets.

Had growth elsewhere been strong, events in Europe might have had little broader impact. However, the United States is also struggling to deal with a large debt burden and the other consequences of the financial crisis, Japan was struck by a devastating earthquake and a number of the developing economies faced, or were inclined to encourage, a deceleration in growth rates. Notably, in China the authorities have been working hard to dampen inflationary pressures by running tight monetary policy. Although growth in that economy is still likely to have been very strong in absolute terms, this policy stance encouraged fears of a sharp deceleration in growth.

All told, it was not a supportive environment. The best returns were had from those assets and markets viewed as safe havens such as gold and credit worthy government bonds. The worst returns came from those markets most reliant on the economy such as equities.

Full detail on the performance of SAINTS' portfolio is provided in the subsequent sections but, in summary, our listed equity investments saw price falls whilst the bond and property portfolios generated positive returns. As mentioned earlier, there was also a significant move in the estimated fair value of the debenture (from £97.0m at the start of the year to £108.8m at the year end) which deserves explanation.

The debenture is tightly held, transactions are rare and there is no market price as such. To estimate its fair value, indicative prices are used from such brokers as are able to provide them. Generally, these prices will be calculated with reference to the prevailing yields on comparable maturity gilt yields and an estimate of the appropriate extra yield required as compensation for the credit risk and limited liquidity of the instrument. With little change to these factors during 2011, the estimated fair value of the debenture rose alongside gilt prices.

Past performance is not a guide to future performance.

## Equities

On average during the year 69% of the portfolio was invested in equities. Expressed as a percentage of shareholders' funds, the figure was 90%. The total return for the year was a loss of 5.7%.

The equity investments represent the core of SAINTS' portfolio. Over the long run, we believe that owning shares in companies with good long term growth prospects will see our investment income and the capital value of the portfolio rise. However, these results are rarely delivered smoothly and 2011 was a good example of a year in which the companies we invested in performed well in operational terms, delivered substantial dividend increases and yet finished the year at lower share prices than they started with.

This is frustrating but understandable in the context of a global economy still challenged by the fallout from the financial crisis. Whilst we hope for a swift return to strong growth and benign financial market conditions, we have to acknowledge that the immediate environment is more difficult and sentiment regarding valuations and prospects will swing around.

Our main response to the febrile behaviour of stockmarkets is to try and ignore it. Where we believe our investments are sound, we will generally stick with them believing that, over time, commercial success will be reflected in a rising share price and higher dividend payments. This approach manifests itself in relatively low turnover and during 2011 we made few changes to the equity portfolio.

New holdings were taken in Cochlear, Seadrill, AES Tiete and Elswedy Electric. Cochlear is an Australian listed company that manufactures hearing devices. It has a commanding share of the market for that type of medical device which, subject to continued investment and innovation on its part, should allow it to enjoy strong profits growth. Seadrill owns and leases out drilling platforms to the oil industry. High oil prices and depletion of existing resources is encouraging oil companies to increase exploration budgets and Seadrill should profit from this. AES Tiete is a Brazilian power company. Brazil is a dynamic economy with the potential to grow strongly for many years. This will require ongoing expansion of its power infrastructure which should benefit AES Tiete. Elswedy is an Egyptian company that manufactures power cables and other

electrical equipment. We believe it is a robust business but its share price has been hit by the turmoil in Egypt and in neighbouring countries. We hope that purchasing now, whilst not without risk, will prove a profitable decision in due course.

We also bought small holdings in a number of Japanese companies. These purchases were made in March when share prices plunged after the terrible earthquake and tsunami. Those two events had significant impact on economic activity in Japan during 2011 but should not affect the long term prospects of most Japanese companies. We felt the share price falls would reverse in time and therefore took new holdings in a variety of companies.

We sold out of Lupus Capital, a small engineering company and Wellstream, an oil services company at the start of the year. As the year progressed, we also disposed of Victrex (a speciality chemicals company), Fotli Fotlie (a Greek listed retailer), Walgreen (the US pharmacy chain), Tullow Oil (a UK listed oil explorer) and Schindler (a Swiss listed manufacturer of lifts). These sales were made for a variety of reasons encompassing valuation, disappointment over operational performance and doubts of how management would allocate capital.

These transactions made little difference to the geographic distribution of the portfolio. In terms of listing domicile, the largest portion of the portfolio was in UK listed stocks which made up around 35% of the total. The next largest portions were companies listed in the developing economies (at 21%), North America (at 19%) and Europe (at 16%).

Compared to our performance benchmark (which is comprised 50% UK listed stocks and 50% overseas listed), this meant we had underweight positions in the UK and US markets and a large overweight in Emerging Markets. However, listed companies operate in a very open, globalised market place and where they happen to be listed has little bearing on long run results. This is best illustrated by looking at where our investments generate their sales. These are estimated figures as disclosure is not always as full as we would like but approximately two-fifths of revenues are generated in Asia (ex-Japan) and other developing economies, one-third in Europe (with the UK included in this figure) and one-fifth in the United States. The portfolio is therefore a very global one.

## Bonds

2011 saw slightly higher turnover in the bond portfolio although the average allocation (at 14% of the investment portfolio, or 18% of shareholders' funds) was not much changed on the previous year. The total return was only just positive at 0.6%.

This outcome reflects the nature of our bond investments which are generally lower rated credit market instruments. We believe this segment of bond markets offers very attractive returns. With the banking system in much of the developed world shrinking its balance sheet, there is a general shortage of capital available for lending and yields have been driven up. These high yields also mean the holdings make a significant contribution to the revenue account. However, when market confidence is undermined and economic prospects look more dim, such instruments tend to sell off. Consequently, during 2011 the high income yields on our holdings were offset by declines in their market price.

The largest holding was the Athena Debt Opportunities Fund. This invests in structured debt instruments such as securitisations and collateralised loan obligations. These types of instrument rallied in the first half of the year, sufficiently so for us to reduce the holding (at a profit on our original investment in 2008). Thereafter, valuations declined and, for the year as a whole, the holding produced a loss. Our other credit market investments (which at the year-end consisted of holdings in the Baillie Gifford High Yield Bond Fund, some direct investments in securitisation issues and a Barclays Bank capital note) reflected the general pattern in credit markets.

The one government bond that we hold is an index linked bond issued by Brazil. The price of this bond rose in local currency terms but an adverse currency movement meant a capital loss in sterling terms. In total return terms, allowing for the high coupon paid by this bond, the result was just positive.

## Listed Investment Funds

SAINTS owns a number of listed investment funds, often as a convenient way of getting exposure to asset classes other than equities. Where this is the case, we separate them out from the main equity portfolio. Currently we own one such forestry fund and several funds invested in overseas property markets.

The forestry fund is Cambium Global Timberland. This was approximately 2% of the total portfolio during 2011, or about 3% of shareholders' funds. SAINTS owns 15% of this fund, an investment we made in March 2007 when Cambium first listed. Our rationale at the time was that, in the long run, the return from forestry was likely to be attractive and the approximate split in that return between immediate income and longer term growth matched up well with SAINTS' objectives.

Our experience to date has been disappointing. Cambium's portfolio consists of tracts of timberland in the US, Brazil and Australia and, in the round, we believe these are valuable, well managed assets. However, Cambium's net asset value has fallen since its listing and a significant discount has opened up between its share price and the net asset value. We are patient long-term investors who are not unduly concerned by the periodic emergence of discounts on listed investment funds. Nonetheless, it is frustrating to report that 2011 saw a further loss from owning Cambium's shares (the total return was -12.3%) and our patience is not without limit. We are in regular contact with Cambium's board and managers and have made it clear that considerably better returns are required for us to continue with this investment.

The listed property funds make up 3% of the portfolio which is approximately 4% of shareholder's funds. These give us exposure to commercial property markets in Europe, Japan and China as well as the prospect of capital gains as their share prices recover from deep discounts to their asset values. During 2011, and reflecting the more challenging conditions in financial markets generally, these struggled to produce good returns. However, a combination of dividend payments from some of the funds, moves by others to liquidate their portfolios and return money to shareholders and a particularly good performance from one of the funds (Japan Residential Investment Company) meant that losses were limited to -0.4%.

## Direct Property

The direct investments in UK commercial property are managed by OJM Property Limited, a specialist property manager. The total return for 2011 was 7.9% which compares to the return on the IPD All Property Index of approximately 8%.

Two new properties were purchased during the year. These were a car showroom in Newport Pagnell and a mixed use office and leisure property in Sunderland. A small, incremental investment was also made in the holiday village property at New Romney. In total, these investments amounted to £7.5m and took the value of the property portfolio to £39.4m by the year end (approximately 10% of the total portfolio).

We believe that commercial property valuations in the UK are attractive. The economic outlook is undoubtedly challenging, the risk of tenant defaults is higher than usual and some parts of the UK property market may experience stagnant or even falling rents. However, property market valuations appear to reflect this difficult environment and the 8% rental yield on the properties that SAINTS owns is, we feel, more than adequate compensation for any such risks.

### Outlook

Financial markets have begun 2012 in an optimistic mood. Stockmarkets in particular have responded well to the better economic news from the United States and efforts by the European Central Bank to supply liquidity to banks and governments in the euro area.

These developments are very welcome but it would be rash to extrapolate from them and assume that the world economy has moved on to a more stable footing. Many of the imbalances that lay behind the Great Financial Crisis are still present and our central expectation is that they will take several years yet to be unwound. Political decision-makers, their electorates, and those setting policy at central banks will have significant influence over how this process evolves and much depends on the right decisions being made at the right time.

Equity valuations, whilst lower than at many points in the last twenty years, are not obviously at distressed levels and corporate profit margins are already high. Of course, the current level of profitability may well be sustainable as the corporate sector seems better placed than households to benefit from technological change and globalisation. But the current starting point does suggest that even if policy mistakes are avoided the level of equity market returns from here will be moderate.

Where we can offer more cheer is on the prospects for dividend payments. Large swathes of the corporate sector have healthy balance sheets, strong cash flows and low payout ratios. We expect the companies we hold to continue raising their dividends through 2012 and beyond. In combination with the high levels of income paid on the property and bond investments, this should be positive for SAINTS' revenue account.

Patrick Edwardson  
Baillie Gifford & Co  
20 February 2012

PERFORMANCE ATTRIBUTION AND DISTRIBUTION OF PORTFOLIO

Performance Attribution for the year to 31 December 2011

Portfolio breakdown	Average allocation SAINTS %	Average allocation Benchmark %	Total return SAINTS %	Total return Benchmark %
Quoted Equities*	89.8	100.0	(5.7)	(5.2)
Quoted Fixed Interest	18.2		0.6	
Direct Property	11.0		7.9	
Quoted Equity Forestry Investments	2.7		(12.3)	
Quoted Equity Property Investments	3.8		(0.4)	
Unquoted	0.6		3.3	
Deposits	1.5		-	
Debenture at book value	(27.6)		(6.8)	
<b>Portfolio Total Return (debenture at book value)</b>			<b>(6.5)</b>	<b>(5.2)</b>
Other items†			(1.1)	
<b>Fund Total Return (debenture at book value)</b>			<b>(7.6)</b>	<b>(5.2)</b>
Adjustment for change in fair value of debenture			(4.2)	
<b>Fund Total Return (debenture at fair value)</b>			<b>(11.8)</b>	<b>(5.2)</b>

The above returns are calculated on a total returns basis with net income reinvested.

Past performance is not a guide to future performance.

Source: Baillie Gifford & Co.

\* Excludes quoted equity property and forestry investments.

† This includes Baillie Gifford and OJM management fees.

Distribution of Portfolio

Asset Allocation as at 31 December 2011 (2010)

Quoted Equities\* by Sector as at 31 December 2011 (2010)

\* Excludes quoted equity property and forestry investments.

## Thirty Largest Holdings

Name	Classification	Business	2011 Value £'000	2011 % of total assets	2010 Value £'000
Brazil CPI Linked 15/05/2045	Quoted Fixed Interest	Brazilian government bond	17,742	4.7	18,780
Athena Debt Opportunities Fund	Quoted Fixed Interest	Structured finance investment fund	12,758	3.3	22,063
Cambium Global Timberland	Quoted Equity Forestry Investments	Forestry investment fund	8,250	2.2	9,975
Baillie Gifford Greater China Fund	Overseas Quoted Equities	Chinese equities investment fund	7,676	2.0	10,338
Philip Morris International	Overseas Quoted Equities	Cigarette manufacturer	7,528	2.0	5,574
Holiday Village in New Romney	Direct Property	Holiday village	7,450	2.0	6,800
British American Tobacco	United Kingdom Quoted Equities	Cigarette manufacturer	6,740	1.8	7,459
Baillie Gifford High Yield Bond Fund	Quoted Fixed Interest	High yield bond fund	6,642	1.8	13,545
BHP Billiton	United Kingdom Quoted Equities	Mining	6,344	1.7	6,735
Rio Tinto	United Kingdom Quoted Equities	Mining	5,875	1.5	7,089
Taiwan Semiconductor Manufacturing	Overseas Quoted Equities	Semiconductor manufacturer	5,870	1.5	5,669
Deere	Overseas Quoted Equities	Farm and construction machinery	5,764	1.5	6,142
Royal Dutch Shell	United Kingdom Quoted Equities	Integrated oil company	5,643	1.5	4,865
Penn West Energy Trust	Overseas Quoted Equities	Oil exploration and production	5,472	1.4	6,584
Samsung Electronics	Overseas Quoted Equities	Electronic devices	5,096	1.3	5,032
Japan Residential Investment Company	Quoted Equity Property Investments	Japanese residential property fund	5,063	1.3	4,172
Nursing home in Kenilworth	Direct Property	Nursing home	4,950	1.3	5,200
DBS	Overseas Quoted Equities	Banking	4,931	1.3	6,158
Amlin	United Kingdom Quoted Equities	Property and casualty insurance	4,886	1.3	2,307
Canon	Overseas Quoted Equities	Imaging devices	4,791	1.3	4,907
Scottish & Southern Energy	United Kingdom Quoted Equities	Electricity utility	4,644	1.2	3,185
Jeronimo Martins	Overseas Quoted Equities	Food retailer	4,552	1.2	4,169
Doric Nimrod Air Two	United Kingdom Quoted Equities	Aircraft leasing	4,480	1.2	-
Vodafone	United Kingdom Quoted Equities	Mobile telecommunication services	4,372	1.1	4,052
Altria	Overseas Quoted Equities	Cigarette manufacturer	4,277	1.1	3,523
Office and leisure property in Sunderland	Direct Property	Office and leisure property	4,250	1.1	-
International Oil and Gas Technology Fund	United Kingdom Quoted Equities	Oil and gas private equity investment fund	4,070	1.1	-
Catco	United Kingdom Quoted Equities	Catastrophe re-insurance	3,793	1.0	-
Atlas Copco	Overseas Quoted Equities	Engineering	3,734	1.0	8,061
Vale	Overseas Quoted Equities	Mining	3,726	1.0	5,428
			<b>181,369</b>	<b>47.7</b>	<b>187,812</b>

## Investment Changes

	Valuation at 31 Dec 2010 £'000	Net acquisitions/ (disposals) £'000	Appreciation/ (depreciation) £'000	Valuation at 31 Dec 2011 £'000
United Kingdom Quoted Equities*	102,877	4,688	(7,114)	100,451
Overseas Quoted Equities*	190,019	1,811	(19,847)	171,983
Total Quoted Equities*	292,896	6,499	(26,961)	272,434
Direct Property	31,950	7,536	(86)	39,400
Quoted Equity Property Investments	12,313	-	(613)	11,700
Quoted Equity Forestry Investments	9,975	-	(1,725)	8,250
Quoted Fixed Interest	64,219	(15,054)	(2,394)	46,771
Unquoted	1,836	-	14	1,850
Total Investments	413,189	(1,019)	(31,765)	380,405
Net Liquid Assets	5,080	(3,479)	(840)	761
<b>Total Assets</b>	<b>418,269</b>	<b>(4,498)</b>	<b>(32,605)</b>	<b>381,166</b>

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

\* Excludes quoted equity property and forestry investments.

**CLASSIFICATION OF INVESTMENTS**

Classification	UK %	Overseas %	2011 Total %	2010 Total %
<b>Quoted Equities*</b>				
Oil and gas producers	3.1	4.6	7.7	8.3
Oil equipment, services and distribution	0.9	0.9	1.8	2.5
<b>Oil and Gas</b>	<b>4.0</b>	<b>5.5</b>	<b>9.5</b>	<b>10.8</b>
Chemicals	-	0.4	0.4	1.0
Mining	3.2	1.4	4.6	5.2
<b>Basic Materials</b>	<b>3.2</b>	<b>1.8</b>	<b>5.0</b>	<b>6.2</b>
General industrials	0.5	0.6	1.1	0.7
Electronic and electrical equipment	-	1.3	1.3	1.2
Industrial engineering	-	2.5	2.5	4.4
Industrial transportation	-	1.6	1.6	1.8
Support services	0.6	0.8	1.4	1.6
<b>Industrials</b>	<b>1.1</b>	<b>6.8</b>	<b>7.9</b>	<b>9.7</b>
Automobiles and parts	-	0.5	0.5	0.6
Food producers	-	0.9	0.9	0.8
Leisure goods	-	0.3	0.3	0.5
Personal goods	-	0.6	0.6	0.6
Tobacco	2.8	3.1	5.9	4.8
<b>Consumer Goods</b>	<b>2.8</b>	<b>5.4</b>	<b>8.2</b>	<b>7.3</b>
Health care equipment and services	-	0.7	0.7	2.9
Pharmaceuticals and biotechnology	0.9	2.5	3.4	-
<b>Health Care</b>	<b>0.9</b>	<b>3.2</b>	<b>4.1</b>	<b>2.9</b>
Food and drug retailers	0.6	2.6	3.2	3.7
General retailers	-	1.5	1.5	1.7
Media	0.5	-	0.5	0.5
<b>Consumer Services</b>	<b>1.1</b>	<b>4.1</b>	<b>5.2</b>	<b>5.9</b>
Mobile telecommunications	1.1	1.2	2.3	1.7
<b>Telecommunications</b>	<b>1.1</b>	<b>1.2</b>	<b>2.3</b>	<b>1.7</b>
Electricity	1.2	0.4	1.6	0.8
Gas, water and multi-utilities	0.8	-	0.8	0.6
<b>Utilities</b>	<b>2.0</b>	<b>0.4</b>	<b>2.4</b>	<b>1.4</b>
Banks	0.9	3.8	4.7	6.5
Nonlife insurance	1.6	0.4	2.0	1.1
Life insurance	0.8	-	0.8	1.0
Real estate	0.7	-	0.7	0.8
Financial services	0.2	2.5	2.7	3.4
Equity investment instruments	5.9	2.0	7.9	3.8
<b>Financials</b>	<b>10.1</b>	<b>8.7</b>	<b>18.8</b>	<b>16.6</b>
Software and computer services	-	5.1	5.1	4.8
Technology hardware and equipment	-	2.9	2.9	2.7
<b>Technology</b>	<b>-</b>	<b>8.0</b>	<b>8.0</b>	<b>7.5</b>
<b>Total Quoted Equities*</b>	<b>26.3</b>	<b>45.1</b>	<b>71.4</b>	
Total Quoted Equities - 2010*	24.6	45.4		<b>70.0</b>
Direct Property	10.4	-	10.4	7.7
Quoted Equity Property Investments	1.7	1.3	3.0	2.9
Quoted Equity Forestry Investments	2.2	-	2.2	2.4
Quoted Fixed Interest	2.9	9.4	12.3	15.4
Unquoted	-	0.5	0.5	0.4
<b>Net Liquid Assets</b>	<b>6.9</b>	<b>(6.7)</b>	<b>0.2</b>	<b>1.2</b>
<b>Total Assets</b>	<b>50.4</b>	<b>49.6</b>	<b>100.0</b>	
Total Assets - 2010	45.5	54.5		<b>100.0</b>
Debenture	(22.8)	-	(22.8)	(20.9)
<b>Equity Shareholders' Funds</b>	<b>27.6</b>	<b>49.6</b>	<b>77.2</b>	
Equity Shareholders' Funds - 2010	24.6	54.5		<b>79.1</b>
<b>Number of equity investments</b>	<b>36</b>	<b>68</b>	<b>104</b>	<b>102</b>

\* Excludes quoted equity property and forestry investments.

## LIST OF INVESTMENTS AT 31 DECEMBER 2011

Classification	Name	Value £'000	%
<b>United Kingdom Quoted Equities*</b>			
Oil and gas producers	BG Group	3,221	
	BP	2,892	
	Royal Dutch Shell	5,643	
		<u>11,756</u>	3.1
Oil equipment, services and distribution	Amec	1,767	
	Wood Group	1,521	
		<u>3,288</u>	0.9
Mining	BHP Billiton	6,344	
	Rio Tinto	5,875	
		<u>12,219</u>	3.2
General industrials	Rexam	2,048	0.5
Support services	Capita	1,579	
	Hays	891	
		<u>2,470</u>	0.6
Tobacco	British American Tobacco	6,740	
	Imperial Tobacco	3,653	
		<u>10,393</u>	2.8
Pharmaceuticals and biotechnology	GlaxoSmithKline	3,619	0.9
Food and drug retailers	Tesco	2,453	0.6
Media	Reed Elsevier	1,871	0.5
Mobile telecommunications	Vodafone	4,372	1.1
Electricity	Scottish & Southern Energy	4,644	1.2
Gas, water and multi-utilities	National Grid	3,058	0.8
Banks	HSBC	3,404	0.9
Nonlife insurance	Amlin	4,886	
	Hiscox	1,121	
		<u>6,007</u>	1.6
Life insurance	Aviva	3,092	0.8
Real estate	Terra Catalyst Fund	2,706	0.7
Financial services	Man Group	952	0.2
Equity investment instruments	Aberforth Geared Income Trust	2,196	
	†Blackrock Latin American	1,287	
	Catco	3,793	
	Damille Investments	761	
	Doric Nimrod Air Two	4,480	
	Ecofin Water and Power Opportunities	3,672	
	International Oil and Gas Technology Fund	4,070	
	Level E Maya Fund	1,840	
		<u>22,099</u>	5.9
<b>Total United Kingdom Quoted Equities*</b>		<b><u>100,451</u></b>	<b><u>26.3</u></b>

\* Excludes quoted equity property and forestry investments.

† Comprises a holding in a convertible security.

LIST OF INVESTMENTS AT 31 DECEMBER 2011

Classification	Name	Value £'000	%
<b>Overseas Quoted Equities*</b>			
Oil and gas producers	Gazprom	2,669	
	Lukoil	1,897	
	OGX Petroleo	751	
	Penn West Energy Trust	5,472	
	Petrobras	3,340	
	Total	3,458	
		<u>17,587</u>	4.6
Oil equipment, services and distribution	Seadrill	3,433	0.9
Chemicals	Monsanto	1,420	0.4
Mining	Vale	3,726	
	Impala Platinum	1,382	
		<u>5,108</u>	1.4
General industrials	Mitsui	1,001	
	Sumitomo	1,046	
		<u>2,047</u>	0.6
Electronic and electrical equipment	Canon	4,791	
	Elswedey Electric	18	
		<u>4,809</u>	1.3
Industrial engineering	Atlas Copco	3,734	
	Deere	5,764	
		<u>9,498</u>	2.5
Industrial transportation	Sichuan Expressway	1,107	
	United Parcel Service	2,590	
	Zhejiang Expressway	2,113	
		<u>5,810</u>	1.6
Support services	Brambles	2,452	
	Meitec	931	
		<u>3,383</u>	0.8
Automobiles and parts	Hero Motocorp	2,015	0.5
Food producers	Nestlé	3,497	0.9
Leisure goods	Nintendo	1,268	0.3
Personal goods	L'Oréal	2,380	0.6
Tobacco	Altria	4,277	
	Philip Morris International	7,528	
		<u>11,805</u>	3.1
Health care equipment and services	Cochlear	2,637	0.7
Pharmaceuticals and biotechnology	Johnson and Johnson	2,784	
	Novozymes	1,897	
	Roche Holdings	3,095	
	Teva Pharmaceuticals	1,801	
		<u>9,577</u>	2.5
Food and drug retailers	Jeronimo Martins	4,552	
	Massmart	1,980	
	McDonald's	3,548	
	<u>10,080</u>	2.6	

\* Excludes quoted equity property and forestry investments.

Classification	Name	Value £'000	%
<b>Overseas Quoted Equities cont.*</b>			
General retailers	Amazon.com	1,337	
	eBay	1,541	
	Walmex	2,652	
		<u>5,530</u>	1.5
Mobile telecommunications	China Mobile	3,045	
	Hikari Tsushin	1,363	
		<u>4,408</u>	1.2
Electricity	AES Tiete	<u>1,669</u>	0.4
Banks	DBS	4,931	
	Iiau Unibanco	1,615	
	New York Community Bank	3,611	
	Standard Bank Group	1,995	
	Svenska Handelsbanken	2,781	
		<u>14,933</u>	3.8
Nonlife insurance	Progressive	<u>1,367</u>	0.4
Financial services	BM&F Bovespa	2,340	
	Hong Kong Exchanges and Clearing	1,523	
	Moody's	1,937	
	Partners Group	3,722	
		<u>9,522</u>	2.5
Equity investment instruments	Baillie Gifford Greater China Fund	7,676	
	Vision Opportunites China Fund	103	
		<u>7,779</u>	2.0
Software and computer services	Baidu.com	2,712	
	Exact	1,716	
	Google	1,662	
	Inspur International	245	
	Microsoft	2,272	
	SAP	3,204	
	Solera Holdings	1,829	
	Taiwan Semiconductor Manufacturing	5,870	
		<u>19,510</u>	5.1
Technology hardware and equipment	Asustek Computer	954	
	Hitachi High-Technologies	1,257	
	Linear Technology	3,244	
	Rohm	360	
	Samsung Electronics	5,096	
		<u>10,911</u>	2.9
Total Overseas Quoted Equities*		<u>171,983</u>	<u>45.1</u>
<hr/>			
Total Quoted Equities*		<u>272,434</u>	<u>71.4</u>
<hr/>			
<b>Direct Property</b>			
Direct property	See table overleaf	<u>39,400</u>	<u>10.4</u>

\*Excludes quoted property and forestry investments.

## LIST OF INVESTMENTS AND PROPERTY PORTFOLIO AS AT 31 DECEMBER 2011

Classification	Name	Value £'000	%
<b>Quoted Equity Property Investments</b>			
	Fukuoka REIT	2,968	
	# ‡ Invista European Real Estate Trust	835	
	Japan Residential Investment Company	5,063	
	Tamor European Industrial Fund	885	
	Treasury China Trust	1,949	
<b>Total Quoted Equity Property Investments</b>		<b>11,700</b>	<b>3.0</b>
<b>Quoted Equity Forestry Investments</b>			
	Cambium Global Timberland	<b>8,250</b>	<b>2.2</b>
<b>Quoted Fixed Interest</b>			
Sterling denominated	Baillie Gifford High Yield Bond Fund	6,642	
	Barclays Bank 14% 2019	3,362	
	CQS Rig Finance Fund 'C'	782	
		<b>10,786</b>	<b>2.9</b>
Euro denominated	Fleet Street 2 FRNs 2017	3,053	
	Semper Finance FRN SLP 2015	2,432	
		<b>5,485</b>	<b>1.4</b>
US dollar denominated	Athena Debt Opportunities Fund	12,758	3.3
Brazilian real denominated	Brazil CPI Linked 15/05/2045	17,742	4.7
<b>Total Quoted Fixed Interest</b>		<b>46,771</b>	<b>12.3</b>
Unquoted		1,850	0.5
Net Liquid Assets		761	0.2
<b>Total Assets</b>		<b>381,166</b>	<b>100.00</b>

# Includes a holding in warrants.

‡ Includes a holding in preference shares.

## Property Portfolio

Location	Type	Tenant	2011	2011	2010
			Value £'000	% of total assets	Value £'000
Dundee	Public House	J D Wetherspoon Plc	1,000	0.2	1,050
Dunfermline	Shop	W H Smith Retail Holdings Ltd	2,200	0.6	2,300
Earley	Public House	Spirit Pub Company (Managed) Limited	2,700	0.7	2,800
Kenilworth	Nursing Home	Care UK Community Partnership Limited	4,950	1.3	5,200
Market Deeping	Warehouse	Metalrax plc	1,000	0.3	900
Newport Pagnell	Car showroom	Reg Vardy (Property Management) Limited	3,100	0.8	-
New Romney	Holiday Village	Park Resorts Ltd	7,450	2.0	6,800
Oban	Shop	W H Smith Retail Holdings Ltd	1,550	0.4	1,600
Offord	Public House	Spirit Pub Company (Managed) Limited	1,800	0.5	1,900
Perth	Bank	Bank of Scotland	2,600	0.7	2,650
Portsmouth	Public House	J D Wetherspoon Plc	2,150	0.6	2,200
Reading	Restaurant	Bella Italia Restaurants Ltd	1,150	0.3	1,150
Redditch	Warehouse	Metalrax plc	1,200	0.3	1,150
Sunderland	Office and Leisure	Various	4,250	1.1	-
Torquay	Public House	Mitchells & Butler Retail Ltd	1,100	0.3	1,100
Winchester	Public House	Fuller Smith & Turner Plc	1,200	0.3	1,150
			<b>39,400</b>	<b>10.4</b>	<b>31,950</b>

## Capital

At 31 December	Total assets £'000	Debenture stocks and loans £'000	Shareholders' funds £'000	Net asset value per share (book) * p	Net asset value per share (fair) * p	Share price p	Premium/ (discount) † (book) %	Premium/ (discount) † (fair) %
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 <sup>^</sup>	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)
2007	460,094	88,708	371,386	280.3	272.7	240.0	(14.4)	(12.0)
2008	289,087	88,312	200,775	151.5	145.3	130.5	(13.9)	(10.2)
2009	365,067	87,892	277,175	209.2	206.0	181.0	(13.5)	(12.1)
2010	418,269	87,446	330,823	249.7	242.5	245.5	(1.7)	1.2
<b>2011</b>	<b>381,166</b>	<b>86,972</b>	<b>294,194</b>	<b>221.7</b>	<b>205.3</b>	<b>208.5</b>	<b>(6.0)</b>	<b>1.6</b>

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

† Premium/(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			Expense ratio ‡ %	Gearing Ratios	
			per ordinary share# p	Dividend per ordinary share (net) p	Actual gearing ¶ %		Potential gearing § %	
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 <sup>^</sup>	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	
2007	17,751	11,345	8.56	8.25	0.80	105	124	
2008	20,901	13,905	10.50	8.80	0.84	100	144	
2009	17,194	11,989	9.05	9.05	1.02	97	132	
2010	16,379	11,271	8.51	9.25	0.90	96	126	
<b>2011</b>	<b>17,316</b>	<b>12,346</b>	<b>9.32</b>	<b>9.45</b>	<b>0.89</b>	<b>99</b>	<b>130</b>	

# 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.

## Cumulative Performance (taking 2001 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	Dividends per ordinary share (net)	Retail price index
2001	100	100	100	100	100	100	100	100	100
2002	72	74	69	72	74	76	103	101	103
2003	82	88	78	84	86	91	107	101	106
2004 <sup>^</sup>	91	101	87	98	93	102	115	108	110
2005	113	128	114	133	112	125	125	117	112
2006	125	145	125	151	123	142	138	133	117
2007	124	148	125	155	127	151	157	148	122
2008	67	83	68	89	91	112	192	158	123
2009	93	121	94	130	110	140	166	162	126
2010	111	151	128	185	124	162	156	166	132
<b>2011</b>	<b>98</b>	<b>140</b>	<b>108</b>	<b>164</b>	<b>114</b>	<b>154</b>	<b>171</b>	<b>170</b>	<b>138</b>

## Compound annual returns

5 year	(4.7%)	(0.7%)	(2.9%)	1.7%	(1.5%)	1.6%	4.4%	5.0%	3.4%
10 year	(0.2%)	3.4%	0.8%	5.1%	1.3%	4.4%	5.5%	5.4%	3.3%

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. With effect from 1 January 2009, the Company's benchmark became 50% FTSE All-Share Index and 50% FTSE All-World ex UK Index. For the purposes of the above tables the returns on these benchmarks for their respective periods have been linked to form a single benchmark.

<sup>^</sup> The figures prior to 2004 have not been restated for the changes in accounting policies implemented in 2005.

Past performance is not a guide to 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 2011.

## Business Review

### Business and Status

The Company is an investment company within the meaning of section 833 of the Companies Act 2006.

The Company carries on business as an investment trust. It was approved by HM Revenue & Customs as an investment trust under section 1158 of the Corporation Tax Act 2010 for the year ended 31 December 2010, subject to any matters that may arise from any subsequent enquiry by HM Revenue & Customs 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 such approval each year.

### Objective and Policy

SAINTS' objective is to increase capital and grow income in order to deliver real dividend growth.

SAINTS' policy is to invest flexibly and actively across a broad range of assets and markets. Listed equities, both UK and overseas, form the largest part of the portfolio. Investments are also made in bonds, property and other asset classes.

The Board believes that a flexible approach to investment is important. As market valuations across and within different asset classes vary over time, the ability to adjust asset allocation and portfolio positioning in response to these variations is important. There are no pre-defined maximum or minimum exposure levels for asset classes, sectors or regions.

The Board also believes that a medium to long term approach is likely to lead to the best investment returns. SAINTS' performance in any one year is likely to differ from that of its benchmark index, sometimes by a significant amount. Financial markets are volatile, particularly over short time periods, but the Manager is encouraged to view such volatility as giving rise to investment opportunities rather than as a risk to be avoided.

In order to achieve real growth in the dividend, the income generated from SAINTS' assets needs to grow over the medium to longer term at a faster rate than inflation. Consequently, the focus of the portfolio is on listed equities. Investments are regularly considered and made in a broad range of other asset types and markets. Derivative and structured instruments may also be used with prior Board approval, either to hedge an existing investment or a currency exposure or to exploit an investment opportunity.

The equity portfolio consists of shares listed both in the UK and in overseas markets. The portfolio is diversified across a range of holdings with little regard paid to the weighting of individual companies in the composite benchmark index. The number of individual companies will vary over time and the portfolio is managed on a global basis rather than as a series of regional sub-portfolios.

Investments are made in markets other than listed equity markets when prospective returns appear to be superior to those from equity markets or are considered likely to exceed SAINTS' borrowing costs. The list of these other investments will vary from time to time as opportunities are identified but include investment grade bonds, high yield bonds, property, forestry, private equity and other asset types.

As an investment trust, SAINTS is able to borrow money and does so when the Board and Managers have sufficient conviction that the assets funded by borrowed monies will generate a return in excess of the cost of borrowing. Whenever long term borrowings cannot be fully invested in such manner, the borrowed funds are used to purchase a diversified portfolio of similar maturity bonds to the borrowings. This has the effect of hedging out much of the interest rate risk and removing the mismatch between borrowing costs and associated investment returns. Gearing levels are discussed by the Board and Managers at every Board meeting and monitored between meetings. The Board will not take out additional borrowings if this takes the level of effective gearing beyond 130%.

The starting position for investment of shareholder funds is 100% exposure to equity markets. The allocation to equity markets at any point in time will reflect the Board's and Managers' views on prospective returns from equities and the full range of alternative investment opportunities but, in broad terms, SAINTS will gear up through the use of borrowings if equity markets look undervalued and will hold cash or invest in non-equity assets when equity markets look overvalued.

The exposure to listed equities is set within a range of 75% to 125% of shareholders' funds in normal circumstances. The number of individual equities held will vary over time but, in order to diversify risk, will typically be in a range between 50 and 100.

The Board monitors the aggregate exposure to any one entity across the whole investment portfolio. The maximum exposure at time of investment to any one entity is 15% of total assets. The Board is notified in advance of any transaction that would take an individual equity holding above 5% of shareholders' funds. SAINTS does from time to time invest in other UK listed investment companies. The maximum permitted investment in such companies is 15% of gross assets.

A detailed analysis of the Company's investment portfolio is set out on pages 12 to 18.

#### Board Oversight

When assessing the performance of the Company and the Managers, the Board looks at dividend growth and at net asset value total returns relative to the benchmark total return. The Board believes it is appropriate to make this assessment over a medium to long term timeframe, at least three to five years, in accordance with the medium to long term approach taken to investment.

The Board monitors closely the activities of the Managers, the composition of the investment portfolio and the level of gearing to ensure these exposures are identified and to judge whether or not prospective investment returns are commensurate with the nature and size of these exposures.

The Board sets a number of guidelines and places limits and restrictions on the Managers in order to minimise the risk of permanent loss of capital. Within these constraints, the Board encourages the Managers to maximise long term capital and income growth rather than minimise short term volatility in the capital value of the investment portfolio. The main source of both long term return and short term volatility in the SAINTS' portfolio is likely to be the investments in listed equities.

The Board also monitors SAINTS' revenue position and receives regular estimates from the Managers of likely income growth. The level of dividend in any one year is set after assessing the income generated by the portfolio in that year, the level of revenue reserves and long term trends in income.

#### Discount/Premium

The Board has powers to buy back its own shares at a discount to net asset value and to hold such shares in treasury as well as to issue new shares and re-issue treasury shares at a premium to net asset value.

The company issues shares at such times as the premium indicates that demand is not being met by natural liquidity in the market.

Buyback powers have been used in the past in circumstances when large lines of stock cannot be absorbed by the market. The discount or premium, 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 which 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.

During the year the Company issued 190,000 ordinary shares, raising £405,000, and no shares were bought back.

#### 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 premium/discount (after deducting debentures at fair value);
- the total expense ratio;
- earnings per share; and
- dividend per share.

A historical record of these measures is shown on pages 2, 3 and 19.

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

#### Results

The net asset value per share fell 15.3%, compared to a fall in the benchmark of 8.0%, dividends increased by 2.2% to 9.45p per share and the Company's share price premium increased from 1.2% to 1.6%.

#### Dividends

The Board recommends a final dividend of 2.40p per ordinary share which, together with the interim dividends already paid, makes a total of 9.45p for the year.

If approved, the recommended final dividend on the ordinary shares will be paid on 13 April 2012 to shareholders on the register at the close of business on 9 March 2012. The ex-dividend date is 7 March 2012. The Company's Registrar offers a Dividend Reinvestment Plan (see page 52) and the final date for the receipt of elections for reinvestment of this dividend is 21 March 2012.

#### Review of the Year and Future Trends

A review of the year and the investment outlook is contained in the Chairman's Statement and the Managers' Review.

#### Principal Risks and Uncertainties

The Company's assets consist mainly of listed securities and its principal risks are therefore market related and include market risk (comprising currency risk, interest rate risk and other price risk), liquidity risk and credit risk. An explanation of those risks and how they are managed is contained in note 18 to the financial statements on pages 44 to 48.

Other risks faced by the Company include the following:

**Regulatory Risk** – failure to comply with applicable legal and regulatory requirements could lead to suspension of the Company's Stock Exchange listing, financial penalties or a qualified audit report. Breach of section 1158 of the Corporation Tax Act 2010 could lead to the Company being subject to tax on capital gains. The Managers monitor investment movements and the level of forecast income and expenditure to ensure the provisions of section 1158 are not breached. Baillie Gifford's Heads of Business Risk & Internal Audit and Regulatory Risk provide regular reports to the Audit Committee on Baillie Gifford's monitoring programmes.

Major regulatory change could impose unnecessary compliance burdens on the Company or threaten the viability of the investment company structure. In such circumstances representation is made to ensure that the special circumstances of investment trusts are recognised.

**Operational/Financial Risk** – failure of the Managers' accounting systems or those of other third party service providers could lead to an inability to provide accurate reporting and monitoring or a misappropriation of assets. The Managers have a comprehensive business continuity plan which facilitates continued operation of the business in the event of a service disruption or major disaster. The Board reviews the Managers' Report on Internal Controls and the reports by other key third party providers are reviewed by the Managers on behalf of the Board.

**Premium/Discount Volatility** – the premium/discount at which the Company's shares trade can change. The Board monitors the level of premium/discount and the Company has authority to issue new shares and to buy back its existing shares.

**Gearing Risk** – the Company may borrow money for investment purposes. If the investments fall in value, any borrowings will magnify the extent of this loss. If borrowing facilities are not renewed, the Company may have to sell investments to repay borrowings.

All borrowings require the prior approval of the Board and gearing levels are discussed by the Board and Managers at every meeting. The majority of the Company's investments are in quoted securities that are readily realisable.

#### Employees

The Company has no employees. The executive responsibility for investment management has been delegated to Baillie Gifford & Co.

#### Social and Community Issues

As an investment trust, the Company has no direct social or community responsibilities. The Company however believes that it is in shareholders' interests to consider environmental, social and governance factors when selecting and retaining investments. Details of the Company's policy on socially responsible investment can be found under Corporate Governance and Stewardship on page 25.

#### Corporate Governance

##### Compliance

The Board is committed to achieving and demonstrating high standards of Corporate Governance. This statement outlines how the principles of the June 2010 UK Corporate Governance Code (the "Code"), which can be found at [www.frc.org.uk](http://www.frc.org.uk), were applied throughout the financial year. The Board confirms the Company has complied throughout the year under review with the relevant provisions of the Code.

The Association of Investment Companies has published its own Code of Corporate Governance which provides a framework of best practice for investment companies which can be found at [www.theaic.co.uk](http://www.theaic.co.uk). The Board is of the opinion that that the Company has complied with the recommendations of the AIC Code.

##### The Board

The Board has overall responsibility for the Company's affairs. It has a number of matters reserved for its 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 seven Directors all of whom are non-executive. The Chairman is responsible for organising the business of the Board, ensuring its effectiveness and setting its agenda. The executive responsibility for investment management has been delegated to the Company's 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 6.

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

### Terms of Appointment

Letters which specify the terms of appointment are issued to new Directors. The letters of appointment are available for inspection on request.

A Director appointed during the year is required to retire and seek election by shareholders at the next Annual General Meeting. The Board has agreed to go beyond the minimum requirements of the Code and all of the Directors will retire at each Annual General Meeting and, if appropriate, offer themselves for re-election.

### Independence of Directors

All 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.

Sir Brian Ivory, David Price and Lord Kerr of Kinlochard have served on the Board for more than nine years, although there has only been a relationship with the Managers for eight years as Baillie Gifford were appointed in 2004. Mr Price is not offering himself for re-election at the Annual General Meeting. The Directors recognise the importance of succession planning for company boards and review the Board composition annually. However the Board is of the view that length of service will not necessarily compromise the independence or contribution of Directors of an investment trust company, where continuity and experience can be a benefit to the Board. The Board concurs with the view expressed in the AIC Code that long-serving Directors should not be prevented from being considered independent. Following a formal performance evaluation, the Board has concluded that, notwithstanding their length of service Sir Brian Ivory, David Price and Lord Kerr of Kinlochard 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.

### 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 following table shows the attendance record for the Board and Committee meetings held during the year. All Directors attended the Annual General Meeting.

### Directors' Attendance at Meetings

Name	Board	Audit Committee	Nomination Committee
<b>Number of meetings</b>	<b>6</b>	<b>2</b>	<b>1</b>
Sir Brian Ivory	6	2	1
The Rt Hon Sir Menzies Campbell	6	2	1
Eric Hagman	6	2	1
Lord Kerr of Kinlochard	6	2	1
Rachel Lomax	6	2	1
Peter Moon	6	2	1
David Price	6	2	1

### 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, Board appraisal, succession planning, training and identifying and nominating new candidates for appointment to the Board. While the Board recognises the benefits of gender diversity, the priority in appointing new directors to the Board is to identify the candidate with the best range of skills and experience to complement existing Directors. The Committee also considers whether Directors should be recommended for re-election by shareholders. The Committee is responsible for considering Directors' potential conflicts of interest and for making recommendations to the Board on whether or not the potential conflicts should be authorised. The Committee's terms of reference are available on request from the Company and from the SAINTS' page on the Managers' website [www.saints-it.com](http://www.saints-it.com).

### Performance Evaluation

An appraisal of the Chairman, each Director and a performance evaluation and review of the Board as a whole and its Committees was carried out during the year. The Chairman and each Director completed a performance evaluation questionnaire and each Director had an interview with the Chairman. The appraisal of the Chairman was led by David Price. The appraisals and evaluations considered, amongst other criteria, the balance of skills of the Board, training and development requirements, 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.

### Induction and Training

New Directors are provided with an induction programme which is tailored to the particular circumstances of the appointee. Regular briefings are provided on changes in regulatory requirements that could affect the Company and the Directors. Directors receive other relevant training as necessary.

### Remuneration

As all the Directors are non-executive, there is no requirement for a separate Remuneration Committee. Directors' fees are considered by the Board as a whole within the limits approved by shareholders. The Company's policy on remuneration is set out in the Directors' Remuneration Report on pages 28 and 29.

### Internal Controls and Risk Management

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

The Board confirms that there is a 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 Directors confirm that they have reviewed the effectiveness of the Company's risk management and internal control systems and they have procedures in place to review their effectiveness on a regular basis. No significant weaknesses were identified in the year under review.

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 practical measures in relation to the design, implementation and maintenance of control policies and procedures to safeguard the assets of the Company and to manage its affairs properly, including the maintenance of effective operational and compliance controls and risk management have also been delegated to Baillie Gifford & Co. The Board acknowledges its responsibilities to supervise and control the discharge by the Managers and Secretaries of their obligations.

The Baillie Gifford & Co Heads of Business Risk & Internal Audit and Regulatory Risk provide the Audit Committee 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 which complies with Technical Release AAF 01/06 – Assurance Reports on Internal Controls of Service Organisations made available to Third Parties. This report is independently reviewed by Baillie Gifford & Co's auditors and a copy is submitted to the Audit Committee.

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 Mellon as independent custodian of the Company's investments. The custodian prepares a report on its internal controls which is independently reviewed by KPMG Audit Plc.

A detailed risk map is prepared which identifies the significant risks faced by the Company and the key controls employed to manage these risks.

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 30 and 31.

### Going Concern

In accordance with The Financial Reporting Council's guidance on going concern and liquidity risk, the Directors have undertaken a rigorous review of the Company's ability to continue as a going concern. The Company's principal risks are market related and include market risk, liquidity risk and credit risk. An explanation of these risks and how they are managed is contained in note 18 to the financial statements. The Company's assets, the majority of which are investments in quoted securities which are readily realisable, exceed its liabilities significantly. All borrowings require the prior approval of the Board. Gearing levels and compliance with borrowing covenants are reviewed by the Board on a regular basis. The Company has no short term borrowings and the redemption date for the Company's Debenture is April 2022. Accordingly, the financial statements 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 consisting of all independent 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 SAINTS' page of the Managers' website [www.saints-it.com](http://www.saints-it.com). Eric Hagman is chairman of the Audit Committee. The Committee's responsibilities, which were discharged during the year, include:

- monitoring and reviewing the integrity of the half-yearly and annual financial statements and any formal announcements relating to the Company's financial performance;
- reviewing the adequacy and effectiveness of internal control and risk management systems;
- 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 terms of the Investment Management Agreement;

- 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; and
- considering whether there is a need for the Company to have its own internal audit function.

KPMG Audit Plc were appointed the Company's Auditors in 2004. Having considered the experience and tenure of the audit partner and staff and the level of service provided, the Committee remains satisfied with the Auditors' effectiveness. The audit partners responsible for the audit are rotated every five years and the current lead audit partner has been in place for three years. There are no contractual obligations restricting the Company's choice of external auditor.

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 2011 were £1,000 and related to the certification of financial information for the debenture trustee. The Committee does not believe that there has been any impairment to 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 SAINTS' page of 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 SAINTS' page of the Managers' website, [www.saints-it.com](http://www.saints-it.com).

#### Corporate Governance and Stewardship

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 (ESG) factors when selecting and retaining investments and have asked the Managers to take these issues into account. The Managers do not exclude companies from their investment universe purely on the grounds of ESG factors but adopt a positive engagement approach whereby matters are discussed with management with the aim of improving the relevant policies and management systems and enabling the Managers to consider how ESG factors could impact long term investment returns. The Managers' statement of compliance with the UK Stewardship Code can be found on the Managers' website at [www.bailliegifford.com](http://www.bailliegifford.com). The Managers' policy has been reviewed and endorsed by the Board.

The Managers are signatories to the United Nations Principles for Responsible Investment and the Carbon Disclosure Project.

#### Conflicts of Interest

Each Director submits a list of potential conflicts of interest to the Nomination Committee on an annual basis. The Committee considers them carefully, taking into account the circumstances surrounding them and makes a recommendation to the Board on whether or not the potential conflicts should be authorised. Board authorisation is for a period of one year. Having considered the lists of potential conflicts there were no situations which gave rise to a direct or indirect interest of a Director which conflicted with the interests of the Company.

#### Bribery Act 2010

The Bribery Act came into force on 1 July 2011. The Company has a zero tolerance policy towards bribery and is committed to carrying out business fairly, honestly and openly.

#### 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. Careful consideration has been given by the Board as to the basis on which the management fee is charged. The Board considers that maintaining a relatively low total expense ratio is in the best interest of all shareholders. The Board is also of the view that calculating the fee with reference to performance would be unlikely to exert a positive influence over the long term performance.

Details of the fee arrangements with Baillie Gifford & Co are shown on page 37.

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, OLM Property Limited is appointed manager of the Company's property portfolio. Details of its fees are shown on page 37. The agreement can be terminated on three months' notice. On termination, OLM Property Limited 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 OLM Property Limited's appointment on the terms agreed is in the interest of shareholders as a whole.

## Directors

Information about the Directors, including their relevant experience, can be found on page 6.

The Board has agreed to go beyond the minimum requirements of the UK Corporate Governance Code as all of the Directors will be retiring at the Annual General Meeting and, with the exception of David Price, they will all be offering themselves for re-election. Following formal performance evaluation, their performance continues to be effective and they remain committed to the Company. The Board recommends their re-election to shareholders.

## Directors' Interests

Name	Nature of interest	Ordinary	Ordinary
		25p shares held at 31 Dec 11	25p shares held at 31 Dec 10
Sir Brian Ivory	Beneficial	31,000	31,000
The Rt Hon Sir Menzies Campbell	Beneficial	2,389	2,315
Eric Hagman	Beneficial	2,000	2,000
Lord Kerr of Kinlochard	Beneficial	79,992	59,991
Rachel Lomax	Beneficial	29,446	17,057
Peter Moon	Beneficial	10,000	10,000
David Price	Beneficial	10,000	10,000

The Directors at the year end, and their interests in the Company at 31 December, were shown as above. During the period 1 January 2012 to 16 February 2012 The Rt Hon Sir Menzies Campbell, Lord Kerr of Kinlochard and Rachel Lomax added 22, 25,225 and 447 shares respectively to their beneficial holdings.

There have been no other changes intimated in the Directors' interests up to 16 February 2012.

## Director Indemnification and Insurance

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

The Company maintains Directors' and Officers' Liability Insurance.

## Share Capital

### Capital structure

The Company's capital structure consists of 132,675,943 ordinary shares of 25p each (2010 – 132,485,943 ordinary shares). There are no restrictions concerning the holding or transfer of the Company's ordinary shares and there are no special rights attaching to any of the shares.

## Dividends

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

## Capital entitlement

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

## Voting

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

Information on the deadlines for proxy appointments can be found on page 55.

## Major Holdings in the Company's Shares

Name	No. of ordinary 25p shares held at 31 Dec 11	% of issue
Brewin Dolphin Limited	6,660,412	5.0
Legal & General Group Plc	5,240,223	3.9
DC Thomson & Co Ltd	4,100,000	3.1

There have been no changes to the major interests in the Company's shares intimated up to 16 February 2012.

## Purchase of Own Shares

The Company's buy-back authority was last renewed at the AGM on 7 April 2011 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 and no shares are held in treasury.

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 2013. 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) 5 per cent above the average closing price on the London Stock Exchange of an ordinary share over the five business days immediately preceding the date of purchase; and

- (ii) the higher of the price of the last independent trade 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 14 in the Notice of Annual General Meeting.

### Share Issuance Authority

Resolution 12 in the Notice of Annual General Meeting seeks to renew the Directors' general authority to issue shares up to an aggregate nominal amount of £11,056,328. This amount represents 33.33% of the Company's total ordinary share capital currently in issue and meets institutional guidelines. No issue of ordinary shares will be made pursuant to the authorisation in Resolution 12 which would effectively alter the control of the Company without the prior approval of shareholders in general meeting.

Resolution 13, which is proposed as a special resolution, seeks to renew the Directors' authority to issue shares or sell shares held in treasury on a non-pre-emptive basis for cash (i.e. without first offering such shares to existing shareholders pro-rata to their existing holdings) up to an aggregate nominal amount of £3,316,898 representing 10% of the issued ordinary share capital of the Company as at 16 February 2012). The authorities sought in resolutions 12 and 13 will continue until the conclusion of the Annual General Meeting to be held in 2013 or on the expiry of 15 months from the passing of this resolution, if earlier.

Such authorities will only be used to issue shares or re-sell shares from treasury at a premium to net asset value and only when the Directors believe that it would be in the best interests of the company to do so.

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.

During the year the Company issued and allotted 190,000 shares with a nominal value of £47,500 for a total consideration of £405,000.

The Company does not hold any shares in treasury as at 16 February 2012.

### Creditor Payment Policy

The Company's payment policy to obtain the best terms for all business. In general, the Company agrees with its suppliers the terms of any business which will take place and it is its policy to abide by these terms. The Company had no trade creditors at either 31 December 2010 or 31 December 2011.

### Disclosure of Information to Auditors

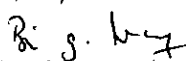
The Directors confirm that so far as each of the Directors is aware there is no relevant audit information of which the Company's auditors are unaware and the Directors have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information 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 489 and section 491(1) of the Companies Act 2006 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 as, in its opinion, they are in the best interests of the shareholders as a whole.

  
By order of the Board  
SIR BRIAN IVORY  
20 February 2012

# Directors' Remuneration Report

The Board has prepared this report, in accordance with the requirements of the Companies Act 2006. 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 page 31.

## Remuneration Committee

The Company has seven 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 ending 31 December 2012 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 £25,000 per annum per Director with a maximum additional remuneration of £25,000 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 and concluded that the fees for 2012 should remain unchanged at £31,000 per annum for the Chairman and £17,500 per annum for the other Directors. The Audit Committee Chairman's additional fee is £2,500 per annum. Directors' fees were last increased on 1 January 2010.

## Sums Paid to Third Parties (audited)

A sum of £26,500 (2010 – £27,625) was paid to Enitar Ltd in respect of Sir Brian Ivory's Director's fees. These payments were for making his services available as a Director of the Company.

## Directors' Remuneration for the Year (audited)

	2011 £	2010 £
<b>Directors who served during the year:</b>		
Sir Brian Ivory (Chairman)	31,000	31,000
The Rt Hon Sir Menzies Campbell	17,500	17,500
Eric Hagman	20,000	20,000
Lord Kerr of Kinlochard	17,500	17,500
Rachel Lomax	17,500	17,500
Peter Moon	17,500	17,500
David Price	17,500	17,500
	<b>138,500</b>	<b>138,500</b>

## Directors' Service Contracts

It is the Board's policy that Directors do not have a service contract but are provided with a letter of appointment. The terms of their appointment provide that all of the Directors shall retire and be subject to re-election at the first Annual General Meeting after their appointment. The Board has agreed that all of the Directors will retire and, if appropriate, offer themselves for re-election on an annual basis thereafter. There is no notice period and no provision for compensation upon early termination of appointment.

## Performance Graph

(figures rebased to 100 at 31 December 2006)

Source: Thomson Reuters Datastream/Baillie Gifford & Co.

With effect from 1 January 2009 the portfolio benchmark against which performance has been measured is 50% FTSE All-Share Index and 50% FTSE All-World Ex UK Index (in sterling terms). For the earlier years covered by the above graph the Company's benchmark was 70% FTSE All-Share Index and 30% FTSE World Ex UK Index (in sterling terms). 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 not a guide to future performance.

## Directors' Service Details

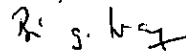
	Date of appointment	Due date for election/re-election
Sir Brian Ivory	13/9/00	AGM in 2012
The Rt Hon Sir Menzies Campbell	19/12/07	AGM in 2012
Eric Hagman	9/2/05	AGM in 2012
Lord Kerr of Kinlochard	18/9/02	AGM in 2012
Rachel Lomax	1/10/08	AGM in 2012
Peter Moon	29/7/05	AGM in 2012
David Price	19/11/97	–

## 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.

## Approval

The Directors' Remuneration Report on pages 28 and 29 was approved by the Board of Directors and signed on its behalf on 20 February 2012.



SIR BRIAN IVORY  
Chairman

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

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

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

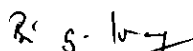
- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements respectively; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

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

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

- the financial statements, which have been prepared in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), give a true and fair view of the assets, liabilities, financial position and net return of the Company; and
- the Directors' Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.



By order of the Board  
SIR BRIAN IVORY  
20 February 2012

# 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 P.L.C. for the year ended 31 December 2011 set out on pages 32 to 48. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditors' 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

As explained more fully in the Directors' Responsibilities Statement set out on page 30, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and to express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

## Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm).

## Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2011 and of its loss for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Matters on which we are required to report by exception

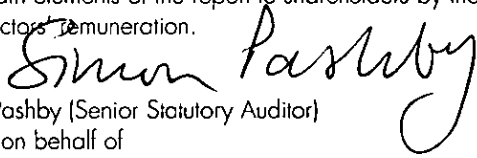
We have nothing to report in respect of the following:

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

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

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 24, in relation to going concern;
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on Directors' Remuneration.

  
Simon Pashby (Senior Statutory Auditor)  
for and on behalf of  
KPMG Audit Plc,  
Chartered Accountants  
Edinburgh  
20 February 2012

# Income Statement

For the year ended 31 December

	Notes	2011 Revenue £'000	2011 Capital £'000	2011 Total £'000	2010 Revenue £'000	2010 Capital £'000	2010 Total £'000
Net (losses)/gains on investments – securities	9	–	(31,679)	<b>(31,679)</b>	–	58,182	<b>58,182</b>
Currency losses	14	–	(840)	<b>(840)</b>	–	(699)	<b>(699)</b>
Income	2	17,316	–	<b>17,316</b>	16,379	–	<b>16,379</b>
Management fees	3	(627)	(1,163)	<b>(1,790)</b>	(618)	(1,147)	<b>(1,765)</b>
Other administrative expenses	4	(1,000)	–	<b>(1,000)</b>	(901)	–	<b>(901)</b>
<b>Net return before finance costs and taxation</b>		<b>15,689</b>	<b>(33,682)</b>	<b>(17,993)</b>	<b>14,860</b>	<b>56,336</b>	<b>71,196</b>
Finance costs of borrowings	5	(2,074)	(3,852)	<b>(5,926)</b>	(2,084)	(3,870)	<b>(5,954)</b>
<b>Net return on ordinary activities before taxation</b>		<b>13,615</b>	<b>(37,534)</b>	<b>(23,919)</b>	<b>12,776</b>	<b>52,466</b>	<b>65,242</b>
Tax on ordinary activities	6	(1,269)	698	<b>(571)</b>	(1,505)	977	<b>(528)</b>
<b>Net return on ordinary activities after taxation</b>		<b>12,346</b>	<b>(36,836)</b>	<b>(24,490)</b>	<b>11,271</b>	<b>53,443</b>	<b>64,714</b>
<b>Net return per ordinary share</b>	7	<b>9.32p</b>	<b>(27.80p)</b>	<b>(18.48p)</b>	<b>8.51p</b>	<b>40.34p</b>	<b>48.85p</b>

# Statement of Total Recognised Gains and Losses

For the year ended 31 December

	Notes	2011 Revenue £'000	2011 Capital £'000	2011 Total £'000	2010 Revenue £'000	2010 Capital £'000	2010 Total £'000
Net return on ordinary activities after taxation		12,346	(36,836)	<b>(24,490)</b>	11,271	53,443	<b>64,714</b>
Net (losses)/gains on investments – property	9	–	(86)	<b>(86)</b>	–	1,122	<b>1,122</b>
<b>Total recognised gains and losses for the year</b>		<b>12,346</b>	<b>(36,922)</b>	<b>(24,576)</b>	<b>11,271</b>	<b>54,565</b>	<b>65,836</b>
<b>Total recognised gains and losses per ordinary share</b>	7	<b>9.32p</b>	<b>(27.86p)</b>	<b>(18.54p)</b>	<b>8.51p</b>	<b>41.18p</b>	<b>49.69p</b>

A final dividend for the year of 2.40p is proposed (2010 – 2.35p), making a total dividend for the year of 9.45p (2010 – 9.25p). More information on dividend distributions can be found in note 8 on page 39.

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.

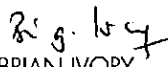
The accompanying notes on pages 36 to 48 are an integral part of this statement.

# Balance Sheet

At 31 December

	Notes	2011 £'000	2011 £'000	2010 £'000	2010 £'000
<b>Fixed assets</b>					
Investments – securities	9	341,005		381,239	
Investments – property	9	39,400		31,950	
			380,405		413,189
<b>Current assets</b>					
Debtors	10	1,552		1,542	
Cash and deposits	18	3,165		6,154	
		4,717		7,696	
<b>Creditors</b>					
Amounts falling due within one year	11	(3,956)		(2,616)	
<b>Net current assets</b>			761		5,080
<b>Total assets less current liabilities</b>			381,166		418,269
<b>Creditors</b>					
Amounts falling due after more than one year	12		(86,972)		(87,446)
<b>Total net assets</b>			<b>294,194</b>		<b>330,823</b>
<b>Capital and reserves</b>					
Called up share capital	13		33,169		33,121
Share premium	14		357		–
Capital redemption reserve	14		22,781		22,781
Capital reserve	14		221,749		258,671
Revenue reserve	14		16,138		16,250
<b>Shareholders' funds</b>			<b>294,194</b>		<b>330,823</b>
<b>Net asset value per ordinary share</b> (Debtenture at fair value)	15		<b>205.3p</b>		<b>242.5p</b>
<b>Net asset value per ordinary share</b> (Debtenture at book value)	15		<b>221.7p</b>		<b>249.7p</b>

The Financial Statements of the Scottish American Investment Company P.L.C. (company registration number SC489B) were approved and authorised for issue by the Board and were signed on 20 February 2012.

  
 MR BRIAN IVORY  
 Chairman

The accompanying notes on pages 36 to 48 are an integral part of this statement.

# Reconciliation of Movements in Shareholders' Funds

For the year ended 31 December 2011

	Notes	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	Shareholders' funds £'000
Shareholders' funds at 1 January 2011		33,121	-	22,781	258,671	16,250	<b>330,823</b>
Total recognised gains and losses		-	-	-	(36,922)	12,346	<b>(24,576)</b>
Shares issued	13	48	357	-	-	-	<b>405</b>
Dividends paid in the year	8	-	-	-	-	(12,458)	<b>(12,458)</b>
<b>Shareholders' funds at 31 December 2011</b>		<b>33,169</b>	<b>357</b>	<b>22,781</b>	<b>221,749</b>	<b>16,138</b>	<b>294,194</b>

For the year ended 31 December 2010

	Notes	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	Shareholders' funds £'000
Shareholders' funds at 1 January 2010		33,121	-	22,781	204,106	17,167	<b>277,175</b>
Total recognised gains and losses		-	-	-	54,565	11,271	<b>65,836</b>
Dividends paid in the year	8	-	-	-	-	(12,188)	<b>(12,188)</b>
<b>Shareholders' funds at 31 December 2010</b>		<b>33,121</b>	<b>-</b>	<b>22,781</b>	<b>258,671</b>	<b>16,250</b>	<b>330,823</b>

The accompanying notes on pages 36 to 48 are an integral part of this statement.

# Cash Flow Statement

For the year ended 31 December

	Notes	2011 £'000	2011 £'000	2010 £'000	2010 £'000
<b>Net cash inflow from operating activities</b>	16		14,253		13,616
<b>Servicing of finance</b>					
Interest paid		(6,400)		(6,400)	
<b>Net cash outflow from servicing of finance</b>			(6,400)		(6,400)
<b>Taxation</b>					
Overseas tax incurred		(564)		(522)	
Income tax refunded		9		-	
<b>Total tax paid</b>			(555)		(522)
<b>Financial investment</b>					
Acquisitions of investments		(51,733)		(46,889)	
Disposals of investments		54,225		48,700	
Forward currency contracts		(782)		(840)	
<b>Net cash inflow from financial investment</b>			1,710		971
<b>Equity dividends paid</b>			(12,458)		(12,188)
<b>Net cash outflow before financing</b>			(3,450)		(4,523)
<b>Financing</b>					
Shares issued		405		-	
<b>Net cash inflow from financing</b>			405		-
<b>Decrease in cash</b>	17		<b>(3,045)</b>		<b>(4,523)</b>
<b>Reconciliation of net cash flow to movement in net debt</b>	17				
Decrease in cash			(3,045)		(4,523)
Translation difference			56		(6)
Other non-cash changes			474		446
<b>Movement in net debt in the year</b>			(2,515)		(4,083)
<b>Net debt at 1 January</b>			(81,292)		(77,209)
<b>Net debt at 31 December</b>			<b>(83,807)</b>		<b>(81,292)</b>

The accompanying notes on pages 36 to 48 are an integral part of this statement.

## 1 Principal Accounting Policies

The financial statements for the year to 31 December 2011 have been prepared on the basis of the accounting policies set out below, which are unchanged from the prior year and have been applied consistently.

### (a) Basis of Accounting

The financial statements are prepared on a going concern basis under the historical cost convention, modified to include the revaluation of fixed asset investments, and on the assumption that approval as an investment trust will 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 financial statements have been prepared in accordance with the Companies Act, applicable UK accounting standards and with the AIC's Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' issued in January 2009. In order to better reflect the activities of the Company 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 in securities are accounted for on a trade date basis. Purchases and sales of investments in property are accounted for on a completion date basis.

Investments in securities are designated as fair value through profit or loss upon initial recognition. The fair value of listed security investments traded on an active market is bid value, or in the case of FTSE 100 constituents, last traded prices issued by the London Stock Exchange. The fair value of other listed security investments and 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. Changes in the fair value of investments in securities and gains and losses on disposal are recognised as capital items in the Income Statement.

Investments in property are valued at fair value and changes in fair value and gains and losses on disposal are recognised as capital items through the Statement of Total Recognised Gains and Losses. The valuation of property held at the year end has been estimated by professional valuers in accordance with the RICS appraisal and valuation manual.

### (c) Cash

Cash includes cash in hand and deposits repayable on demand. Deposits are repayable on demand if they can be withdrawn at any time without notice and without penalty or if they have a maturity or period of notice of not more than one working day.

### (d) 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) Income from debt securities is recognised on an effective interest rate basis. Where income returns are for a non-fixed amount, the impact of these returns on the effective interest rate is recognised once such returns are known. If there is reasonable doubt that a return will be received, its recognition is deferred until that doubt is removed.

(iii) Franked income is stated net of tax credits.

(iv) Unfranked investment income includes the taxes deducted at source.

(v) Interest receivable on deposits is recognised on an accruals basis.

(vi) If scrip is taken in lieu of dividends in cash, the net amount of the cash dividend declared is credited to the revenue account. Any excess in the value of the shares received over the amount of the cash dividend foregone is recognised as capital.

(vii) Rental income is recognised on an accruals basis.

### (e) 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 35% to revenue and 65% 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.

### (f) Long Term Borrowings and Finance Costs

Long term borrowings are carried in the balance sheet at amortised cost, representing the cumulative amount of net proceeds on issue plus accrued finance costs. The finance costs of such borrowings are allocated 35% to revenue and 65% 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.

### (g) 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.

### (h) Foreign Currencies

Transactions involving foreign currencies are converted at the rate ruling at the time of the transaction. Monetary assets and liabilities and fixed asset investment in foreign currencies are translated at the closing rates of exchange at the balance sheet date. Forward foreign exchange contracts are valued at the forward rate ruling 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 the Income Statement as capital or revenue as appropriate.

### (i) Capital Reserve

Gains and losses on disposal of investments, changes in fair value of investments held, exchange differences of a capital nature and the amounts by which other financial assets and liabilities valued at fair value differ from their book value are dealt with in this reserve. Purchases of the Company's own shares for cancellation are also funded from this reserve. 65% of management fees and finance costs are allocated to the capital reserve in accordance with the Company's objective of combining capital and income growth.

## 2 Income

	2011 £'000	2010 £'000
<b>Income from investments</b>		
Franked investment income	3,989	3,652
UK unfranked investment income	1,114	2,305
Overseas dividends	7,272	5,751
Overseas interest	2,215	2,104
	<b>14,590</b>	<b>13,812</b>
<b>Other income</b>		
Deposit interest	6	26
Rental income	2,670	2,287
Other income	50	254
	<b>2,726</b>	<b>2,567</b>
<b>Total income</b>	<b>17,316</b>	<b>16,379</b>
<b>Total income comprises</b>		
Dividends from financial assets designated at fair value through profit or loss	11,261	9,403
Interest from financial assets designated at fair value through profit or loss	3,329	4,409
Interest from financial assets not at fair value through profit or loss	6	26
Other income not from financial assets	2,720	2,541
	<b>17,316</b>	<b>16,379</b>

## 3 Management Fees

	2011 Revenue £'000	2011 Capital £'000	2011 Total £'000	2010 Revenue £'000	2010 Capital £'000	2010 Total £'000
Investment management fee	563	1,046	<b>1,609</b>	564	1,048	<b>1,612</b>
Property management fee	64	117	<b>181</b>	54	99	<b>153</b>
	<b>627</b>	<b>1,163</b>	<b>1,790</b>	<b>618</b>	<b>1,147</b>	<b>1,765</b>

Baillie Gifford & Co are employed by the Company as investment managers and secretaries under a management agreement which can be terminated on six months' notice. Baillie Gifford & Co's annual management fee is 0.45% of total assets less current liabilities, excluding the property portfolio, calculated on a quarterly basis. Although holdings in collective investment schemes (OEICs) managed by Baillie Gifford & Co are subject to this fee the OEIC share class held by the Company does not itself attract a fee, thereby avoiding any duplication of fees. No secretarial fee is payable.

The property portfolio is managed by OLIM Property 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

	2011 £'000	2010 £'000
General administrative expenses	769	684
Custodian fees	75	62
Auditors' remuneration for audit services	17	16
Auditors' remuneration for non-audit services – reporting on debenture covenants	1	1
Directors' fees (see Directors' Remuneration Report on pages 28 and 29)	138	138
	<b>1,000</b>	<b>901</b>

## 5 Finance Costs of Borrowings

	2011 Revenue £'000	2011 Capital £'000	2011 Total £'000	2010 Revenue £'000	2010 Capital £'000	2010 Total £'000
Financial liabilities not at fair value through profit or loss						
Debt interest	2,074	3,852	5,926	2,084	3,870	5,954

## 6 Tax on Ordinary Activities

	2011 Revenue £'000	2011 Capital £'000	2011 Total £'000	2010 Revenue £'000	2010 Capital £'000	2010 Total £'000
UK corporation tax	769	(769)	-	1,024	(1,024)	-
Overseas taxation	571	-	571	528	-	528
Double taxation relief	(71)	71	-	(47)	47	-
	1,269	(698)	571	1,505	(977)	528

	2011 £'000	2010 £'000

The tax charge for the year is lower than the standard rate of corporation tax in the UK of 26.49% (2010 – 28%)

The differences are explained below:

Net return on ordinary activities before taxation	(23,919)	65,242
Net return on ordinary activities before taxation multiplied by the standard rate of corporation tax in the UK of 26.49% (2010 – 28%)	(6,336)	18,268
Capital returns not taxable	8,614	(16,095)
Income not taxable	(2,838)	(2,551)
Income taxable in different period	-	(2)
Taxable loss not utilised	560	380
Overseas tax	571	528
Current tax charge for the year	571	528

At 31 December 2011 the Company had a potential deferred tax asset of £1,376,000 (2010 – £837,000) 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. The potential deferred tax asset has been calculated using a corporation tax rate of 25.25% (2010 – 27.25%).

## 7 Returns per Ordinary Share

	2011 Revenue	2011 Capital	2011 Total	2010 Revenue	2010 Capital	2010 Total
Net return per ordinary share (Income Statement)	9.32p	(27.80p)	(18.48p)	8.51p	40.34p	48.85p
Total recognised gains and losses per ordinary share	9.32p	(27.86p)	(18.54p)	8.51p	41.18p	49.69p

Net return per ordinary share is based on the return on ordinary activities after taxation figures in the Income Statement and on 132,533,834 (2010 – 132,485,943) ordinary shares of 25p, being the weighted average number of ordinary shares in issue during each year. Total recognised gains and losses per ordinary share is based on the total recognised gains and losses for the year in the Statement of Total Recognised Gains and Losses and on 132,533,834 (2010 – 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.

## 8 Ordinary Dividends

	2011	2010	2011 £'000	2010 £'000
<b>Amounts recognised as distributions in the year:</b>				
Previous year's final (paid 11 April 2011)	2.35p	2.30p	3,113	3,047
First interim (paid 30 June 2011)	2.35p	2.30p	3,113	3,047
Second interim (paid 30 September 2011)	2.35p	2.30p	3,114	3,047
Third interim (paid 30 December 2011)	2.35p	2.30p	3,118	3,047
	<b>9.40p</b>	<b>9.20p</b>	<b>12,458</b>	<b>12,188</b>

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 1159 of the Corporation Tax Act 2010 are considered. The revenue available for distribution out of current year profits by way of dividend for the year is £12,346,000 (2010 – £11,271,000).

	2011	2010	2011 £'000	2010 £'000
<b>Dividends paid and payable in respect of the year:</b>				
First interim (paid 30 June 2011)	2.35p	2.30p	3,113	3,047
Second interim (paid 30 September 2011)	2.35p	2.30p	3,114	3,047
Third interim (paid 30 December 2011)	2.35p	2.30p	3,118	3,047
Current year's proposed final dividend (payable 13 April 2012)	2.40p	2.35p	3,184	3,113
	<b>9.45p</b>	<b>9.25p</b>	<b>12,529</b>	<b>12,254</b>

## 9 Investments

As at 31 December 2011	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
<b>Securities</b>				
Listed equities	289,257	1,840	–	<b>291,097</b>
Listed convertible securities	1,287	–	–	<b>1,287</b>
Listed debt securities	10,786	17,742	18,243	<b>46,771</b>
Unlisted equities	–	–	1,850	<b>1,850</b>
Total financial asset investments	<b>301,330</b>	<b>19,582</b>	<b>20,093</b>	<b>341,005</b>
<b>Property</b>				
Freehold				39,400
Long leasehold				–
				<b>39,400</b>
Total investments				<b>380,405</b>

As at 31 December 2010	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
<b>Securities</b>				
Listed equities	311,551	1,909	–	<b>313,460</b>
Listed convertible securities	1,724	–	–	<b>1,724</b>
Listed debt securities	20,407	18,780	25,032	<b>64,219</b>
Unlisted equities	–	–	1,836	<b>1,836</b>
Total financial asset investments	<b>333,682</b>	<b>20,689</b>	<b>26,868</b>	<b>381,239</b>
<b>Property</b>				
Freehold				31,950
Long leasehold				–
				<b>31,950</b>
Total investments				<b>413,189</b>

## 9 Investments (continued)

Investments in securities are financial assets designated at fair value through profit or loss on initial recognition. In accordance with Financial Reporting Standard 29 'Financial Instruments: Disclosures', the tables on page 39 provide an analysis of these investments based on the fair value hierarchy described below which reflects the reliability and significance of the information used to measure their fair value. Property investments are not financial assets and therefore the fair value hierarchy does not apply to these assets.

### Fair Value Hierarchy

The fair value hierarchy used to analyse the fair values of financial assets is described below. The levels are determined by the lowest (that is the least reliable or least independently observable) level of input that is significant to the fair value measurement for the individual investment in its entirety as follows:

**Level 1** – investments with quoted prices in an active market;

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

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

	Listed equities £'000	Listed debt £'000	Unlisted £'000	Property £'000	Total £'000
Cost of investments at 31 December 2010	253,957	44,034	–	22,715	<b>320,706</b>
Investment holding gains at 31 December 2010	61,227	20,185	1,836	9,235	<b>92,483</b>
<b>Value of investments at 31 December 2010</b>	<b>315,184</b>	<b>64,219</b>	<b>1,836</b>	<b>31,950</b>	<b>413,189</b>
Movements in year:					
Purchases	37,958	7,481	–	7,536	<b>52,975</b>
Sales – proceeds	(31,459)	(22,766)	–	–	<b>(54,225)</b>
– gains on sales	4,978	6,659	–	–	<b>11,637</b>
Amortisation of fixed income book cost	–	231	–	–	<b>231</b>
Changes in investment holding gains	(34,277)	(9,053)	14	(86)	<b>(43,402)</b>
<b>Value of investments at 31 December 2011</b>	<b>292,384</b>	<b>46,771</b>	<b>1,850</b>	<b>39,400</b>	<b>380,405</b>
Cost of investments at 31 December 2011	265,434	35,639	–	30,251	<b>331,324</b>
Investment holding gains at 31 December 2011	26,950	11,132	1,850	9,149	<b>49,081</b>
<b>Value of investments at 31 December 2011</b>	<b>292,384</b>	<b>46,771</b>	<b>1,850</b>	<b>39,400</b>	<b>380,405</b>

Equities includes convertible securities.

The purchases and sales proceeds figures above include transaction costs of £91,000 (2010 – £54,000) and £31,000 (2010 – £15,000) respectively. Of the gains on sales during the year of £11,637,000 (2010 – losses of £1,378,000) a net gain of £12,497,000 (2010 – loss of £6,962,000) was included in investment holding gains/(losses) at the previous year end.

The property was valued on an open market basis by Jones Lang LaSalle as at 31 December 2011.

The following tables show a reconciliation from the opening balances to the closing balances for fair value measurements in Level 3 of the fair value hierarchy.

	Value at 31 December 2010 £'000	Purchases/ amortisation *	Sales proceeds £'000	Gains on sales £'000	Holding gains/ (losses) £'000	Value at 31 December 2011 £'000
For the year to 31 December 2011						
Listed debt	25,032	4,071	(9,725)	2,844	(3,979)	<b>18,243</b>
Unlisted equities	1,836	–	–	–	14	<b>1,850</b>
	<b>26,868</b>	<b>4,071</b>	<b>(9,725)</b>	<b>2,844</b>	<b>(3,965)</b>	<b>20,093</b>

\*Purchases/amortisation includes amortisation of fixed income securities of £227,000.

## 9 Investments (continued)

For the year to 31 December 2010	Value at 31 December 2009 £'000	Purchases/ amortisation * £'000	Sales proceeds £'000	Gains on sales £'000	Holding gains/ (losses) £'000	Value at 31 December 2010 £'000
Listed debt	15,494	1,382	(28)	-	8,184	25,032
Unlisted equities	1,780	-	-	-	56	1,836
	<b>17,274</b>	<b>1,382</b>	<b>(28)</b>	<b>-</b>	<b>8,240</b>	<b>26,868</b>

\*Purchases/amortisation includes amortisation of fixed income securities of £81,000.

The gains and losses included in the above tables have all been recognised in the Income Statement on page 32. The Company believes that other reasonably possible alternative valuations for its Level 3 holdings would not be significantly different from those included in the financial statements.

	2011 £'000	2010 £'000
<b>Net (losses)/gains on investments</b>		
<b>Securities:</b>		
Gains/(losses) on sales	11,637	(3,478)
Changes in investment holding gains	(43,316)	61,660
	<b>(31,679)</b>	<b>58,182</b>
<b>Property:</b>		
Gains on sales	-	2,100
Changes in investment holding gains	(86)	(978)
	<b>(86)</b>	<b>1,122</b>
	<b>(31,765)</b>	<b>59,304</b>

## 10 Debtors

	2011 £'000	2010 £'000
<b>Amounts falling due within one year:</b>		
Accrued income and prepaid expenses	1,450	1,322
Taxation recoverable	102	62
Gains on forward currency contracts	-	59
Other debtors	-	99
	<b>1,552</b>	<b>1,542</b>

With the exception of the gain on the forward currency contracts, none of the above debtors are financial assets designated at fair value through profit or loss. The carrying amount of debtors is a reasonable approximation of fair value. The gain on forward currency contracts is classified as Level 2 in the fair value hierarchy described on page 40.

## 11 Creditors – Amounts falling due within one year

	2011 £'000	2010 £'000
Purchases for subsequent settlement	1,242	-
Interest payable	1,438	1,438
Rental income prepaid	548	490
Losses on forward currency contracts	55	-
Other creditors and accruals	673	688
	<b>3,956</b>	<b>2,616</b>

With the exception of the loss on the forward currency contracts, none of the above creditors are financial liabilities designated at fair value through profit or loss. The loss on forward currency contracts is classified as Level 2 in the fair value hierarchy described on page 40. Included in other creditors is £434,000 (2010 – £475,000) in respect of the management fees.

## 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. Under the terms of the Debenture Agreement, total borrowings should not exceed net assets and the Company cannot undertake share buy-backs if this would result in total borrowings exceeding 66.67%.

The carrying value of the 8% Debenture Stock, which is measured at amortised cost (see note 1(f) on page 36), has been calculated as follows:

	2011 £'000	2010 £'000
Nominal value of 8% Debenture Stock	80,000	80,000
Premium less issue expenses	11,009	11,009
	<b>91,009</b>	<b>91,009</b>
Net amortisation in prior years	(3,563)	(3,117)
Net amortisation during the year	(474)	(446)
Carrying value of 8% Debenture Stock at end of year	<b>86,972</b>	<b>87,446</b>

## 13 Called up Share Capital

	2011 Number	2011 £'000	2010 Number	2010 £'000
Allotted, called up and fully paid ordinary shares of 25p each	<b>132,675,943</b>	<b>33,169</b>	<b>132,485,943</b>	<b>33,121</b>

In the year to 31 December 2011 the Company allotted 190,000 ordinary shares with a nominal value of £47,500 for a total consideration of £405,000. At 31 December 2011 the Company had authority to buy back 19,859,643 ordinary shares and to allot a further 13,058,594 ordinary shares without application of pre-emption rights in accordance with the authorities granted at the AGM in April 2011. No shares were bought back during the year.

## 14 Capital and Reserves

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	Shareholders' funds £'000
At 1 January 2011	33,121	-	22,781	258,671	16,250	<b>330,823</b>
Losses on investments – securities	-	-	-	(31,679)	-	<b>(31,679)</b>
Losses on investments – property	-	-	-	(86)	-	<b>(86)</b>
Management fees charged to capital	-	-	-	(1,163)	-	<b>(1,163)</b>
Finance costs charged to capital	-	-	-	(3,852)	-	<b>(3,852)</b>
Taxation credit to capital	-	-	-	698	-	<b>698</b>
Currency losses on forward currency contracts	-	-	-	(896)	-	<b>(896)</b>
Other currency gains	-	-	-	56	-	<b>56</b>
Revenue return on ordinary activities after taxation	-	-	-	-	12,346	<b>12,346</b>
Shares issued	48	357	-	-	-	<b>405</b>
Dividends paid in the year	-	-	-	-	(12,458)	<b>(12,458)</b>
At 31 December 2011	<b>33,169</b>	<b>357</b>	<b>22,781</b>	<b>221,749</b>	<b>16,138</b>	<b>294,194</b>

The Capital Reserve includes investment holding gains of £49,081,000 (2010 – gains of £92,483,000) as detailed in note 9. The revenue reserve is distributable by way of dividend.

### 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:

	2011	2010	2011 £'000	2010 £'000
Ordinary shares of 25p	<b>221.7p</b>	<b>249.7p</b>	<b>294,194</b>	<b>330,823</b>

Net asset value per ordinary share is based on the net assets as shown above and on 132,675,943 (2010 – 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 221.7p to 205.3p.

Taking the market price of the ordinary shares at 31 December 2011 of 208.5p, this would have given a premium to net asset value of 1.6% as against a discount of 6.0% on a traditional basis. At 31 December 2010 the effect would have been to reduce net asset value per ordinary share from 249.7p to 242.5p. Taking the market price of the ordinary shares at 31 December 2010 of 245.5p, this would have given a premium to net asset value of 1.2% as against a discount of 1.7% on a traditional basis.

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

	2011 £'000	2010 £'000
Net return before finance costs and taxation	(17,993)	71,196
Losses/(gains) on investments – securities	31,679	(58,182)
Currency losses	840	699
(Increase)/decrease in accrued income and prepaid expenses	(128)	63
Decrease/(increase) in other debtors	43	(109)
Increase in creditors and prepaid income	43	17
Other non-cash changes	(231)	(68)
Net cash inflow from operating activities	<b>14,253</b>	<b>13,616</b>

### 17 Analysis of Change in Net Debt

	At 1 January 2011 £'000	Cash flows £'000	Translation difference £'000	Other non-cash changes £'000	At 31 December 2011 £'000
Cash at bank and in hand	6,154	(3,045)	56	–	<b>3,165</b>
Debenture stock	(87,446)	–	–	474	<b>(86,972)</b>
	<b>(81,292)</b>	<b>(3,045)</b>	<b>56</b>	<b>474</b>	<b>(83,807)</b>

## 18 Financial Instruments

As an investment trust, the Company invests in equities and makes other investments so as to secure its investment objective of increasing capital and growing income in order to deliver real dividend growth. The Company borrows money when the Board and Managers have sufficient conviction that the assets funded by borrowed monies will generate a return in excess of the cost of borrowing. In pursuing its investment objective, the Company is exposed to a variety of risks that cause short term variation in the Company's net assets and could result in either a reduction in the Company's net assets or a reduction in the profits available for dividend.

These risks are categorised here as market risk (comprising currency risk, interest rate risk and other price risk), liquidity risk and credit risk. The Board monitors closely the Company's exposures to these risks but does so in order to reduce the likelihood of a permanent reduction in the Company's net assets or its profits available for dividend rather than to minimise the short term volatility.

The risk management policies and procedures outlined in this note have not changed substantially from the previous accounting period.

### Market Risk

The fair value or future cash flows of a financial instrument or other investment held by the Company may fluctuate because of changes in market prices. This market risk comprises three elements – currency risk, interest rate risk and other price risk. The Board reviews and agrees policies for managing these risks and the Company's Investment Manager both assesses the exposure to market risk when making individual investment decisions and monitors the overall level of market risk across the investment portfolio on an ongoing basis.

Details of the Company's investment portfolio are shown in note 9. Details of derivative financial instruments outstanding at the balance sheet date are shown on page 48.

### Currency Risk

Certain of the Company's assets, liabilities and income are denominated in currencies other than sterling (the Company's functional currency and in which it reports its results). Consequently, movements in exchange rates may affect the sterling value of those items.

The Investment Manager monitors the Company's exposure to foreign currencies and reports to the Board on a regular basis. The Investment Manager assesses the risk to the Company of the foreign currency exposure by considering the effect on the Company's net asset value and income of a movement in the rates of exchange to which the Company's assets, liabilities, income and expenses are exposed. However, the country in which a company is listed is not necessarily where it earns its profits. The movement in exchange rates on overseas earnings may have a more significant impact upon a company's valuation than a simple translation of the currency in which the company is quoted.

Forward currency contracts are used periodically to limit the Company's exposure to anticipated future changes in exchange rates which might otherwise adversely affect the value of the portfolio of investments. Where appropriate, they are used also to achieve the portfolio characteristics that assist the Company in meeting its investment objectives. Cash amounts received in foreign currencies are generally converted to sterling on a daily basis.

## 18 Financial Instruments (continued)

## Currency Risk (continued)

Exposure to currency risk through asset allocation, which is calculated by reference to the currency in which the asset or liability is quoted, is shown below.

At 31 December 2011	Investments £'000	Cash and deposits £'000	Forward currency contracts £'000	Debentures £'000	Other debtors and creditors * £'000	Net exposure £'000
US dollar	99,298	54	(7,722)	-	388	92,018
Euro	22,666	83	(5,430)	-	(1,081)	16,238
Brazilian real	22,502	1,094	-	-	152	23,748
Japanese yen	14,985	-	(13,385)	-	78	1,678
Other overseas currencies	58,629	-	-	-	62	58,691
<b>Total exposure to currency risk</b>	<b>218,080</b>	<b>1,231</b>	<b>(26,537)</b>	<b>-</b>	<b>(401)</b>	<b>192,373</b>
Sterling	162,325	1,934	26,482	(86,972)	(1,948)	101,821
	<b>380,405</b>	<b>3,165</b>	<b>(55)</b>	<b>(86,972)</b>	<b>(2,349)</b>	<b>294,194</b>

\*Includes net non-monetary assets of £144,000.

At 31 December 2010	Investments £'000	Cash and deposits £'000	Forward currency contracts £'000	Debentures £'000	Other debtors and creditors * £'000	Net exposure £'000
US dollar	107,893	-	(14,054)	-	174	94,013
Euro	21,456	-	(2,999)	-	54	18,511
Brazilian real	21,695	-	-	-	128	21,823
Japanese yen	11,560	-	-	-	70	11,630
Other overseas currencies	76,864	-	-	-	21	76,885
<b>Total exposure to currency risk</b>	<b>239,468</b>	<b>-</b>	<b>(17,053)</b>	<b>-</b>	<b>447</b>	<b>222,862</b>
Sterling	173,721	6,154	17,112	(87,446)	(1,580)	107,961
	<b>413,189</b>	<b>6,154</b>	<b>59</b>	<b>(87,446)</b>	<b>(1,133)</b>	<b>330,823</b>

\*Includes net non-monetary assets of £41,000.

## Currency Risk Sensitivity

At 31 December 2011, if sterling had strengthened by 5% in relation to all currencies, with all other variables held constant, total net assets and total return on ordinary activities would have decreased by the amounts shown below. A 5% weakening of sterling against all currencies, with all other variables held constant, would have had an equal but opposite effect on the financial statement amounts. The analysis is performed on the same basis for 2010.

	2011 £'000	2010 £'000
US dollar	4,601	4,701
Euro	812	925
Brazilian real	1,187	1,091
Japanese yen	84	582
Other overseas currencies	2,935	3,844
	<b>9,619</b>	<b>11,143</b>

## Interest Rate Risk

Interest rate movements may affect directly:

- the fair value of the investments in fixed interest rate securities;
- the level of income receivable on cash deposits;
- the fair value of the Company's fixed-rate borrowings; and
- the interest payable on any variable rate borrowings which the Company may take out.

## 18 Financial Instruments (continued)

### Interest Rate Risk (continued)

Interest rate movements may also impact upon the market value of the Company's investments other than its fixed income securities. The effect of interest rate movements upon the earnings of a company may have a significant impact upon the valuation of that company's equity.

The possible effects on fair value and cash flows that could arise as a result of changes in interest rates are taken into account when making investment decisions and when entering borrowing agreements.

The Board reviews on a regular basis the amount of investments in cash and fixed income securities and the income receivable on cash deposits, floating rate notes and other similar investments.

The Company finances part of its activities through borrowings at approved levels. The amount of such borrowings and the approved levels are monitored and reviewed regularly by the Board. Where fixed rate borrowings are not being used to fund active investments, the borrowed funds are invested in a diversified portfolio of fixed income securities in order to provide a hedge against movements in interest rates.

Movements in interest rates, to the extent that they affect the fair value of the Company's fixed rate borrowings, may also affect the amount by which the Company's share price is at a discount or a premium to the net asset value.

The interest rate risk profile of the Company's financial assets and liabilities at 31 December is shown below.

Financial Assets	2011	2011	2011	2010	2010	2010
	Fair value £'000	Weighted average interest rate	Weighted average fixed rate period	Fair value £'000	Weighted average interest rate	Weighted average fixed rate period
<b>Fixed rate:</b>						
UK bonds	3,362	11.3%	7 years	6,250	13.3%	7 years
US bonds*	1,287	3.3%	4 years	1,724	2.6%	5 years
<b>Floating rate:</b>						
Brazilian bonds (interest rate linked to Brazilian CPI)	17,742	10.0%	n/a	18,780	10.0%	n/a
Euro bonds (interest rate linked to Euribor)	5,485	19.3%	n/a	2,969	23.7%	n/a
<b>Fixed Interest Collective Investment Funds:</b>						
UK funds	7,424	6.9%	n/a	14,157	6.1%	n/a
US dollar denominated fund	12,758	0.9%	n/a	22,063	1.5%	n/a

\*Represents a convertible security which has been classified as an equity holding.

Financial Liabilities	2011 £'000	2010 £'000
The interest rate risk profile of the Company's financial liabilities at 31 December was:		
Fixed rate – sterling	<b>86,972</b>	<b>87,446</b>
The maturity profile of the Company's financial liabilities at 31 December was:		
In more than five years – 12 years (2010 – 13 years)	<b>86,972</b>	<b>87,446</b>

### Interest Rate Risk Sensitivity

An increase of 100 basis points in bond yields as at 31 December 2011 would have decreased total net assets and total return on ordinary activities by £2,758,000 (2010 – £3,543,000) and would have increased the net asset value per share (with debenture at fair value) by 3.8p (2010 – 3.2p). A decrease of 100 basis points would have had an equal but opposite effect.

### Other Price Risk

Changes in market prices other than those arising from interest rate risk or currency risk may also affect the value of the Company's net assets.

The Board manages the market price risks inherent in the investment portfolio by ensuring full and timely access to relevant information from the Investment Manager. The Board meets regularly and at each meeting reviews investment performance, the investment portfolio and the rationale for the current investment positioning to ensure consistency with the Company's objectives and investment policies.

**18 Financial Instruments (continued)****Other Price Risk Sensitivity**

A full list of the Company's investments is shown on pages 15 to 18. In addition, a list of the 30 largest holdings together with various analyses of the portfolio by asset class and industrial sector are contained in the Managers' Review section.

92.6% of the Company's net assets are invested in quoted equities (excluding quoted property and forestry investments). A 5% increase in quoted equity valuations at 31 December 2011 would have increased total assets and total return on ordinary activities by £13,622,000 (2010 – £14,645,000). A decrease of 5% would have had an equal but opposite effect.

**Liquidity Risk**

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

Liquidity risk is not significant as the majority of the Company's assets are investments in quoted securities that are readily realisable. The Company's holdings in direct property and unlisted investments, which are not considered to be readily realisable, amount to 11% of total assets at 31 December 2011. The Company has the power to take out borrowings, which give it access to additional funding when required.

The Board gives guidance to the Investment Managers as to the maximum amount of the Company's resources that should be invested in any one holding and to the maximum aggregate exposure to any one entity (see investment policy on pages 20 and 21). The Board also sets parameters for the degree to which the Company's net assets are invested in quoted equities.

**Credit Risk**

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

- where the Investment Manager makes an investment in a bond or other security with credit risk, that credit risk is assessed and then compared to the prospective investment return of the security in question;
- the Board regularly receives information from the Investment Manager on the credit ratings of those bonds and other securities in which the Company has invested;
- the Company's listed investments are held on its behalf by Bank of New York Mellon, the Company's custodian. Bankruptcy or insolvency of the custodian may cause the Company's rights with respect to securities held by the custodian to be delayed. The Investment Manager monitors the Company's risk by reviewing the custodian's internal control reports and reporting its findings to the Board;
- investment transactions are carried out with a large number of brokers whose credit worthiness is reviewed by the Investment Manager. Transactions are ordinarily done on a delivery versus payment basis whereby the Company's custodian bank ensures that the counterparty to any transaction entered into by the Company has delivered on its obligations before any transfer of cash or securities away from the Company is completed;
- transactions involving derivatives, structured notes and other arrangements wherein the creditworthiness of the entity acting as broker or counterparty to the transaction is likely to be of sustained interest are subject to rigorous assessment by the Investment Manager of the creditworthiness of that counterparty. The Company's aggregate exposure to each such counterparty is monitored regularly by the Board; and
- cash is only held at banks that have been identified by the Managers as reputable and of high credit quality.

**Credit Risk Exposure**

The exposure to credit risk at 31 December was:

	2011 £'000	2010 £'000
Fixed interest investments	46,771	64,219
Cash and short term deposits	3,165	6,154
Debtors and prepayments	1,552	1,542
	<b>51,488</b>	<b>71,915</b>

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

**18 Financial Instruments** (continued)**Fair value of financial assets and financial liabilities**

The Directors are of the opinion that the financial assets and liabilities of the Company are stated at fair value in the balance sheet with the exception of the long term borrowings which are stated at amortised cost in accordance with FRS 26. The fair value of the debenture stock is shown below.

	2011 Nominal £'000	2011 Book £'000	2011 Fair £'000	2010 Nominal £'000	2010 Book £'000	2010 Fair £'000
8% debenture stock 2022	<b>80,000</b>	<b>86,972</b>	<b>108,848</b>	<b>80,000</b>	<b>87,446</b>	<b>97,032</b>

**Gains and losses on hedges**

The following forward currency contracts were open at 31 December:

At 31 December 2011 Currency sold	Currency amount sold	Currency bought	Currency amount bought	Settlement date	Fair value £'000
US dollar	\$12,000,000	Sterling	£7,715,000	11/1/12	(7)
Euro	€6,500,000	Sterling	£5,587,000	11/1/12	157
Japanese yen	¥1,600,000,000	Sterling	£13,180,000	11/1/12	(205)
					<b>(55)</b>

At 31 December 2010 Currency sold	Currency amount sold	Currency bought	Currency amount bought	Settlement date	Fair value £'000
US dollar	\$22,000,000	Sterling	£14,151,000	26/1/11	97
Euro	€3,500,000	Sterling	£2,961,000	26/1/11	(38)
					<b>59</b>

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.

**Capital Management**

The Company does not have any externally imposed capital requirements. The capital of the Company is the ordinary share capital (see note 13) which is managed in accordance with its investment policy in pursuit of its investment objective, both of which are detailed on pages 20 and 21. Shares may be issued and/or repurchased as explained on pages 26 and 27.

# Cost-effective Ways to Buy and Hold Shares in SAINTS

The Share Plan and ISA brochure.

Press advertisement.

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

## The Baillie Gifford Investment Trust Share Plan

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

## The Baillie Gifford Investment Trust ISA

- Tax-efficient investment
- No set-up charge
- Flat rate annual management charge of £32.50 + VAT
- Lump sum investment from £2,000 up to a maximum of £10,680 each year
- Save monthly from £100
- A withdrawal charge of just £22

## ISA Transfers

- Transfer existing ISAs from other plan managers into the Baillie Gifford ISA
- Consolidate your plans into a managed global investment
- Minimum transfer value £2,000

## The Baillie Gifford Children's Savings Plan

- An excellent way for parents, grandparents or other adults to invest for a child
- No initial charge
- No annual wrapper charge
- The option of a designated account or a bare trust in favour of the child
- Flexible investment options: lump sum from £100 or monthly saving from just £25
- A withdrawal charge of just £22

## Online Management Service

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

- get current valuations;
- make lump sum investments;
- switch between investment trusts (except where there is more than one holder);
- set up a direct debit to make regular investments; and
- update certain personal details.

\*Please note that Bare Trust cannot be opened via OMS. A Bare Trust Application Form must be completed.

## Further information

If you would like more information on any of the plans described above, please contact the Baillie Gifford Client Relations Team (see contact details on page 50).

## Risks

Past performance is not a guide to future performance.

SAINTS is a listed UK Company. As a result, the value of its shares and any income from those shares is not guaranteed and could go down as well as up. You may not get back the amount you invested.

SAINTS has borrowed money to make further investments (sometimes known as gearing). The risk is that when this money is repaid by the Company, the value of these investments may not be enough to cover the borrowing and interest costs, and the Company will make a loss. If the Company's investments fall in value, gearing will increase the amount of this loss. SAINTS can buy back its own shares. The risks from borrowing, referred to above, are increased when a company buys back its own shares.

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 invests in emerging markets which could encounter dealing, settlement and custody difficulties more than the main international markets.

SAINTS invests in corporate bonds which are generally perceived to carry a greater possibility of capital loss than investment in, for example, higher rated UK government bonds. Bonds issued by companies and governments may be adversely affected by changes in interest rates and expectations of inflation.

SAINTS has some direct property investments which may be difficult to sell. Valuations of property are only estimates based on the valuer's opinion rather than fact. These estimates may not be achieved when the property is sold.

The favourable tax treatment of ISAs may change.

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

# Communicating with Shareholders

Trust Magazine available at [www.bgtrustonline.com](http://www.bgtrustonline.com)

A SAINTS web page at [www.saints-it.com](http://www.saints-it.com)

## Promoting SAINTS

Baillie Gifford carries out extensive marketing activity to promote SAINTS to institutional, intermediary and direct investors. The Board warmly supports the promotion of the plans described on page 49 in order to bring the merits of SAINTS to as wide an audience as possible.

## Trust Magazine

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

An online version of *Trust* can be found at [www.bgtrustonline.com](http://www.bgtrustonline.com).

## Guides to Investment Trusts

Baillie Gifford has produced a number of educational guides on investment trusts. These are designed to explain how Investment Trusts work and to explain the various ways you can invest in them. If you would like copies of any of these guides, please contact the Baillie Gifford Client Relations Team.

## SAINTS on the Web

Up-to-date information about SAINTS, including a monthly commentary, recent portfolio information and performance figures can be found on SAINTS' page of the Managers' website at [www.saints-it.com](http://www.saints-it.com).

You can also find a brief history of SAINTS, an explanation of the effects of gearing and a flexible performance reporting tool.

If you are interested in investing directly in SAINTS, you can do so online. There are a number of companies offering real time online dealing services – find out more on the Buying Shares section of SAINTS' website ([www.saints-it.com](http://www.saints-it.com)).

## Suggestions and Questions

Any suggestions on how communications with shareholders can be improved are welcomed, so please contact the Baillie Gifford Client Relations Team (see contact details below) and give them your suggestions. They will also be very happy to answer questions that you may have, either about SAINTS or the plans described on page 49.

## Literature in Alternative Formats

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

## Client Relations Team contact details

Telephone: 0800 027 0133

E-mail: [trutenquiries@bailliegifford.com](mailto:trutenquiries@bailliegifford.com)

Website: <http://www.bailliegifford.com>

Fax: 0131 275 3955

Client Relations Team

Baillie Gifford Savings Management Limited

Calton Square, 1 Greenside Row, Edinburgh EH1 3AN

For SAINTS specific queries, please use the following contact details:

E-mail: [saints@bailliegifford.com](mailto:saints@bailliegifford.com)

Website: <http://www.saints-it.com>

Your call may be recorded for training or monitoring purposes.

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

# Further Shareholder Information

## How to Invest

The Company's shares are traded on the London Stock Exchange. They can be bought by placing an order with a stockbroker, by asking a professional adviser to do so, or through the Baillie Gifford savings vehicles (see page 49). If you are interested in investing directly in SAINTS you can do so online. There are a number of companies offering real time online dealing services – find out more by visiting the investment trust pages at [www.bailliegifford.com](http://www.bailliegifford.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 SAINTS' page of the Baillie Gifford website at [www.saints-it.com](http://www.saints-it.com), Trustnet at [www.trustnet.co.uk](http://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 below 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. The DRIP election date is the final date for electing to participate in the Dividend Reinvestment Plan (see page 52 for more details) for that dividend.

### Dividend Dates for 2012

	Final 2011	First Interim *	Second Interim *	Third Interim *
Dividend announced	14/2/12	14/5/12	26/7/12	15/11/12
Ex-dividend date	7/3/12	30/5/12	22/8/12	28/11/12
Record date	9/3/12	1/6/12	24/8/12	30/11/12
DRIP election date	21/3/12	8/6/12	7/9/12	6/12/12
Dividend paid	13/4/12	29/6/12	28/9/12	27/12/12

\* Anticipated dates.

## 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 Half-yearly Report will be posted to shareholders in August and the Annual Report in early March. The 2012 AGM is being held on 5 April 2012.

## 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.

If you held SAINTS shares on or before 31 March 1982 the market value of the ordinary shares (adjusted for present capital) on that date of 33.125p will be required for your capital gains tax computation.

- **Income** The dividends you receive from your SAINTS shares are taxed as income. If you pay tax at the basic (20%) rate you will have no further liability to tax. If you pay tax at a higher rate, 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. This helpline also offers an automated self-service functionality (available 24 hours a day, 7 days a week) which allows you to:

- hear the latest share price;
- confirm your current share holding balance;
- confirm your payment history; and
- order Change of Address, Dividend Bank Mandate and Stock Transfer forms.

By quoting the reference number on your share certificate you can check your holding on the Registrar's website at [www.investorcentre.co.uk](http://www.investorcentre.co.uk).

They also offer a free, secure share management website service which allows you to:

- view your share portfolio and see the latest market price of your shares;
- calculate the total market price of each shareholding;
- view price histories and trading graphs;
- register to receive communications from the Company, including the Annual Report, in electronic format;
- update bank mandates and change address details;
- use online dealing services; and
- pay dividends directly into your overseas bank account in your chosen local currency.

To take advantage of this service, please log in at [www.investorcentre.co.uk](http://www.investorcentre.co.uk) and enter your Shareholder Reference Number and Company Code (this information can be found on the last dividend voucher or your share certificate).

### Dividend Reinvestment Plan

Computershare operate a Dividend Reinvestment Plan which can be used to buy additional shares instead of receiving your dividend via cheque or into your bank account. For further information log in to [www.investorcentre.co.uk](http://www.investorcentre.co.uk) and follow the instructions or telephone 0870 707 1694.

### Electronic Proxy Voting

If you hold stock in your own name you can choose to vote by returning proxies electronically at [www.eproxyappointment.com](http://www.eproxyappointment.com).

If you have any questions about this service please contact Computershare on 0870 707 1282.

### CREST Proxy Voting

If you are a user of the CREST system (including a CREST Personal Member), you may appoint one or more proxies or give an instruction to a proxy by having an appropriate CREST message transmitted. For further information please refer to the CREST Manual.

### SAINTS is an investment trust. Investment trusts offer investors the following:

- participation in a diversified portfolio of shares;
- constant supervision by experienced professional managers; and
- the Company is free from capital gains tax on capital profits realised within its portfolio.

SAINTS is a UK public listed company and as such complies with the requirements of the UK Listing Authority. It is not authorised or regulated by the Financial Services Authority.

Baillie Gifford Savings Management Limited (BGSM) is the ISA Manager of the Baillie Gifford Investment Trust ISA and the Manager of the Baillie Gifford Investment Trust Share Plan and Children's Savings Plan. BGSM 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 and SAINTS' Directors may hold shares in SAINTS and may buy or sell such shares from time to time.

### Analysis of Shareholders at 31 December

	2011 Number	2011 %	2010 Number	2010 %
Institutions	21,070,242	15.9	21,455,964	16.2
Intermediaries	65,164,658	49.1	64,890,675	49.0
Individuals	23,892,204	18.0	24,430,582	18.4
Baillie Gifford Share Plan/ISA	22,185,470	16.7	21,641,651	16.3
Marketmakers	363,369	0.3	67,071	0.1
	<b>132,675,943</b>	<b>100.0</b>	<b>132,485,943</b>	<b>100.0</b>

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 2012 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-ninth Annual General Meeting of The Scottish American Investment Company P.L.C. will be held within the Registered Office of the Company, Calton Square, 1 Greenside Row, Edinburgh EH1 3AN on Thursday, 5 April 2012 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

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

1. To receive and adopt the Financial Statements of the Company for the year to 31 December 2011 with the Reports of the Directors and of the Independent Auditors thereon.
2. To approve the Directors' Remuneration Report for the year to 31 December 2011.
3. To declare a final dividend.
4. To re-elect Sir Brian Ivory as a Director.
5. To re-elect The Rt Hon Sir Menzies Campbell as a Director.
6. To re-elect Eric Hagman as a Director.
7. To re-elect Lord Kerr of Kinlochard as a Director.
8. To re-elect Rachel Lomax as a Director.
9. To re-elect Peter Moon as a Director.
10. To reappoint KPMG Audit Plc as Independent Auditors of the Company to hold office until the conclusion of the next Annual General Meeting at which the financial statements are laid before the Company.
11. To authorise the Directors to determine the remuneration of the Independent Auditors of the Company.
12. That, in substitution for any existing authority, but without prejudice to the exercise of any such authority prior to the date hereof, the Directors of the Company be and they are hereby generally and unconditionally authorised in accordance with Section 551 of the Companies Act 2006 (the 'Act') to exercise

all the powers of the Company to allot shares in the Company and to grant rights to subscribe for or to convert any security into shares in the Company ('Securities') provided that such authority shall be limited to the allotment of shares and the grant of rights in respect of shares with an aggregate nominal value of up to £11,056,328, such authority to expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution or on the expiry of 15 months from the passing of this resolution, whichever is the earlier, unless previously revoked, varied or extended by the Company in a general meeting, save that the Company may at any time prior to the expiry of this authority make an offer or enter into an agreement which would or might require Securities to be allotted or granted after the expiry of such authority and the Directors shall be entitled to allot or grant Securities in pursuance of such an offer or agreement as if such authority had not expired.

To consider and, if thought fit, to pass resolutions 13 and 14 as special resolutions:

13. That, subject to the passing of resolution 12 above, and in substitution for any existing power but without prejudice to the exercise of any such power prior to the date hereof, the Directors of the Company be and they are hereby generally empowered, pursuant to Section 570 of the Companies Act 2006 (the 'Act'), to allot equity securities (as defined in Section 560 of the Act), including the grant of rights to subscribe for, or to convert securities into ordinary shares held by the Company as treasury shares (as defined in Section 724 of the Act) for cash pursuant to the authority given by resolution 12 above as if Section 561(1) of the Act did not apply to any such allotment of equity securities, provided that this power:
  - (a) expires at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution or on the expiry of 15 months from the passing of this resolution, whichever is the earlier, save that the Company may, before such expiry, make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of any such offer or agreement as if the power conferred hereby had not expired; and

NOTICE OF ANNUAL GENERAL MEETING

- (b) shall be limited to the allotment of equity securities up to an aggregate nominal value of £3,316,898 being approximately 10% of the nominal value of the issued share capital of the Company, as at 16 February 2012.

14. That, in substitution for any existing authority but without prejudice to the exercise of any such authority prior to the date hereof, the Company be and is hereby generally and unconditionally authorised, pursuant to and in accordance with Section 701 of the Companies Act 2006 (the 'Act') to make market purchases (within the meaning of Section 693(4) of the Act) of fully paid ordinary shares of 25 pence each in the capital of the Company ('ordinary shares') (either for retention as treasury shares for future reissue, resale, transfer or cancellation), provided that:

- (a) the maximum aggregate number of ordinary shares hereby authorised to be purchased is 19,888,123 being approximately 14.99% of the issued ordinary share capital of the Company as at the date of the passing of this Resolution;
- (b) the minimum price (excluding expenses) which may be paid for each ordinary share is 25 pence;
- (c) the maximum price (excluding expenses) which may be paid for each ordinary share shall not be more than the higher of:
  - (i) 5 per cent above the average closing price on the London Stock Exchange of an ordinary share over the five business days immediately preceding the date of purchase; and
  - (ii) the higher of the last independent trade and the highest current independent bid on the London Stock Exchange; and
- (d) unless previously varied, revoked or renewed by the Company in a general meeting, the authority hereby conferred shall expire at the conclusion of the Company's Annual General Meeting to be held in respect of the financial year ending 31 December 2012, save that the Company may, prior to such expiry, enter into a contract to purchase ordinary shares under such authority which will or might be completed or executed wholly or partly after the expiration of such authority and may make a purchase of ordinary shares pursuant to any such contract.

By order of the Board  
Baillie Gifford & Co  
Managers and Secretaries  
5 March 2012

*Baillie Gifford & Co.*

## Notes

1. As a member you are entitled to appoint a proxy or proxies to exercise all or any of your rights to attend, speak and vote at the AGM. A proxy need not be a member of the Company but must attend the AGM to represent you. You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You can only appoint a proxy using the procedure set out in these notes and the notes to the proxy form. You may not use any electronic address provided either in this notice or any related documents (including the circular and proxy form) to communicate with the Company for any purpose other than those expressly stated.
2. To be valid any proxy form or other instrument appointing a proxy, together with any power of attorney or other authority under which it is signed or a certified copy thereof, must be received by post or (during normal business hours only) by hand at the Registrars of the Company at Computershare Investor Services PLC, PO Box 82, The Pavilions, Bridgwater Road, Bristol, BS99 6ZY or [www.eproxyappointment.com](http://www.eproxyappointment.com) no later than 48 hours (excluding non-working days) before the time of the meeting or any adjourned meeting.
3. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual and/or by logging on to the website [www.euroclear.com/CREST](http://www.euroclear.com/CREST). CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
4. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications, and must contain the information required for such instruction, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the Company's registrar (ID 3RA50) no later than 48 hours (excluding non-working days) before the time of the meeting or any adjournment. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Application Host) from which the Company's registrar is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.
5. CREST members and, where applicable, their CREST sponsors, or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.
6. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.
7. The return of a completed proxy form or other instrument of proxy will not prevent you attending the AGM and voting in person if you wish.
8. Shareholders participating in the Baillie Gifford Investment Trust Share Plan, Children's Savings Plan or the Baillie Gifford Investment Trust ISA who wish to vote and/or attend the meeting must complete and return the enclosed reply-paid Form of Direction.
9. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001 and Section 311 of the Companies Act 2006 the Company specifies that to be entitled to attend and vote at the Annual General Meeting (and for the purpose of the determination by the Company of the votes they may cast), shareholders must be registered in the Register of Members of the Company no later than 48 hours (excluding non-working days) prior to the commencement of the AGM or any adjourned meeting. Changes to the Register of Members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting.
10. Any person to whom this notice is sent who is a person nominated under Section 146 of the Companies Act 2006 to enjoy information rights (a 'Nominated Person') may, under an agreement between him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the Annual General Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.

## NOTICE OF ANNUAL GENERAL MEETING

11. The statement of the rights of shareholders in relation to the appointment of proxies in Notes 1 and 2 above does not apply to Nominated Persons. The rights described in those Notes can only be exercised by shareholders of the Company.
12. The members of the Company may require the Company to publish, on its website, (without payment) a statement (which is also passed to the auditors) setting out any matter relating to the audit of the Company's accounts, including the auditors' report and the conduct of the audit. The Company will be required to do so once it has received such requests from either members representing at least 5% of the total voting rights of the Company or at least 100 members who have a relevant right to vote and hold shares in the Company on which there has been paid up an average sum per member of at least £100. Such requests must be made in writing and must state your full name and address and be sent to the Company at Calton Square, 1 Greenside Row, Edinburgh, EH1 3AN.
13. Information regarding the Annual General Meeting, including information required by Section 311A of the Companies Act 2006, is available from the Company's page of the Managers' website at [www.saints-it.com](http://www.saints-it.com).
14. Members have the right to ask questions at the meeting in accordance with Section 319A of the Companies Act 2006.
15. As at 16 February 2012 (being the last practicable date prior to the publication of this notice) the Company's issued share capital consisted of 132,675,943 ordinary shares, carrying one vote each. Therefore, the total voting rights in the Company as at 16 February 2012 were 132,675,943 votes.
16. Any person holding 3% or more of the total voting rights of the Company who appoints a person other than the Chairman of the meeting as his proxy will need to ensure that both he and his proxy complies with their respective disclosure obligations under the UK Disclosure and Transparency Rules.
17. No Director has a contract of service with the Company.

**Directors**

Chairman:

Sir Brian Ivory, CBE, CA

The Rt Hon Sir Menzies Campbell, CBE, QC, MP

Eric Hagman, CBE, CA

Lord Kerr of Kinlochard, GCMG

Rachel Lomax

Peter Moon

David Price

**Registrar**

Computershare

Investor Services PLC

The Pavilions

Bridgwater Road

Bristol BS99 6ZZ

Tel: 0870 707 1282

**Company Broker**

Winterflood

Investment Trusts

The Atrium Building

Cannon Bridge

25 Dowgate Hill

London EC4R 2GA

**Independent  
Auditors**

KPMG Audit Plc

Saltire Court

20 Castle Terrace

Edinburgh

EH1 2EG

Company registration No. SC489B

**Managers, Secretaries  
and Registered Office**

Baillie Gifford & Co

Calton Square

1 Greenside Row

Edinburgh

EH1 3AN

Tel: 0131 275 2000

Website: <http://www.bailliegifford.com>