

The Law Debenture Corporation p.l.c. Annual Report 2017

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We are a global investment trust and a leading provider of independent professional services

From its origins in 1889, Law Debenture has diversified to become a group with a unique range of activities in the financial and professional services sectors. The group divides into two distinct areas of business.

Investment trust

We are a global investment trust, listed on the London Stock Exchange.

Our portfolio of investments is managed by Janus Henderson Investors under a contract terminable by either side on six months' notice.

Our objective is to achieve long term capital growth in real terms and steadily increasing income. The aim is to achieve a higher rate of total return than the FTSE Actuaries All-Share Index through investing in a portfolio diversified both geographically and by industry.

Independent professional services ('IPS')

We are a leading provider of independent professional services. Our activities are corporate trusts, pension trusts, corporate services (including agent for service of process), whistle blowing services and governance services. We have offices in London, Sunderland, Dublin, New York, Delaware, Hong Kong, the Channel Islands and the Cayman Islands.

Companies, agencies, organisations and individuals throughout the world rely upon Law Debenture to carry out its duties with the independence and professionalism upon which its reputation is built.

Front cover image: Our group head office building, Fifth Floor, 100 Wood Street, London.
Photographer: Neil Narain of Law Debenture's marketing team.

Financial summary

	31 December 2017 pence	31 December 2016 pence
Share price	629.00	530.00
NAV per share at fair value ¹	669.53	598.48
Revenue return per share		
– Investment trust	11.61	10.88
– Independent professional services	9.93	7.68
– Group charges ²	0.12	(2.60)
Group revenue return per share	21.66	15.96
Capital return per share	67.10	89.30
Dividends per share	17.30	16.70
	%	%
Ongoing charges ³	0.43	0.45
Gearing ³	1	8

Ongoing charges are based on the costs of the investment trust and include the Janus Henderson Investors management fee of 0.30% of NAV of the investment trust. There is no performance related element to the fee.

¹ Calculated in accordance with AIC methodology based on NAV including fair value of IPS businesses and long term borrowings.

² For details see note 7 to the accounts.

³ Source AIC.

Performance

	1 year %	3 years %	5 years %	10 years %
NAV total return ¹	16.6	35.9	83.6	132.4
FTSE Actuaries All-Share Index total return ¹	13.1	33.3	63.0	84.5
Share price total return ¹	22.2	30.6	72.7	154.3
Change in Retail Price Index ¹	2.2	6.0	10.6	29.4
Investment trusts (Global) ¹ (NAV total return)	22.2	58.3	112.6	137.3
Investment trusts (All conventional companies) ¹ (NAV total return)	20.7	52.2	95.0	128.5

¹ Source: AIC.

Performance by year

	2017 %	2016 %	2015 %	2014 %	2013 %
Share price total return ²	22.2	10.1	(3.0)	3.1	28.3
NAV total return ³	16.6	16.9	(0.3)	2.8	29.4
FTSE Actuaries All-Share Index total return ²	13.1	16.8	1.0	1.2	20.8

² Source AIC.

³ Calculated in accordance with AIC methodology based on NAV including fair value of IPS businesses and long term borrowings.

10 year record

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Net assets ¹ (£m)	407.1	266.4	342.4	412.6	390.9	451.9	569.1	574.2	557.3	662.3	748.3
Revenue return (pence)	14.23	15.58	13.02	13.26	15.52	15.14	16.27	16.95	18.10	15.96	21.66
Capital return (pence)	9.37	(120.59)	62.77	58.22	(19.07)	50.24	97.18	3.87	(17.47)	89.30	67.10
Total (pence)	23.60	(105.01)	75.79	71.48	(3.55)	65.38	113.45	20.82	0.63	105.26	88.76
Revenue return (pence)											
Investment trust	8.60	10.23	7.33	7.07	8.27	8.47	9.31	10.08	11.01	10.88	11.61
Independent professional services	5.63	5.35	5.69	6.19	7.25	6.67	6.96	6.87	7.09	7.68	9.93
	14.23	15.58	13.02	13.26	15.52	15.14	16.27	16.95	18.10	18.56	21.54
Group charges ²	–	–	–	–	–	–	–	–	–	(2.60)	0.12
	14.23	15.58	13.02	13.26	15.52	15.14	16.27	16.95	18.10	15.96	21.66
Dividends (pence)	12.00	12.20	12.20	12.70	13.50	14.25	15.00	15.70	16.20	16.70	17.30
Share price ¹ (pence)	354.5	223.5	284.5	356.6	333.5	425.0	529.0	530.0	498.0	530.0	629.0
(Discount)/premium ¹ (%)	(14.7)	(20.7)	(15.7)	(10.5)	(13.4)	0.1	(2.4)	(2.3)	(5.1)	(11.4)	(6.7)
NAV ^{1,3} at fair value (pence)	415.6	282.0	337.5	398.5	385.1	424.7	541.8	542.3	524.5	598.5	669.5
Market capitalisation ¹ (£m)	417.4	263.8	335.9	418.6	393.8	501.9	625.0	627.1	589.3	627.2	744.5

¹ At 31 December.

² For details see note 7 to the accounts.

³ Calculated in accordance with AIC methodology based on NAV including fair value of IPS businesses and long term borrowings.

Note

The 10 year record has been restated (2007-2014) to reflect the fair value of the IPS businesses and the long term borrowings.

NAV – Fair value of independent professional services businesses and long term borrowings

NAV per share

	31 December 2017 Pence	31 December 2016 Pence
NAV per share per financial statements	633.28	560.73
Fair value adjustment for independent professional services	61.57	62.37
Debt fair value adjustment	(25.32)	(24.62)
NAV per share at fair value	669.53	598.48

Long term borrowings

The fair value of long term borrowings held by the group is disclosed in note 21 to the accounts. The methodology of fair valuing all long term borrowings is to benchmark the group debt against A rated UK corporate bond yields.

Background

Our consolidated financial statements are presented, in order to comply with International Financial Reporting Standards ('IFRS'), with the value of the investment portfolio expressed at fair value which is broadly a rational and unbiased estimate of the potential market value, taking into account acquisition/replacement/disposal costs.

Since 31 December 2015, we have published a fair value NAV that includes the fair value of the IPS businesses and long term borrowings.

The calculation of the IPS valuation and methodology used to derive it are included in the annual report at note 14. However, in accordance with financial reporting standards, the valuation itself is not reflected in the financial statements.

In determining a basis for the fair valuation of the IPS businesses the directors have taken external professional advice. However, it should be noted that fair valuation guidelines require that the IPS businesses are fair valued on a stand-alone basis and this does not reflect the full value to the group and its shareholders. In particular, the value of group tax relief from the investment trust to the IPS businesses, which reduces the tax charge, is excluded from the fair value of IPS businesses. In 2017 this reduced the tax charge by £1,238,000 (2016: £1,446,000).

In order to assist investors, The Law Debenture Corporation p.l.c. (the 'Corporation') restated its historic NAV in 2015 to include the fair value of the IPS businesses for the last ten years. This information is provided in the annual report within the 10 year record (page 4), performance (page 3) and 10 year performance (page 3).

Chairman's statement

Performance

Our net asset value total return for the year to 31 December 2017 was 16.6%, compared to a total return of 13.1% for the FTSE Actuaries All-Share Index. Revenue return per share was 19.30p (excluding the one-off benefit of the sale of an unlisted investment as detailed in note 2 to the accounts), an increase of 4% over the previous year on a like for like basis. The investment trust return increased by 6.8% whilst the result in independent professional services remained broadly flat.

Dividend

The board is recommending a final dividend of 11.80p per ordinary share (2016: 11.50p), which together with the interim dividend of 5.50p (2016: 5.20p) gives a total dividend of 17.30p (2016: 16.70p).

The final dividend will be paid, subject to shareholder approval, on 19 April 2018 to holders on the register on the record date of 16 March 2018.

The Corporation's policy continues to be to seek growth in both capital and income. We are not an income fund, but nevertheless we attach considerable importance to the dividend, which we aim to increase over a period, if not every year, at a rate which is covered by earnings and which does not inhibit the flexibility of our investment strategy. Our basis for reporting earnings is more conservative than that of many investment trusts, in that all of our expenses, including interest costs, are charged fully to the revenue account. Notwithstanding this prudent approach to reporting, our dividend has been increased annually for at least 25 years save for three occasions (the bursting of the tech bubble and the aftermath of the 2007/2008 financial crisis) when it was maintained. We are proud of that record.

Investment trust

The past year turned out to be more positive than many had thought it might. Gearing over the year in aggregate decreased. Overall, worldwide economic growth continued in positive territory. The US markets forged to new highs, despite upward movements of interest rates by the Federal Reserve. Areas that had been dull for some time, such as Europe and Japan, had very profitable years and even in the UK, where Brexit remained an ever present shadow, some sectors such as smaller companies had a positive year.

Our investment performance overall remains satisfactory. After a difficult period in 2015 and 2016, the sectors that we retained faith in – for example, manufacturers – began to rebound. James Henderson is a contrarian manager and has continued to stick with the principles in which he believes.

Looking forward, companies' earnings seem set to remain robust and with a relatively strong and still growing world economy, world stock markets may still have room for further growth. The board continues to believe in the long term benefit of equity investing even though markets are at historically high levels, so some caution may be warranted.

Independent professional services

The management review on page 23 sets out the performance of the IPS businesses in 2017. While our new Dublin office had an excellent first full year, other parts of the IPS business reported unchanged earnings. Denis Jackson, the new Chief Executive, spells out in more detail in his review the future strategy he has put before, and agreed with, the board.

The IPS businesses generated an exceptional capital return this year following the sale of a holding of shares in Nordic Trustee Holding ASA, a Norwegian trustee company that our trustee team invested in twenty or so years ago, but which was the subject of a private equity buy-out. The sale generated a profit of £3.275 million, which will accrue to shareholders after tax.

Tax deductibility of corporate interest expense

We reported last year that with effect from 1 April 2017, HMRC would cap the amount of UK tax relief that was available for distribution within a group to the higher of 30% of taxable earnings before interest and depreciation and £2 million net UK interest expense per year.

As anticipated, the 2017 impact of this change was an additional charge to tax of £412,000. The full year impact in 2018 will be approximately £600,000 but we continue to obtain the benefit available from being able to pass down at least £2 million of interest relief, together with the administrative costs of running the investment trust.

Outlook

The investment manager's and IPS management review refer to the year ahead. 2018 will be the last full reporting year before the UK formally leaves the EU. While difficult to measure, Brexit uncertainties would appear to have exerted some negative influence in the real economy, as companies delay important decisions about capital expenditure. For companies like Law Debenture, all uncertainty is unwelcome and potentially damaging, both to our portfolio investments and our IPS businesses. I hope that by the time of the next Law Debenture annual report, the financial services industry will have been given a clear indication of the likely future trading landscape, regulatory/legal constraints, that will have to be faced in 2019 and beyond.

Board changes

The board was fortunate, following Michael Adams' resignation in October, to be able to call upon Tim Fullwood, our CFO since 2003, to stand in as interim Chief Executive. He did this most capably until 31 December, when he was replaced by Denis Jackson. Denis joined us in July 2017 as Chief Commercial Officer. There was considerable overlap between that role and the CEO role and the detailed understanding that Denis had already obtained about our IPS businesses meant that he was well placed to step into the CEO role. Denis has a clear vision about how to increase our IPS profits and he has set about doing so with enthusiasm.

I have decided that the time is right for me to retire. It has been my enormous privilege to have been a director of Law Debenture for the past nine years and its Chairman for the last five of those. This is a fascinating company with a long and honourable history of which I am proud to have been a part. I shall continue to follow Law Debenture's fortunes in the years to come, not least as a continuing shareholder, and I wish the board, the shareholders and our staff every success.

I am pleased to introduce Robert Hingley as our new non-executive director. Subject to shareholder approval, Robert will succeed me as Chairman from the conclusion of the AGM. Robert has an impeccable record in financial services and corporate finance and he is ideally qualified to lead the Corporation and the group as it tackles the challenges that lie ahead.

Annual general meeting

The annual general meeting will be held at the Brewers Hall, Aldermanbury Square, London, EC2V 7HR on 11 April 2018 and I look forward to seeing as many as possible of you there.

Christopher Smith
Chairman

Strategic report

Who we are

From its origins in 1889, Law Debenture has diversified to become a group with a unique range of activities in the financial and professional services sectors. The group divides into two distinct areas of business: we are a global investment trust listed on the London Stock Exchange; and we provide independent professional services ('IPS' or 'IPS businesses').

Investment trust – objectives, investment strategy, business model

Our **objective** for the investment trust is to achieve long term capital growth in real terms and steadily increasing income. The aim is to achieve a higher rate of total return than the FTSE Actuaries All-Share Index through investing in a portfolio diversified both geographically and by industry.

Law Debenture shares are intended for private investors in the UK ('retail investors'), professionally advised private clients and institutional investors. By investing in an investment trust, shareholders typically accept the risk of exposure to equities but hope that the pooled nature of an investment trust portfolio will give some protection from the volatility in share price movements that can sometimes affect individual equities.

Our **investment strategy** (which did not change in 2017) is as follows:

The Corporation carries on its business as a global investment trust.

The Corporation's portfolio will typically contain between 70 and 150 listed investments. The portfolio is diversified both by industrial sector and geographic location of investments in order to spread investment risk.

There is no obligation to hold shares in any particular type of company, industry or geographical location. The IPS businesses do not form part of the investment portfolio and are outwith this strategy.

Whilst performance is measured against local and UK indices, the composition of these indices does not influence the construction of the portfolio. As a consequence, it is expected that the Corporation's investment portfolio and performance will from time to time deviate from the comparator indices.

The Corporation's assets are invested internationally and without regard to the composition of indices. There are some guidelines, set by the board, on maximum or minimum

stakes in particular regions and all stakes are monitored in detail by the board at each board meeting in order to ensure that sufficient diversification is maintained.

	Minimum %	Maximum %
UK	55	80
North America	0	20
Europe	0	10
Japan	0	10
Other Pacific	0	10
Other	0	10

Liquidity and long-term borrowings are managed with the aim of improving returns to shareholders. The policy on gearing is to adopt a level of gearing that balances risk with the objective of increasing the return to shareholders, in pursuit of its investment objective. Investments may be held in, inter alia, equity shares, collective investment products including open ended investment companies ('OEICs'), fixed interest securities, interests in limited liability partnerships, cash and liquid assets. Derivatives may be used but only with the prior authorisation of the board. Investment in such instruments for trading purposes is proscribed. It is permissible to hedge against currency movements on both capital and income account, subject again to prior authorisation of the board. Stock lending, trading in suspended shares and short positions are not permitted. No more than 15% of gross assets will be invested in other UK listed investment trusts. The Corporation's investment activities are subject to the following limitations and restrictions:

- No investment may be made which raises the aggregate value of the largest 20 holdings, excluding investments in collective investment vehicles that give exposure to the Japan, Asia/Pacific or emerging market regions, to more than 40% of the Corporation's portfolio, including gilts and cash. The value of a new acquisition in any one company may not exceed 5% of total portfolio value (including cash) at the time the investment is made. Further additions shall not cause a single holding to exceed 5%, and board approval must be sought to retain a holding, should its value increase above the 5% limit (that approval to be reported to the next board meeting).
- The Corporation applies a ceiling on effective gearing of 50%. While effective gearing will be employed in a typical range of 10% net cash to 20% gearing, the board retains the ability to reduce equity exposure so that net cash is above 10% if deemed appropriate.
- The Corporation may not make investments in respect of which there is unlimited liability.

Our **business model** is designed to position the Corporation to best advantage in the investment trust sector.

We aim to deliver the investment trust's objective by skilled implementation of the investment strategy, complemented by maintaining and operating our IPS businesses profitably and safely, while keeping them distinct from the portfolio. The operational independence of the IPS means that they can act flexibly and commercially. They provide a regular flow of dividend income to the Corporation. This helps the board to smooth out equity dividend peaks and troughs, means that the investment manager doesn't have to be constrained by choosing stocks just for yield and is an important element in delivering the objective of steadily *increasing income for shareholders, fully covered by current revenues*. In turn, some of the tax relief at the investment trust level arising from our debenture interest and excess costs, which would otherwise be unutilised, can be transferred to the IPS.

Fee structure and ongoing charges

Our portfolio of investments is managed under delegation by James Henderson of Janus Henderson Investors ('Janus Henderson') under a contract terminable by either side on six months' notice. On a fully discretionary basis, Janus Henderson is responsible for implementing the Corporation's investment strategy and fees are charged at 0.30% of the value of the net assets of the group (excluding the net assets of the IPS), calculated on the basis adopted in the audited financial statements. Underlying management fees of 0.75% on the Corporation's holdings in Henderson Japanese and Pacific OEICs were fully rebated although these holdings were sold in 2016. This means that the Corporation continues to maintain one of the most competitive fee structures in the investment trust sector and this, combined with the good performance of Janus Henderson over the years as our investment manager, has led the board to conclude that the continuing appointment of Janus Henderson as the Corporation's investment manager

The Law Debenture Investment Trust Business Model

The business model
provides business advantages over other investment trusts

Total shareholder return

INVESTMENT PORTFOLIO

- Invests in diverse equity portfolio
- Varied geographically and by industry
- Earns capital returns and dividends
- Low ongoing charges of 0.43%

INDEPENDENT PROFESSIONAL SERVICES

- Trusted, professional and third party
- Earns fees
- Cost base kept under control
- Its profits give a dividend stream which increases the ability of its parent, the investment trust, to pay dividends
- Tax efficient

Strategic report continued

remains in the best interests of shareholders. The board recognises that performance in recent times, for reasons explained elsewhere, has lagged compared with other investment trusts with a higher overseas weighting. Equity investment needs to be seen over the longer term, however, and here Janus Henderson has delivered over many years.

The agreement with Janus Henderson does not cover custody which is the responsibility of the depositary (see section on regulatory compliance in the directors' report, page 26). Nor does it cover the preparation of data associated with investment performance, or record keeping, both of which are maintained by the Corporation.

Investment trusts are required to publish their ongoing charges. This is the cost of operating the trust and includes the investment management fee, depositary and custody fees, investment performance data, accounting, company secretary and back office administration. Law Debenture's latest published level of ongoing charges is one of the lowest in the marketplace at 0.43%. No performance fees are paid to the investment manager.

Capital structure – simple and mainstream

Law Debenture's capital structure is transparent. We have only one class of share – ordinary shares – and each share has the same rights as every other share.

The Corporation conducts its affairs so that its ordinary shares are capable of being recommended by independent financial advisors to ordinary retail investors in accordance with relevant FCA rules. Our ordinary shares are, we consider, mainstream investment products because they are shares in an investment trust. The Corporation intends to continue conducting its affairs for the foreseeable future so that the ordinary shares can continue to be categorised as mainstream.

Transparency

In order to assist shareholders in understanding the nature of the underlying investments they are buying into when investing in Law Debenture shares, we publish our entire portfolio twice a year – in the annual report (see page 16) and half yearly report – with regular monthly updates on the composition of the top ten holdings in the portfolio.

Gearing

Investment trusts have the benefit of being able to 'gear' their portfolios according to market conditions. This means that they can raise debt (either short or long term) to generate funds for further investment – i.e. to increase the size of the portfolio – or they can sell assets from within the

portfolio to reduce debt and even be "negatively geared" – i.e. selling assets to hold cash so that less than 100% of the trust's assets are invested in equities.

The Corporation has two debentures (long dated sterling denominated financing) details of which are at page 81. At 31 December 2017, our gearing was 1% (2016: 8%).

The weighted average interest payable on the Corporation's structural borrowings is 4.589% (2016: 4.589%).

There has been no change in the Corporation's gearing policy, with effective gearing typically employed in a range of 10% net cash to 20% gearing.

Share price and net asset value ('NAV')

Investment trusts can trade at a discount (where the share price is lower than the combined value (NAV) of the underlying assets), or at a premium (where the share price trades at a higher level than the underlying NAV). Investment trust investors need to understand these concepts as well as examine the underlying portfolio and the way in which it is managed, to decide whether or not an investment trust share represents "good value".

Principal risks and uncertainties – investment trust

The principal risks to the Corporation's ability to continue operations as an investment trust relate to investment activities generally and include market price risk, foreign currency risk, liquidity risk, interest rate risk, credit risk, country/region risk and regulatory risk. The directors have carried out a robust assessment of these risks, which are explained in more detail below and in note 20 to the accounts.

Market risk could arise from sudden fluctuations in world stock markets. The portfolio deliberately contains a 'long list' of stocks and is diversified on a geographical and sector basis to spread risk. In extreme circumstances, as the Corporation's investments comprise almost entirely of readily realisable, quoted equities, these could be sold to meet funding requirements. The Corporation conducts stress tests each month, as part of its compliance programme, which gives the board a degree of comfort about the Corporation's ability to withstand any significant market shock.

Regulatory risk could arise from failure to comply with legal and regulatory obligations. This could result in suspension of the Corporation's stock exchange listing and/or regulatory sanction (including financial penalties). Breach of the Corporation Tax Act 2010 could lead to the Corporation being subject to tax on capital gains. The

executive team provides regular reports to the board and the audit committee on the monitoring programmes in place to mitigate these risks. As its own AIFM, the Corporation is able to monitor investment positions along with levels of forecast income and expenditure and the depositary carries out regular checks on the Corporation's investment activity and accounting.

Operational risk could arise from failure of the Corporation's accounting systems, the systems of the investment manager, or those of the custodian, which might result in an inability to provide accurate reporting and monitoring or a misappropriation of assets. All relevant providers of these services have comprehensive business continuity plans which include robust plans for continued operation of the business in the event of a service disruption or major disruption. The audit committee considers detailed reports on the Corporation's risk profile and the internal controls in place to mitigate such risk, as well as receiving reports by other key third party providers.

Gearing risk could arise where the Corporation has borrowed money for investment purposes. If the value of portfolio investments falls, any borrowings will magnify the extent of this loss. All borrowings require the prior approval of the board and gearing levels are discussed by the board at every meeting. As stated in the investment strategy, there is a ceiling on effective gearing of 50%.

The Corporation takes risk management very seriously and the corporate governance report sets out in some detail the control framework in place to manage or mitigate the risks that the group faces.

Viability statement

The Corporation is required to publish a longer-term statement about its viability.

The directors believe that a forward looking period of three years is appropriate. The directors assess the Corporation's future prospects by keeping under close review its current and projected financial position, threats/risks to the delivery over the longer term of the investment strategy objectives and the group business model and a macroeconomic overview based on a reasonable time horizon. A three year time period also takes into account the nature of the markets in which the IPS businesses operate, where fluctuations in revenue can occur year-on-year for reasons beyond Law Debenture's control.

The directors confirm that they have a reasonable expectation that the Corporation will continue to implement its investment strategy and business model and to operate and be able to meet its liabilities as they fall due for the next three financial

years. There are no current plans to amend the investment policy, which has delivered good capital and dividend returns for shareholders over many years. The strategy for the IPS businesses remains to continue to grow them.

The directors' strategic report explains in detail their assessment and understanding of the principal risks facing the Corporation and there is a detailed description of the controls in place to manage those risks in the corporate governance report. The main qualification to this viability statement is that the investment manager is appointed on a fully discretionary basis, so while stocks are picked by the manager within the guidelines in the investment strategy, the board does not dictate what individual stocks are bought or sold. Portfolio over or under performance is only properly measurable over the medium and longer term. Short term fluctuations will not necessarily result in a change of strategy, but might in extreme circumstances pose a risk to viability.

This risk is accepted within the board's risk appetite.

This statement is in addition to, rather than any replacement of, the going concern basis of preparation statement on page 31.

Key performance indicators ('KPI')

The KPIs used to measure the progress and performance of the group are:

- net asset value total return per share (combining the capital and income returns of the group) and how this compares, over various time intervals, with relevant indices;
- the discount/premium in share price to NAV; and
- the cost of running the portfolio as a percentage of its value.

Since the objective of the investment trust is measurable solely in financial terms, the directors do not consider that it is appropriate to adopt non-financial KPIs. The financial measures adopted as KPIs are part of our financial reporting obligations and no Alternative Performance Measures as defined under ESMA guidelines have been adopted.

Investment strategy – implementation

The way in which we implemented the investment strategy during 2017 is described in the investment manager's review at page 20.

Performance against KPIs is set out at pages 2, 3, 4 and 14 to 19, which contain comprehensive tables, charts and data to explain performance both over the year under review and over the long term.

Law Debenture's responsibilities as an institutional shareholder

The Corporation recognises that in delivering its objective to produce long term capital growth and a steadily increasing income, it must ensure that its investment strategy is delivered with due emphasis on the need to ensure that investee companies are acting in accordance with accepted standards of corporate governance. The Corporation has therefore adopted the following policy.

Law Debenture will normally support incumbent management and vote in favour of resolutions proposed by the boards of companies in which it has a shareholding, but will vote against management or withhold a vote where appropriate.

The board determines the Corporation's investment strategy but does not issue express instructions to the investment manager on transactions in particular shares. Where Law Debenture believes that incumbent management is failing in its duties, Law Debenture (or on its behalf, the Corporation's investment manager) may attempt to enter into dialogue with the company concerned in an attempt to alter the management's position.

Where this is not possible, or where incumbent management declines to alter its behaviour, Law Debenture will consider voting against resolutions proposed by the management. Further, if it is deemed necessary or desirable, the Corporation would consider acting collectively with other institutional investors to try and achieve a particular goal.

Janus Henderson, on Law Debenture's behalf, monitors companies in which Law Debenture is invested, and from time to time may discuss matters of corporate responsibility with such companies. The Janus Henderson corporate governance unit will notify Law Debenture's investment manager, who in turn will notify Law Debenture, should matters arise that might lead the Corporation to consider intervening, abstaining or voting against a particular proposal. During the year, the Corporation abstained or voted against one or more resolutions at the annual general meetings of 18 investee companies.

The Corporation will not hold shares in companies whose ethical and environmental practices are in its view likely to damage the performance of the business to the detriment of its shareholders.

The Corporation does not believe that conflicts arise between its duties as an institutional shareholder and the IPS work undertaken by the Corporation's subsidiaries. The investment manager has complete discretion as to portfolio decisions and as a matter of policy, has no access to 'non-public' knowledge about any of the activities of the IPS businesses.

The IPS businesses – part of our business model

Operating through wholly owned subsidiary companies, all of which are listed at note 14 to the accounts, we provide the following services: corporate trusts, pension trusts, corporate services (including agent for service of process), treasury services, whistleblowing services and governance services to client boards. The services are provided through offices in London, Sunderland, Dublin, New York, Delaware, Hong Kong, the Channel Islands and the Cayman Islands.

Group employees are employed by L.D.C. Trust Management Limited and Safecall Limited (in the UK) or a locally incorporated entity (in the overseas jurisdictions). As part of their duties, a small number of the employees provide services to the investment trust and their time is charged to the trust, forming a part of the ongoing charges.

More details about the performance of the IPS in 2017 are given in the management review at page 23.

The **principal risks** to the business model from the IPS arise where transactions to which we provide a service come under stress – say by going into default, or where re-financings or other transaction amendments are required. Such risks may arise from the wider economic pressures on some sectors, borrowers and regions. To mitigate these risks, we work closely with our legal advisers and where appropriate, financial advisers, both in the set up phase to ensure that we have as many protections as practicable and on a continuing basis. The directors, via detailed audit committee review, monitor these risks closely to ensure that the risks of the IPS businesses do not impact the investment portfolio.

The single **KPI** of the IPS is revenue return per share, which is reported within the financial summary and the ten year record at pages 2 and 4.

Environmental, employee related, community and social issues

Law Debenture considers that none of its trading activities has a negative environmental impact. We disclose our carbon emissions consumption as part of the directors' report.

Those emissions relate solely to the maintenance of our various offices around the world.

The group's employees are provided with modern, comfortable working environments that comply with all relevant safety regulations. Employee wellbeing is ensured through delivery of a range of benefits designed to promote good health including health insurance, medicals, etc. Independent confidential helpline facilities are provided to

enable employees to deal with issues of concern to them, whether work related or domestic. As a result of these measures, and senior management's open style, staff turnover is low.

The group supports certain charities from time to time, particularly where employees have personally organised events, or take part in sponsored activities, that benefit charities related to them or their families.

Law Debenture has supported local social and community initiatives in London by participating in the Social Mobility Foundation (helping high achieving young people from low income families to gain work experience through an internship with us). The group is unaware of any human rights issues that might arise from its activities, mindful though of the need to act responsibly as an institutional shareholder (as described above).

Breakdown of employees by sex

We report that at the year end:

- no directors of the group parent are female (2016: nil);
- 20% of the senior managers of the group are female (2016: 15%) (senior manager being any individual with responsibility for planning, directing or controlling an activity of one of the subsidiary companies, excluding the chief executive); and
- 47% (2016: 44%) of the group employees are female.

Future trends and factors

Law Debenture will continue to strive to deliver its business objectives for both the investment trust and the IPS.

The chairman's statement, the investment manager's review and the IPS management review respectively set out some views on future developments.

Brexit

The board will keep Brexit developments under review but currently believes that the UK's decision to leave the EU does not present a threat to the group's business model, the viability statement, or its ability to continue producing accounts on a going concern basis. The chairman comments separately on Brexit in his review.

Performance and related data

Pages 2, 3, 4 and 14 to 19, which contain performance and related data, form a part of this strategic report.



Law Debenture Corporate Services Limited
Company Secretary

27 February 2018

Classification of investments based on market values at 31 December 2017

	United Kingdom %	North America %	Europe %	Japan %	Other Pacific %	Other %
Oil & gas						
Oil & gas producers	7.67	–	0.30	–	–	–
Oil equipment & services	–	1.41	–	–	–	–
	7.67	1.41	0.30	–	–	–
Basic materials						
Chemicals	2.40	–	0.49	–	–	–
Forestry & paper	1.05	–	–	–	–	–
Mining	3.15	–	–	–	–	–
	6.60	–	0.49	–	–	–
Industrials						
Construction & materials	3.44	–	–	–	–	–
Aerospace & defence	6.00	–	–	–	–	0.83
General industrials	1.56	–	–	–	–	–
Electronic & electrical equipment	3.25	0.82	0.87	–	–	–
Industrial engineering	3.48	2.78	–	–	–	–
Industrial transportation	0.94	–	0.19	–	–	–
Support services	2.94	–	1.15	–	–	–
	21.61	3.60	2.21	–	–	0.83
Consumer goods						
Automobiles & parts	1.96	0.93	–	1.05	–	–
Beverages	–	–	0.30	–	–	–
Food producers	–	–	0.38	–	–	–
Household goods & home construction	1.02	–	0.25	–	–	–
Tobacco	–	–	–	–	–	–
	2.98	0.93	0.93	1.05	–	–
Healthcare						
Healthcare equipment & services	1.42	1.08	0.67	–	–	–
Pharmaceuticals & biotechnology	2.58	1.04	0.72	–	–	–
	4.00	2.12	1.39	–	–	–
Consumer services						
General retailers	0.84	–	0.17	–	–	–
Media	3.63	–	–	–	–	–
Travel & leisure	3.06	–	0.84	–	–	–
	7.53	–	1.01	–	–	–
Telecommunications						
Mobile telecommunications	1.20	–	–	–	–	–
	1.20	–	–	–	–	–
Utilities						
Electricity	0.54	–	–	–	–	–
Gas, water & multiutilities	0.95	–	–	–	–	–
	1.49	–	–	–	–	–
Financials						
Banks	4.10	–	0.62	–	–	–
Non-life insurance	3.28	–	–	–	–	–
Life insurance/assurance	3.42	–	0.21	–	–	–
Real estate investment & services	1.02	–	–	–	–	–
Real estate investment trusts	2.48	–	–	–	–	–
Financial services	2.50	–	0.55	–	–	–
Equity investment instruments	2.54	–	–	1.05	5.39	1.61
	19.34	–	1.38	1.05	5.39	1.61
Technology						
Software & computer services	–	1.29	0.59	–	–	–
Technology hardware & equipment	–	–	–	–	–	–
	–	1.29	0.59	–	–	–
Total 2017	72.42	9.35	8.30	2.10	5.39	2.44
Total 2016	70.75	12.21	7.96	2.07	5.05	1.96

The above table excludes bank balances and short term deposits.

Portfolio by sector 2017

Total 2017 £000	2017 %	Total 2016 £000	2016 %
58,664	7.97	51,635	7.41
10,399	1.41	16,135	2.32
69,063	9.38	67,770	9.73
21,288	2.89	14,705	2.11
7,724	1.05	6,644	0.95
23,146	3.15	25,042	3.60
52,158	7.09	46,391	6.66
25,320	3.44	22,958	3.30
50,169	6.83	49,359	7.09
11,450	1.56	9,836	1.41
36,280	4.94	34,454	4.95
46,100	6.26	47,397	6.80
8,342	1.13	2,596	0.38
30,028	4.09	38,525	5.53
207,689	28.25	205,125	29.46
28,963	3.94	26,949	3.88
2,197	0.30	1,649	0.24
2,802	0.38	11,547	1.67
9,363	1.27	6,605	0.95
—	—	6,870	0.98
43,325	5.89	53,620	7.72
23,316	3.17	27,268	3.91
31,918	4.34	30,664	4.41
55,234	7.51	57,932	8.32
7,458	1.01	8,120	1.17
26,659	3.63	26,208	3.76
28,774	3.90	18,172	2.61
62,891	8.54	52,500	7.54
8,823	1.20	4,722	0.68
8,823	1.20	4,722	0.68
3,954	0.54	4,659	0.67
7,050	0.95	8,017	1.15
11,004	1.49	12,676	1.82
34,771	4.72	27,628	3.97
24,166	3.28	18,272	2.62
26,814	3.63	22,234	3.19
7,489	1.02	5,622	0.81
18,295	2.48	9,129	1.31
22,395	3.05	26,908	3.87
77,918	10.59	66,746	9.60
211,848	28.77	176,539	25.37
13,837	1.88	13,875	1.99
—	—	4,930	0.71
13,837	1.88	18,805	2.70
735,872	100.00		
		696,080	100.00

Oil & gas 9.4%
 Basic materials 7.1%
 Industrials 28.2%
 Consumer goods 5.9%
 Healthcare 7.5%
 Consumer services 8.5%
 Telecommunications 1.2%
 Utilities 1.5%
 Financials 28.8%
 Technology 1.9%

Portfolio by sector 2016

Oil & gas 9.7%
 Basic materials 6.7%
 Industrials 29.5%
 Consumer goods 7.7%
 Healthcare 8.3%
 Consumer services 7.5%
 Telecommunications 0.7%
 Utilities 1.8%
 Financials 25.4%
 Technology 2.7%

Investment portfolio valuation as at 31 December 2017

The number of investments was 137 at 31 December 2017 (2016: 137), including de-listed stocks.

	£000	%
Oil & gas		
Oil & gas producers		
Royal Dutch Shell	31,300	4.25
BP	16,707	2.27
Indus Gas	6,178	0.84
Total (Fra)	2,215	0.30
Tullow Oil	1,028	0.14
Premier Oil	953	0.13
Providence Resources	283	0.04
	58,664	7.97
Oil equipment & services		
Gibson Energy (Can)	4,981	0.68
Schlumberger (USA)	3,985	0.54
National Oilwell Varco (USA)	1,331	0.18
Now (USA)	102	0.01
	10,399	1.41
Basic materials		
Chemicals		
Croda	7,473	1.02
Elementis	6,088	0.83
Velocys	2,492	0.34
Linde (Ger)	1,725	0.23
Cargill	1,573	0.21
Umicore (Bel)	981	0.13
Brenntag (Ger)	956	0.13
	21,288	2.89
Forestry & paper		
Mondi	7,724	1.05
	7,724	1.05
Mining		
Rio Tinto	14,775	2.01
BHP Billiton	8,371	1.14
	23,146	3.15
Industrials		
Construction & materials		
Marshalls	8,616	1.17
Balfour Beatty	5,952	0.81
Accsys Technologies	5,567	0.76
Ibstock	5,185	0.70
	25,320	3.44
Aerospace & defence		
Senior	14,991	2.04
Rolls Royce	13,976	1.90
BAE Systems	10,305	1.40
Embraer (Bra)	6,075	0.83
Meggitt	4,822	0.66
	50,169	6.83
General industrials		
Smith (DS)	11,450	1.56
	11,450	1.56

	£000	%
Electronic & electrical equipment		
Spectris	10,561	1.44
Morgan Advanced Materials	10,068	1.37
Applied Materials (USA)	6,046	0.82
TT Electronics	3,212	0.44
Legrand (Fra)	2,044	0.28
Philips Electronics (Net)	1,573	0.21
Siemens (Ger)	1,446	0.20
Philips Lighting (Net)	1,330	0.18
	36,280	4.94
Industrial engineering		
Caterpillar (USA)	8,154	1.11
Cummins (USA)	7,834	1.06
Hill & Smith	7,833	1.06
IMI	5,832	0.79
Deere (USA)	4,517	0.61
Weir Group	4,246	0.58
Ceres Power	4,200	0.57
Renold	2,846	0.39
Severfield	638	0.09
	46,100	6.26
Industrial transportation		
Eddie Stobart Logistics	5,813	0.79
AP Moller-Maersk (Den)	1,422	0.19
Wincanton	1,107	0.15
	8,342	1.13
Support services		
Johnson Service	12,987	1.76
Babcock	5,264	0.72
Deutsche Post (Ger)	4,300	0.58
Interserve	2,540	0.35
SGS (Swi)	2,405	0.33
Sodexo (Fra)	1,766	0.24
Carillion	491	0.07
Augean	275	0.04
	30,028	4.09
Consumer goods		
Automobiles & parts		
GKN	14,413	1.96
Toyota Motor (Jap)	7,732	1.05
General Motors (USA)	6,818	0.93
	28,963	3.94
Beverages		
Pernod-Ricard (Fra)	2,197	0.30
	2,197	0.30
Food producers		
Nestlé (Swi)	2,802	0.38
	2,802	0.38
Household goods & home construction		
Watkin Jones	7,525	1.02
L'Oreal (Fra)	1,838	0.25
	9,363	1.27

Those shown in italics are new holdings in the six months since 30 June 2017.

	£000	%		£000	%
Healthcare			Financials		
Healthcare equipment & services			Banks		
Becton Dickinson (USA)	7,912	1.08	HSBC	20,199	2.74
Smith & Nephew	6,040	0.82	Standard Chartered	10,029	1.36
Spire Healthcare	4,438	0.60	ING Group (Net)	1,915	0.26
Fresenius (Ger)	2,629	0.36	UBS (Swi)	1,599	0.22
Fresenius Medical Care (Ger)	2,297	0.31	<i>BAWAG (Aus)</i>	<i>1,029</i>	<i>0.14</i>
	23,316	3.17		34,771	4.72
Pharmaceuticals & biotechnology			Nonlife insurance		
GlaxoSmithKline	13,839	1.88	Hiscox	11,509	1.56
AstraZeneca	5,118	0.70	RSA Insurance	8,841	1.20
Pfizer (USA)	4,016	0.55	<i>Direct Line Insurance</i>	<i>3,816</i>	<i>0.52</i>
Johnson & Johnson (USA)	3,615	0.49		24,166	3.28
Novartis (Swi)	2,967	0.40	Life insurance/assurance		
Novo-Nordisk (Den)	2,363	0.32	Prudential	13,968	1.90
	31,918	4.34	Chesnara	4,036	0.54
Consumer services			Aviva	3,964	0.54
General retailers			Standard Life Aberdeen	3,273	0.44
Dunelm	4,501	0.61	Allianz (Ger)	1,565	0.21
Inditex (Spa)	1,247	0.17	Permanent TSB (Ire)	8	—
Findel	1,116	0.15		26,814	3.63
Topps Tiles	594	0.08	Real estate investments & services		
	7,458	1.01	St Modwen Properties	7,489	1.02
Media				7,489	1.02
Relx	13,035	1.77	Real estate investment trusts		
Sky	5,566	0.76	Land Securities	8,050	1.09
Pearson	3,864	0.53	Pacific Industrial & Logistics	6,487	0.88
Daily Mail & General Trust	3,049	0.41	Mucklow (A&J) Group	3,758	0.51
<i>Mirriad Advertising</i>	<i>1,145</i>	<i>0.16</i>		18,295	2.48
	26,659	3.63	Financial services		
Travel & leisure			IP Group	8,486	1.15
Fastjet	7,957	1.08	Oxford Sciences Innovation (unlisted)	3,636	0.49
International Consolidated Airlines	7,312	0.99	International Personal Finance	3,358	0.46
Irish Continental (Ire)	6,166	0.84	Provident Financial	2,694	0.37
Carnival	4,892	0.66	Amundi (Fra)	2,105	0.29
Marstons	2,447	0.33	Deutsche Börse (Ger)	1,877	0.26
	28,774	3.90		22,156	3.02
Telecommunications			Equity investment instruments		
Mobile telecommunications			Baillie Gifford Pacific	16,024	2.18
Vodafone	7,045	0.96	Stewart Investors Asia Pacific	15,933	2.17
Inmarsat	1,778	0.24	Templeton Emerging Markets		
	8,823	1.20	Investment Trust	11,857	1.61
Utilities			Herald Investment Trust	9,894	1.34
Electricity			Schroder Japan Growth Fund (Jap)	7,752	1.05
SSE	3,954	0.54	Scottish Oriental Smaller		
	3,954	0.54	Company Trust	7,661	1.04
Gas water & multiutilities			Syncona	4,429	0.60
National Grid	4,890	0.66	Foresight Solar	3,218	0.44
Severn Trent	2,160	0.29	Better Capital (2012)	1,150	0.16
	7,050	0.95		77,918	10.59
			Technology		
			Software & computer services		
			Microsoft (USA)	9,485	1.29
			SAP (Ger)	2,214	0.30
			Amadeus IT (Spa)	2,138	0.29
				13,837	1.88

Top 20 equity holdings by value

Rank	Company	2017		2016	
		Value £000	% of portfolio	% of portfolio	Rank
1	Royal Dutch Shell	31,300	4.25	3.72	1
2	HSBC	20,199	2.74	2.49	2
3	BP	16,707	2.27	2.34	4
4	Senior	14,991	2.04	1.60	9
5	Rio Tinto	14,775	2.01	2.38	3
6	GKN	14,413	1.96	2.15	5
7	Rolls Royce	13,976	1.90	1.49	14
8	Prudential	13,968	1.90	1.71	6
9	GlaxoSmithKline	13,839	1.88	1.68	7
10	Relx	13,035	1.77	1.56	10
11	Johnson Service	12,987	1.76	1.54	11
12	Hiscox	11,509	1.56	1.37	18
13	Smith (DS)	11,450	1.56	1.41	16
14	Spectris	10,561	1.44	1.50	13
15	BAE Systems	10,305	1.40	1.52	12
16	Morgan Advanced Materials	10,068	1.37	1.23	22
17	Standard Chartered	10,029	1.36	0.84	35
18	Microsoft (USA)	9,485	1.29	1.44	15
19	RSA Insurance	8,841	1.20	1.25	21
20	Marshalls	8,616	1.17	1.27	20
		36.83			

The top 20 equity holdings by value at 31 December 2016 accounted for 35% of the investment portfolio.

Other significant holdings by value

Company	2017		2016
	Value £000	% of portfolio	% of portfolio
Baillie Gifford Pacific*	16,024	2.18	2.08
Stewart Investors Asia Pacific*	15,933	2.17	2.02
Templeton Emerging Markets Investment Trust	11,857	1.61	1.30
Herald Investment Trust	9,894	1.34	1.07
		7.30	

*Open ended investment companies.

Changes in geographical distribution

	Valuation 31 December 2016 £000	Purchases £000	Costs of acquisition £000	Sales proceeds £000	Appreciation £000	Valuation 31 December 2017 £000
United Kingdom	492,710	59,396	(213)	(62,921)	43,951	532,923
North America	84,975	2,246	(3)	(32,280)	13,858	68,796
Europe	55,244	17,890	(31)	(24,044)	12,060	61,119
Japan	14,366	–	–	–	1,118	15,484
Other Pacific	35,140	–	–	(4,162)	8,640	39,618
Other	13,645	824	(1)	–	3,464	17,932
	696,080	80,356	(248)	(123,407)	83,091	735,872

Geographical distribution of portfolio 2017 by value

United Kingdom 72.4%
North America 9.4%
Europe 8.3%
Japan 2.1%
Other Pacific 5.4%
Other 2.4%

Geographical distribution of portfolio 2016 by value

United Kingdom 70.7%
North America 12.2%
Europe 8.0%
Japan 2.1%
Other Pacific 5.0%
Other 2.0%

Investment manager's review

Review

The NAV total return was 16.6%, while the benchmark return was 13.1%. Global equity markets were strong in 2017 as corporate earnings generally came through at the top end of expectations. Some of the geopolitical and macroeconomic developments that investors were worrying about did not materialise - for instance, rising (anti-EU) political populism, negative consequences of the Trump election victory – although other worries such as North Korea, went to the top of the list. But on the whole, there was a welcome return to focussing on stock specific fundamentals. It was a year when the balance was fine between being a net seller and a net buyer. Overall, we reduced gearing and increased cash. For the global economy, the period of extremely accommodating Central Bank monetary policy is ending, interest rates started to move up and asset purchases by the authorities started to be wound down. This has made us more cautious in our investment approach.

The UK remained the central focus of the portfolio. As shown in the chart below, the UK provides the highest dividend yield of major world markets.

As reported last year, we suffered in 2016 compared to other funds in the AIC Global sector because of our UK weighting. As a contrarian investor, it has been a difficult period. Nevertheless, we continue to believe that the UK offers relative value. The UK companies we hold earn around 70% of their revenues overseas, which should help shield them from any further Brexit disruptions. We also retain our belief that industrials are an important driver. The chart below illustrates the upturn in the global manufacturing economy, which started to grow in the second half of 2016 and continued its healthy upward trajectory in 2017. The manufacturing sector in particular had a strong year with industrials leading the way as the global economy they serve experienced accelerating growth.

However, since the UK voted in favour of Brexit, with the resultant uncertainties that the decision has brought, the UK equity markets have risen less than other major markets.

The US stocks we hold were the best performing area with some of the world's largest companies such as Microsoft, which is in the portfolio, appreciating substantially.

Attribution and portfolio activity

Marshalls was the largest contributor. This building materials company supplies quality products to the built environment. Its products have an excellence that differentiates it from many other building related companies. However, the valuation has risen to a relatively high level and as a result the holding has been reduced, as it has been for other major contributors to last year such as **Caterpillar** and **Applied Materials**. **Watkin Jones**, the second largest contributor, builds student accommodation, which reminds investors good returns can be made in the area of construction, if the company has a strong management team that is focused on areas that they know well.

The detractors are dominated by the losses suffered in the two contractors **Interserve** and **Carillion**. These two companies both had problems with large contracts that they had mispriced. In Carillion's case, although it is the second largest contractor in the UK, it did not have the financial strength to withstand the problems it encountered and, subsequent to the year end, has gone into liquidation. The lesson is that a very conservative balance sheet is necessary to withstand the risks inherent in the contracting industry.

The reduction in the size of holding as the valuation rises is a basic investment discipline that should underpin our approach. It also allows us to recycle the capital into new opportunities where the valuation may not reflect the potential. The entire holding was sold in certain companies such as **Apple** as valuations appeared too demanding. Purchases were made in a diverse range of companies. They included large companies such as **Glaxo** where the share price has not so far participated in the rise of equities generally and offers long term value. We also purchased selective smaller company holdings, where we believe management can add significant value almost regardless of the economic background, such as **Mirriad Advertising**, which is a global specialist in product placement.

During the year the holding in **Standard Chartered** was increased as the bank has done much to refocus its operations on the areas where it can achieve consistent returns. The management's actions and the renewed strength of economies in the Far East led to share price strength. The funds we hold in this area also benefitted from the improvement in investor sentiment. We used the strength to take some profits as the Chinese economy is unlikely to keep growing at its current rate into the future, which could create some volatility. We added to the holding in **Land Securities** as it has fallen to a large discount to its NAV as investors shun the property sector. We also built up a smaller company exposure in the area

Biggest rises by value

The ten largest equity contributors over the year were:

	Value appreciation £m
Marshalls	4.5
Watkin Jones	4.0
Hiscox	4.0
Senior	3.8
Rolls Royce	3.8
Caterpillar	3.5
International Consolidated Airlines	3.3
Applied Materials	3.0
Rio Tinto	3.0
Cape	2.9

Biggest falls by value

The ten largest detractors were:

	Value depreciation £m
Interserve	6.6
Carillion	6.1
Provident Financial	4.2
GlaxoSmithKline	2.3
I P Group	2.0
Schlumberger	1.5
Spire Healthcare	1.4
Babcock	1.4
Daily Mail & General Trust	1.0
Inmarsat	0.9

by buying shares in **Pacific Industrial** which, in spite of its name, solely owns smaller UK warehouses that are benefitting from an increase in internet shopping. Similarly, a holding in **Eddie Stobart Logistics** was purchased as it too is seeing strong growth as a result of the change in shopping habits.

The investment approach is to run a relatively long list of stocks as this diversifies the risk. The overseas holdings in the portfolio comprise companies that are excellent businesses but where similar companies cannot be found in the UK market.

MiFID II

MiFID II is a fundamental overhaul of the regulatory rules for financial services in Europe. It came into force on 3 January 2018 and, amongst a plethora of other rule changes, places restrictions on how investment firms pay for third-party research. Janus Henderson will pay directly for third-party research for its European fund ranges and for client portfolios managed in the EU. This includes research used in managing Law Debenture's portfolio. Access to high quality research is integral to the investment process at Janus Henderson and I am confident that I will continue to have the necessary access required to inform my investment decisions.

Outlook

The economy is experiencing a pick-up in industrial activity of a strength that is surprising many commentators, who had expected a muted expansion to continue. It is global with upgrades coming through in USA, Europe, Far East and emerging markets. The UK is being swept up in it with manufacturing growing at a better than anticipated rate. The holdings in the portfolio are generally reporting good sales growth and analysts are upgrading profit forecasts. This is a helpful background for a stock picker. However, if the pick-up is sustained, global interest rates will have to rise further and faster than currently expected and the markets have already seen volatility in 2018 around this point. The focus in managing the portfolio must remain on companies that are providing good products and services at a competitive price, as this will be the only protection given that economic volatility is inevitable, sooner or later. Overall, the strategy remains to reduce where valuations look stretched and focus on the more out of favour value opportunities.

James Henderson
Janus Henderson Investors

Management review

– independent professional services

Law Debenture independent professional services ('IPS')

The Law Debenture business model is described on page 1 but it is worth repeating that our IPS businesses are a key differentiator between us and other investment trusts. Most of our 120 strong staff are employed in our IPS businesses. The profit this generates is largely paid by dividend to the investment trust, which in turn means that the fund manager may be less constrained to seek income yielding investments than he otherwise might have to be.

Our IPS businesses are corporate trusts (including trustee and escrow banking), pension trusts, corporate services, agent for service of process, whistleblowing services and governance services to client boards and pension funds. The businesses are monitored and overseen by a board comprising the heads of the relevant business areas and two non-executive, independent directors.

Results

As reported in the chairman's review, there was an exceptional item in 2017, being the sale of our holding of shares in Nordic Trustee Holding ASA, an investment made by and retained within the IPS corporate trust business. The sale generated a substantial profit of £3.3 million (before tax).

Thus, while the reported IPS profit before tax increased to £13.0 million, once the exceptional item is stripped out, profit before tax on a comparable year-on-year basis was £9.7 million (2016: £9.5 million). Revenue return per share (again stripping out the exceptional item) was 7.69p (2016: 7.68p).

Proposals for future growth

In October 2017, Tim Fullwood – our CFO since July 2003 – took over as interim CEO and he managed the businesses most ably through to the year end, when I was appointed as the new permanent chief executive.

I joined the organisation in July as chief commercial officer. There were significant overlaps between that role and the chief executive's and we will not be appointing a replacement chief commercial officer.

I was able in my first few months to watch, listen and learn how each of the IPS businesses work, including the overseas operations. As a result, I have developed a good understanding of the businesses.

Two things are clear: one, that Law Debenture's brand and reputation is second to none across all of the markets where we operate; but two, we have not done enough in recent years to win as much market share as we should.

My aim is to do something about the second point while protecting and enhancing the first.

Our businesses are profitable and on the whole efficient. But we need them to grow, which means encouraging the management teams, challenging them to set and meet realistic targets and bringing in new talent where necessary to help achieve this.

We have completed a review of all of the businesses. Revenue targets have been set and there is a new rigour in capital allocation – i.e. an enhanced and disciplined control environment with appropriate cost management. We have also looked at our remuneration arrangements and it is clear that the focus on increased revenues requires some adjustment in the way that we operate.

As reported below by the pension team, investment in our future success includes hiring some new executives – well qualified, senior and capable of generating revenue. Other businesses will need to do likewise, which means an increase in the number of people eligible to participate in the discretionary bonus scheme.

We have therefore proposed, supported by the remuneration committee and as described in its report, that we amend the remuneration policy by making the following changes to the bonus arrangements:

- increasing the percentage of the IPS profits that are available for bonuses, so long as profits are increased by at least 3% year-on-year;
- amending the basis of calculation so that the IPS profits in a given year are measured against the immediate prior year, rather than the rolling average of the three prior years' performance; and
- amending the general discretionary bonus scheme, under which all UK IPS employees receive a bonus, by introducing a performance element. This will remove the anomalous scenario whereby an individual whose personal performance is under review nevertheless is rewarded with a bonus.

We believe that these are modest but important adjustments that balance the long term objective of improving shareholder value with the need for the group to have sufficient flexibility to deliver growth and profitability.

The delivery of increased IPS profits benefits the shareholders directly, both in income and capital terms. With the changes we are seeking, that is what we will be able to do in the coming years. We hope that shareholders will support the changes to the remuneration policy that are proposed at this year's AGM.

Management review continued

Review of 2017 – business by business

Corporate trusts, including trustee and escrow banking

The corporate trust business operates across the full range of debt capital market and loan related transactions and also continues to provide bespoke trust solutions to client challenges. We ended the year strongly following a slower than usual start in Q1 and Q2, which resulted in a solid performance overall in terms of revenues and new transaction volumes.

Activity in the high yield bond market remained strong leading to numerous trustee appointments, in particular in Italy where we perform the role of noteholder representative in addition to a traditional bond trustee role. Islamic finance was also active, culminating in further delegate appointments on Sukuk issues including some high profile sovereign financings. Security trustee appointments reflected a variety of underlying commercial objectives ranging from bank funding, project financings and aircraft lease arrangements. We were also appointed trustee on a number of securitisations including various Portuguese transactions where we performed the role of common representative. In addition, our MTN and repackaging book continued to provide steady growth opportunities.

Our recognised independence as an impartial third party enabled us to secure many escrow agent appointments, thereby serving to diversify our income base further.

Our trust management team has continued to demonstrate its experience. As well as handling the usual array of routine day-to-day client driven post-issuance work, such as amendments and consent requests, the team has also dealt with a number of more challenging matters such as defaults, corporate reorganisations and debt restructurings. This work continues to be a material source of income for the business.

Pension trusts and governance services

Our pension trusteeship service saw an increase both in enquiries and new appointments in 2017. There has been much media and government interest in pension scheme management and this is a key driver in activity levels, as schemes look for guidance on managing the complex issues confronting lay trustees.

These new opportunities span our core pension trusteeship services, with new roles becoming available as board member, chair and even second or third independent trustee. In addition, we continue to promote our newer propositions including sole trusteeship and scheme secretarial services, which has led to growth of interest in these services.

As we grow our client base, we continue to grow our team with multiple new hires in 2017 across the trustee and trustee governance teams. These hires demonstrate to our clients our ability to bring on board knowledgeable people with strong pension expertise who are here to stay.

We hear from the industry that our experience and collaborative team structure is a key differentiator and one we should continue to promote as we build our brand through increased marketing efforts.

Corporate services

Our corporate services business performed at an acceptable level during the year but continued to face strong headwinds and competition in providing corporate directors, company secretary, accounting, corporate administration and facility agent services in the UK. New leadership of the highly experienced team has brought a renewed focus in developing the business and expanding our relationships. As a result we have been appointed on a number of transactions with new parties, as well as on new transactions with long standing clients.

Our long established and highly regarded service of process business had another solid year.

Safecall

Our external whistleblowing service had another successful year, with a significant number of contracts signed. Notable appointments included Euroclear, Hays, Kier, Laing O'Rourke and NATS. Recent publicity around whistleblowing in public life has helped raise the profile of the service. Organisations realise the positive impact you can achieve by introducing a "speak out" channel for employees to report unacceptable behaviour in the workplace. In mainland Europe, new legislation is helping shift attitudes towards a greater acceptance of whistleblowing and we have started to see the impact of this – for example in France, with the introduction of its anti-bribery law, Sapin II.

Overseas

United States

Having decided in 2016 to exit the trust business, while retaining our profitable other businesses, the US corporate trust business continued to maintain its New York State trust license in 2017 while in the process of conducting an orderly termination of its business, which we expect to complete in 2018.

Our corporate services and service of process offerings had a good year.

Asia

Our Hong Kong office focusses primarily on providing our independent third party services to the HK and China capital and trustee markets. In 2017, we won new roles across a number of business lines including trustee work, loan agency, share save management schemes and escrow transactions. Our service of process product continued to grow and remains strong.

Channel Islands

The annual fees from existing appointments performed well although there was a decline in the level of activity fees from the previous year. There were one-off cost savings over 2016, which also contributed to the results for the year.

Republic of Ireland

Our Dublin office, opened in 2017, provides services that include corporate trust and agency, corporate services and service of process. The business has had early success. It generated a positive contribution in its first year of operations and is set to continue to grow in 2018 and beyond. To date, key clients include aviation lessors and investors and securitisation vehicles. Also during 2017, we acquired a share trustee business from Matheson, which will provide annuity income for a number of years. Whilst competition in the Irish market is intense, Law Debenture benefits from being independent of any bank or law firm and from having a reputation for high-quality services, similar to the long-standing UK reputation. Post-Brexit, we expect the financial services sector to continue to grow in Ireland and our Irish office is well placed to capitalise on opportunities arising from this.

Outlook

There are no currently known uncertainties that might threaten our ability to grow the IPS businesses. Our management team is enthusiastic about delivering my growth strategy and I look forward to working with them, and with all of our staff in our offices around the world, in doing just that.

Denis Jackson

Chief executive officer

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2017. The Corporation retains its status as an investment trust and has been treated by HM Revenue & Customs and approved as such for the year ended 31 December 2016, the latest year for which financial statements have been submitted. Such approval for the year ended 2016 is subject to there being no subsequent enquiry under Corporation Tax Self Assessment. In the opinion of the directors, the Corporation has subsequently conducted its affairs so as to enable it to obtain approval under Sections 1158-1159 of the Corporation Tax Act 2010. The Corporation, which (as far as the directors are aware) is not a close company, is registered as an investment company as defined in Section 833 of the Companies Act 2006 and operates as such. The directors consider that the group operates as a going concern.

The corporate governance report at pages 29 to 33 forms a part of the directors' report.

Essential contracts

In the view of the board, the only contract that is essential to the business of the group is the investment management agreement with Janus Henderson, details of which are set out in the strategic report.

Revenue, dividends and reserves

The group revenue return attributable to shareholders for the year ended 31 December 2017 was 21.66p. The directors recommend a final dividend of 11.80p per share, which together with the interim dividend of 5.50p paid in September 2017, will produce a total of 17.30p (2016: 16.70p). The final dividend will be paid on 19 April 2018 to holders on the register on the record date of 16 March 2018. After deduction of the interim and final dividends of £20,442,000 (2016: £19,722,000), consolidated revenue reserves increased by £6,610,000 (2016: decrease of £2,662,000).

Directors

The directors at the date of this report are listed on page 50 and held office throughout the year other than Robert Hingley, who was appointed on 1 October 2017 and Denis Jackson who was appointed on 1 January 2018.

All directors are required to stand for re-election every year (or election at the next AGM following appointment). The list of candidates, which the board supports, is set out in the notice of annual general meeting, along with a statement in each case of why the candidate is supported. The current chairman, Christopher Smith, will retire at the conclusion of the 2018 AGM and be replaced as chairman by Robert Hingley (subject to his successful election as a director).

Directors' conflicts of interests

The directors are under statutory duty to avoid conflicts of interest. The board has in place appropriate procedures to deal with conflicts and potential conflicts, including an annual review, and those procedures are operating effectively. Each director has declared all matters that might give rise to a potential conflict of interest and these have been considered and (where necessary) approved by the board.

Regulatory compliance

The Corporation is subject to continuing obligations applicable to premium listed companies, overseen by the UK Listing Authority and all relevant disclosures have been made. Disclosure required by Listing Rule 9.8.4 is at note 18 on page 75.

Under the Alternative Investment Fund Managers Directive ('AIFMD') the Corporation is required to appoint an "Alternative Investment Fund Manager" ('AIFM'), which must be appropriately regulated by the FCA. The Corporation has elected to be its own AIFM.

The AIFM is required to provide portfolio management, risk management, administration, accounting and company secretarial services to the Corporation. All of these functions, barring portfolio management which continues to be delegated to Janus Henderson, are undertaken by the Corporation. The Corporation has appointed National Westminster Bank plc as depositary under Article 36 of the AIFMD. A fee is payable for this service, being 0.0225% per annum of the calculated monthly NAV. As part of its duties, the depositary is responsible for custody of the Corporation's portfolio assets, but has appointed HSBC Bank plc (which was the Corporation's custodian for many years before the AIFMD) as sub-custodian.

AIFMs are obliged to publish certain information for investors and prospective investors and that information may be found either in this annual report or on the Corporation's website at www.lawdebenture.com/investment-trust/corporate-governance/the-aifmd.

The AIFMD requires us to report on 'leverage'. This is slightly different from gearing, leverage being any method of borrowing that increases the Corporation's exposure, including the borrowing of cash and the use of derivatives. It is expressed as a ratio between the Corporation's exposure and its NAV and must be calculated on a 'gross' and a 'commitment' method. Under the gross method, exposure represents the sum of the Corporation's positions after the deduction of sterling cash balances, without taking into account any hedging and netting arrangements. Under the commitment method, exposure is calculated without

the deduction of sterling cash balances and after certain hedging and netting positions are offset against each other. At 31 December 2017 the maximum amount of leverage under the gross and commitment methods was 1.50 and actual amounts were 1.04 and 1.17 respectively.

Greenhouse gas emissions

The group's carbon emissions arise solely from its consumption of energy in maintaining its offices. Using Defra/DECC conversion factors published in June 2014 via the Carbon Trust website, emissions for the year to 31 December 2017 were 396.68 tonnes of CO₂e (2016: 506.69 tonnes of CO₂e). This equates to 0.00128 tonnes of CO₂e per £000 of IPS revenue minus exceptional items (2016: 0.00165 tonnes of CO₂e).

Modern Slavery Act 2015

We are required to publish a 'slavery and human trafficking statement' to outline the steps the group has taken to ensure that slavery and human trafficking is not taking place within Law Debenture's supply chain.

Law Debenture is a service provider, rather than a manufacturer. Its supply chain comprises the steps taken to get our services to a customer.

While Law Debenture is committed to preventing slavery and human trafficking in its corporate activities, it believes that its supply chains are of low risk as suppliers, for the most part, are professional advisory firms. The executive have reviewed the supply chains across the group. Law Debenture's organisational structure is set out elsewhere in the annual report, including the countries in which it is established (see page 1). None of the activities listed is considered to be at high risk of slavery or human trafficking in its supply chains.

All of Law Debenture's employees have access to confidential whistleblowing arrangements which make it easy for them to make disclosures, without fear of retaliation, if an employee has any concerns about Law Debenture's supply chain. Law Debenture only uses suppliers – generally, this means legal advisers, financial advisers, accountants and other professional firms – of the highest repute and of appropriate regulatory status.

This statement has been approved by the board and is also published on Law Debenture's website.

Repurchase of shares

During the year, the Corporation did not repurchase any of its shares for cancellation. It intends to seek shareholder approval to renew its powers to repurchase shares for cancellation up to 14.99% of the Corporation's issued share capital, if circumstances are appropriate.

Substantial shareholdings and share information

As at 27 February 2018, there were no shareholders that had notified the Corporation of a beneficial interest in 3% or more of the issued share capital. Share information as required by section 992 of the Companies Act 2006 appears at page 89.

Shareholder relations

The Corporation encourages communication between the management and shareholders on matters of mutual interest. All shareholders on the register are sent a copy of the annual report and the half yearly report, and the Corporation also provides this service to shareholders in nominee companies where the nominee has made appropriate arrangements. Shareholders wishing to receive reports and other communications electronically may do so by writing to the Corporation. In addition to periodic regulatory reports published via the London Stock Exchange, the Corporation publishes a monthly factsheet on its website about the investment portfolio performance.

Employee participation

Employees are informed of the financial aspects of the group's performance through periodic management meetings. Copies of the annual and half yearly reports are made available to all employees. The Corporation operates a SAYE scheme in which all UK full-time employees are eligible to participate after completing a minimum service requirement.

Options outstanding under the SAYE scheme at 31 December 2017 were:

Date of grant	Number of option holders	Shares under option	Exercise price
3 September 2012	1	752	398.50p
14 August 2013	8	10,807	499.50p
27 August 2014	24	60,174	518.00p
19 August 2015	16	32,480	512.50p
23 August 2016	14	22,081	495.75p
15 August 2017	20	31,768	594.75p

The Corporation also operates a Share Incentive Plan, details of which are provided in the remuneration report.

Investment manager – interests held

James Henderson did not have a beneficial interest at 31 December 2017 (2016: nil) although persons connected to him had an interest of 100,000 shares (2016: 100,000 shares).

The Corporation holds no shares in members of the Janus Henderson Group. It has been notified that funds

Directors' report continued

managed by members of the Janus Henderson Group held 87,955 shares in the Corporation at 31 December 2017 (2016:104,515 shares).

Bribery Act

The Corporation maintains a 'zero tolerance' anti-bribery policy, which applies to the Corporation and all its subsidiaries. The policy is published on the Corporation's website.

Statement of directors' responsibilities in relation to the financial statements

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company, for safeguarding the assets of the company, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a strategic report, a directors' report and directors' remuneration report which complies with the requirements of the Companies Acts.

The directors are responsible for preparing the annual report and the financial statements in accordance with the Companies Act 2006. The directors are also required to prepare financial statements for the group in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs) and Article 4 of the IAS Regulation. The directors have chosen to prepare financial statements for the Corporation in accordance with IFRSs.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Corporation's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. A fair presentation also requires the directors to:

- consistently select and apply appropriate accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to

enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and

- prepare a strategic report, a directors' report and directors' remuneration report that complies with the Companies Act 2006, as amended.

Financial statements are published on the group's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the group's website is the responsibility of the directors and is subject to annual review by the board. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Statement of information given to auditors

The directors have confirmed that so far as they are aware, there is no relevant audit information of which the Corporation's auditors are unaware, and that they 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 Corporation's auditors are aware of that information.

Directors' responsibility statement pursuant to DTR4

The directors confirm to the best of their knowledge:

- the group financial statements have been prepared in accordance with IFRSs and Article 4 of the IAS Regulation and give a true and fair view of the assets, liabilities, financial position and profit or loss of the group; and
- the annual report includes a fair review of the development and performance of the business and the position of the group and parent company, together with a description of the principal risks and uncertainties that they face.

Auditors

A resolution to re-appoint BDO LLP as auditors to the Corporation will be proposed at the annual general meeting.

By order of the board



Law Debenture Corporate Services Limited
Secretary

Corporate governance

The directors are required to report on how the Corporation has applied the main and supporting principles in the UK Corporate Governance Code (the 'Code'), and to confirm that it has complied with the Code's provisions or, where this has not been the case, to provide an explanation. This report relates to the Code as published in April 2016, a copy of which may be obtained by visiting www.frc.org.uk. The Code recognises that investment companies such as Law Debenture may have board structures which might affect the relevance of particular provisions of the Code. Where Law Debenture has departed from any provisions of the Code, this is explained below. This corporate governance statement forms a part of the directors' report.

The board – role, modus operandi and appraisal

The board includes a majority of non-executive directors. The names and biographies of the directors at the date of this report are on page 49 of the annual report. In addition, Michael Adams served until 22 October when he was replaced by Tim Fullwood, who served on an interim basis until 31 December.

The board is responsible for the overall strategy and management of the group, setting investment strategy and ensuring that the Corporation is operating in compliance with statutory and legal obligations. There is a formal schedule of matters specifically reserved for board decision, published on the Corporation's website (www.lawdebenture.com under investment-trust/corporate-governance). Matters connected with strategy and management, structure and capital, financial reporting and control, investment trust portfolio, contracts, shareholder communication, board membership and other appointments, remuneration and corporate governance are reserved for the board.

The chairman takes personal responsibility for leadership of the board and ensures that directors receive accurate, timely and clear information. He reviews channels for provision of information with the company secretary at least annually.

The board operates as a collective decision making forum. Individual directors are required to scrutinise reports produced by the executive and are encouraged to debate issues in an open and constructive manner. If one or more directors cannot support a consensus decision, a vote will be taken and the views of a dissenting director recorded in the minutes.

Procedures are in place to enable independent professional advice to be taken by individual directors at the Corporation's expense. Appropriate insurance cover is in place in respect of legal action against the directors.

The board meets regularly throughout the year. The attendance records of the directors (both at meetings of the board and, where relevant, meetings of board committees) are set out in the table below.

	Board	Remuneration	Audit	Nominations
Number of meetings in the year	9	5	7	3
Meetings attended by:				
M. Adams*	5	–	–	–
M. Bridgeman	9	5	7	3
R. Laing	9	5	7	3
C. Smith	9	5	–	3
T. Bond	9	5	7	3
T. Fullwood**	3	–	–	–
R. Hingley***	5	2	2	1

* Resigned 22 October

** Appointed 22 October

*** Appointed 1 October

The board keeps under review the performance of the executive director and the chairman formally appraises all the directors each year and implements any training or education needs that might be identified. The non-executive directors meet once each year (without the presence of the chairman) to review the chairman's performance, the results of the review being discussed with the chairman by the senior independent director ('SID'). The board evaluates its own performance and that of its committees and considers these matters again after each AGM in the light of comments received from shareholders and other interested parties.

Robert Laing is the SID. The SID is available to shareholders who have concerns that cannot be addressed through the chairman, chief executive or chief financial officer.

The board – independence

At least half of the board, excluding the chairman, must be independent non-executive directors ('NEDs'). The board has concluded that as at the date of this report, excluding the chairman, four of the five other directors are independent NEDs. In judging independence, the board takes into account whether or not a director is independent of management and any material business or other relationship that could affect or interfere with the

Corporate governance continued

exercise of objective judgement by the director, or his/her ability to act in the best interests of the Corporation and its subsidiaries.

The chairman, Christopher Smith, was independent at appointment and continued to be independent throughout the period in the view of the board.

The board is satisfied that Christopher Smith's other commitments do not interfere with the discharge of his responsibilities to Law Debenture, and that he makes sufficient time available to discharge his duties as chairman.

Robert Laing was independent at appointment in April 2012 and the board is satisfied that he remains so, having no current or previous connections with the Corporation or any of its subsidiaries.

Mark Bridgeman was independent at appointment in March 2014 and the board is satisfied that he remains so, having no current or previous connections with the Corporation or any of its subsidiaries.

Tim Bond was independent at appointment in April 2015 and the board is satisfied that he remains so, having no current or previous connections with the Corporation or any of its subsidiaries.

Robert Hingley was independent at appointment in October 2017 and the board is satisfied that he remains so, having no current or previous connections with the Corporation or any of its subsidiaries.

Denis Jackson, as an executive director, is not independent.

The board – re-election and renewal

The nominations committee ensures that the board has in place arrangements for orderly and transparent appointments to the board. There are job descriptions in place for NEDs' roles, and the board has written terms and conditions of appointment for NEDs, which are available for inspection at the AGM. Particular care is taken to ensure that NEDs have sufficient time to commit to the duties expected of them and as necessary, diversity issues are considered. No new NED is appointed without first being interviewed by each existing NED.

All new directors undergo an induction process, involving presentations by the chief executive and each business head and meetings with the investment manager.

All directors are submitted for annual re-election, subject to continued satisfactory performance, which is assessed as described above. There is no maximum number of terms that a director may serve. The Corporation has established a diversity policy, described in the nominations committee report.

Directors' remuneration

Details of the directors' remuneration appear in the remuneration report on page 45.

Board committees

The board has established a nominations committee, an audit committee and a remuneration committee, to each of which it has delegated certain responsibilities. Each committee has terms of reference, which are published on the Corporation's website (www.lawdebenture.com/investment-trust/corporate-governance). Membership of the committees is kept under review, taking account of the Code's acknowledgement of the position of investment trusts. The board is deliberately kept small and the board believes this is in the best interests of shareholders. The board is satisfied that its composition and size is sufficient to ensure that the requirements of the business can be met.

A majority of members of board committees are independent NEDs as assessed by the board and the committee memberships are fully compliant with Code stipulations.

A summary of each committee is set out below.

Nominations committee

Role

To keep under review the structure, size and composition of the board and make recommendations about adjustments that are deemed necessary, and to ensure effective succession planning in accordance with legal and corporate governance needs.

Key duties

- identification and nomination for board approval of suitable candidates to fill vacancies;
- succession planning (in particular of the chairman and chief executive);
- making recommendations about the re-appointment of non-executive directors; and
- ensuring that the board and its committees are constituted to comply so far as practicable with the Code.

The committee reports as follows:

The committee engaged Odgers Berndtson (which has no other connection with the Corporation) to conduct searches for a new non-executive director and new chief executive. Our diversity policy states that while the board remains small, it will endeavour to have at least one director who is female. That objective is currently not being met.

Members

C. Smith (Chairman)

T. Bond

M. Bridgeman

R. Laing

R. Hingley (from 1 October)

Audit committee

Following best practice guidelines published by the Financial Reporting Council ('FRC'), the audit committee's report is published as a separate section of the annual report and can be found at pages 34 to 36.

Remuneration committee

Role

To develop the Corporation's remuneration policy and oversee its implementation, monitoring the effectiveness of the policy as it relates to the group's executives.

Key duties

- reviewing and agreeing the remuneration and benefits of the executive director and senior executives in the light, as relevant, of corporate performance against a range of measures;
- development of total remuneration packages, taking account of factors set out in the Code, based in part on performance and subject to suitable performance measurements as set by the committee;
- approving the remuneration policy required to be put to shareholders for approval every three years; and
- making recommendations to the board for any changes to long term incentive arrangements.

Members

R. Laing (Chairman)

T. Bond

M. Bridgeman

C. Smith

R. Hingley (from 1 October)

The committee reports as follows. It met five times during the period. It made decisions on the remuneration and benefits of the executive director and senior staff and considered remuneration policy matters. The remuneration report at pages 37 to 48 provides more detail on the Corporation's policies. No new long term incentive arrangements were introduced in the period. The committee considered in particular:

- the remuneration level for the outgoing and incoming chief executives;
- the amount of the total pool available for the profit sharing schemes;
- the level of awards to be made to senior executive staff and the terms to be applied to the awards;
- routine administrative matters connected with the Corporation's benefits structure;
- the remuneration policy put to shareholders at the 2017 AGM and amendments to be put to shareholders at the 2018 AGM; and
- the format and content of the remuneration report.

The board does not operate a management engagement committee, the duties of such a committee being undertaken directly by the board.

Accountability and audit, fair balanced and understandable reporting and going concern

The statement of directors' responsibilities in relation to the financial statements appears on page 28. The independent auditors' report appears on pages 51 to 55. The directors confirm that the Corporation is a going concern as evidenced by the financial statements, which demonstrate a healthy position, taking into account all known and future anticipated liabilities, and the group's ability to meet those liabilities. There are no material uncertainties that call into question the Corporation's ability to continue to be a going concern for at least 12 months from the date of approval of the financial statements.

The audit committee has concluded and the board concurs, that the financial statements present a fair, balanced and understandable assessment of the financial position and prospects of the Corporation and the group. The financial statements are reviewed by the audit committee, then approved by the board and signed by the chairman and chief executive. In the opinion of the board, the annual report, taken as a whole, is fair, balanced and understandable and provides the necessary information to assess the Corporation and group's position and performance, business model and strategy.

Corporate governance continued

Internal controls

The following paragraphs describe the framework of internal controls in place to ensure that the Corporation complies with the FRC "Guidance on Risk Management, Internal Control and Related Financial and Business Reporting", and with the obligations of the UKLA's Disclosure and Transparency Rules which require a description of the main features of the internal control and risk management systems in relation to the financial reporting process. This section should be read in conjunction with the strategic report section about the principal risks to the Corporation and group business model as it sets out how the directors manage or mitigate those risks.

The board monitors the effectiveness of internal controls on a continuous basis and in a number of ways, both directly through main board general reviews and also by the more specific work carried out by the audit committee. The various mechanisms include:

- board review of the group's matrix of key risks and controls managed by the chief risk officer, reporting to an executive risk committee;
- an internal audit function, which involves not only each business department (including overseas offices) being subject to audit on a regular basis, but also regular reviews of other business wide processes;
- testing by the compliance officer of the Financial Conduct Authority ('FCA') regulated business systems and controls;
- testing by the compliance officer of the Corporation's compliance with its AIFMD obligations;
- review of reports by the depositary and the sub-custodian;
- periodic reports to the board by the compliance officer about legal and regulatory changes, and the steps that the board must take to comply; and
- review of reports by the external auditors on their annual audit work.

The internal audit programme and system of compliance checks have both been developed using a risk-based methodology and an evaluation of process controls.

The board considers that the above measures constitute continuing application of the FRC risk guidance and form an important management tool in the monitoring and control of the group's operational risks.

An important element of the overall controls remains a continuous review of the quality and effectiveness of internal financial controls of the group. During the year, the board has continued to require that the group maintains proper accounting records, so that it can rely on the financial information it receives to make appropriate business decisions and also that the group's assets are safeguarded. This includes having data that allows the board to consider country and currency exposure and potential impairment of assets (both financial and non-financial). Key elements of the systems of internal control continue to be:

- regular qualitative self-assessment of the effectiveness of the individual controls maintained in the overall internal financial control framework;
- preparation by management of a comprehensive and detailed budget, involving annual board approval and monthly comparison at board level of actual results with budgets and forecasts;
- systematic reporting to the board of matters relating to litigation, insurance, pensions, taxation, accounting, counterparty risk and cash management as well as legal, compliance and company secretarial issues;
- review of internal audit reports by the appropriate professional services company board and the audit committee;
- review of the internal controls of those services, such as investment management, which have been delegated to third parties. This review was conducted during the initial contractual negotiations and on a regular basis, including annual discussions with the senior management and compliance staff of Janus Henderson;
- monitoring by the board of the investment management process, including the establishment and maintenance of investment guidelines, receiving a report from the investment manager at each board meeting, the review of all transactions with the investment manager and regular reconciliations of the records of the group with those of the depositary and sub-custodian; and
- receipt of frequent and detailed reports about the independent professional services businesses, including the overseas subsidiaries.

The systems of internal financial control are designed to provide reasonable assurance against material misstatement or loss.

By means of the procedures set out above, the directors have established a robust process for identifying, evaluating and monitoring the effectiveness of the internal control systems for the period. This process has been in place throughout 2017 and will be reviewed by the board on a regular basis.

Arrangements are in place by which staff of the group may, in confidence, raise concerns under the Public Interest Disclosure Act 1998 about possible improprieties in matters of financial reporting or other matters. If necessary, any member of staff with an honest and reasonable suspicion about possible impropriety may raise the matter directly with the chairman of the audit committee. In addition, the executive staff have access to an external whistle blowing service. Arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow up action.

Relations with shareholders and institutional shareholder responsibilities

The Corporation's compliance with these aspects of the Code is described separately within the directors' report.

Information about share capital

The information that the Corporation is required to disclose about its share capital can be found in the directors' report (significant holders) and AGM notice (total voting rights). There are no other disclosures that need to be made about share capital.

Annual general meeting ('AGM')

Details of the AGM for 2018 are set out at pages 86 to 89.

The board recognises the value of the AGM as an opportunity to communicate with shareholders and encourage their participation. Separate resolutions are put to the AGM on each substantially separate issue. Except where a poll has been called, the number of proxies lodged for each resolution, the balance for and against the resolution and the number of votes withheld is disclosed to the meeting. This information is published immediately after the AGM to the London Stock Exchange and on the Corporation's website. The notice of the AGM and related papers are sent to shareholders at least 21 working days before the meeting. Where requested by nominee holders, annual reports and related documentation are circulated to beneficial owners and the Corporation is happy for beneficial owners to attend the AGM and (where appropriate arrangements have been made with the nominee) to vote their shares in person.

Summary statement of compliance

The board has concluded that, as demonstrated by the disclosures made in the foregoing, the Corporation has complied with all of the requirements applicable to it of the UK Corporate Governance Code.

Audit committee report

Annual statement by the chairman of the audit committee

I am pleased to present the Corporation's audit committee report for the year ending 31 December 2017.

The committee was comprised at the year end of Robert Laing, Tim Bond, Robert Hingley and me. Once Robert Hingley has become chairman of the board, he will step down as a member of the committee.

Role and duties

The main function of the audit committee is to assist the board in the management of the group's finances, financial reporting structure and internal controls. Our key duties are as follows:

- monitoring the independence and objectivity of the auditors, their performance and agreeing their remuneration;
- the appointment, reappointment and removal of external auditors including negotiation of the engagement letter and supervision of the audit tender process;
- monitoring the integrity of the financial statements and the statutory audit process and in particular focussing on significant issues highlighted in the process;
- developing and implementing policy on the engagement (or not) of the external auditor for non-audit services;
- reviewing the annual and half yearly accounts before submission to the board, including particular focus on changes in accounting policy and providing an opinion to the board on whether the report and accounts are fair, balanced and understandable; and
- reviewing the effectiveness of systems of internal control and risk management, including monitoring the executive risk management function, the internal audit function and consideration of country and currency risks.

As part of my duties as committee chairman, I met with the audit partner and I met a number of times with the chief financial officer and company secretary to discuss matters of significance.

The committee considers that at least one of its members has recent and relevant financial experience and that the committee as a whole has competence relevant to the sector in which the Corporation operates.

Principal activities of the committee

During the year, the committee's business included:

- consideration of the annual report and financial statements and of the half yearly report and statements including consideration of the final and interim dividends;
- consideration of the Corporation's matrix of risks and controls and general oversight of the group's internal control systems and procedures including in the context of reports by the depositary and the Corporation's obligations as an AIFM;
- meetings with the external auditor to discuss the 2016 financial statements and, in the fourth quarter, to plan the 2017 audit. These meetings included discussions on fees, auditor independence, key risks and developments in accounting standards;
- review and approval of internal audit programme;
- conduct of an audit tender – see below;
- consideration of all internal audit reports;
- receipt of reports about reconciliations, procedures in place to prevent fraud and anti-bribery and corruption;
- receipt of reports about instances of fraud and/or breaches of controls, agreeing implementation of corrective action, including appointment of an external party (Grant Thornton) to assist the internal auditor; and
- review of new accounting standards and the possible impact on Law Debenture.

Shortly after the year end, the committee met with the external auditors to discuss the 2017 financial statements and the outcome of that discussion is set out below.

Risk management, internal control and internal audit

The internal controls adopted by the group are set out in the corporate governance report. The board as a whole is responsible for the effectiveness of internal control mechanisms but it is informed by more specific work carried out by the audit committee, which includes the initiation and oversight of any investigations that may be necessary to address control weaknesses/breaches, as identified.

In particular, the committee continually reviews the adequacy and effectiveness of the group's risk management systems and processes. The chief risk officer reports through an executive risk committee, but in line with good practice in this area, his terms of reference give him the right to report directly to me on any specific matter of concern.

The internal auditor, who reports to me as chairman of the audit committee, presents his annual audit programme to the committee for approval each year and attends committee meetings, presenting all of his reports including management's actions in response to his findings and recommendations. The internal auditor has the right, should he wish, to meet separately with the audit committee to raise any matters of concern that may arise (although he did not need to do so during the year under report). I undertake an annual review of the internal auditor's effectiveness.

External auditors – assessing effectiveness

One of the most important functions of the committee is to monitor the independence and objectivity of the auditors, their performance and effectiveness. The committee achieves this by an annual formal meeting with the audit partner to plan that year's audit. Part of that process requires the auditor to give the committee written assessment of how the audit team identifies and manages the threats to its independence, along with the description of the safeguards that it has in place to avoid such threats. This vital part of the audit process also enables the committee to examine in detail the scope of the audit, ensuring that the auditor's objectives meet the committee's own expectations, along with key audit and accounting matters to be considered that year.

At the conclusion of each audit, the committee receives a presentation from the audit partner on the principal findings. This provides the opportunity for robust challenge, particularly in areas where management judgement has been required. The committee will also give the auditors an opportunity, without executive management present, to comment on the quality and standard of the executive's performance generally and during the audit. Similarly, the committee will seek the views of the executive on the effectiveness and performance of the audit team. There were no matters of concern raised during the period under review.

During 2017, the committee obtained an independent report on the auditor's own quality control procedures and was satisfied that the auditors continue to have the resource and technical backup necessary to continue delivering an effective audit of the Corporation and its subsidiaries.

The audit partner will be mandatorily rotated following the conclusion of the current audit, having served as partner for five audits.

Audit tendering

BDO LLP were first appointed as the Corporation's auditors on 31 October 2008. After due consideration, the committee continues to be satisfied about the quality, performance and effectiveness of the audit by BDO LLP and accordingly, has recommended that they be reappointed at the forthcoming AGM.

The committee put the audit to tender during 2017. The process was conducted in accordance with the Competition and Markets Authority Audit Order. Following the tender process the committee recommended a preferred auditor (BDO) and a reserve auditor. The board resolved to appoint BDO.

Non-audit services

Non-audit services provided by the auditor are reviewed by the committee to ensure that independence is maintained. Non-audit fees are shown at note 3 to the accounts. The committee's policy is that non-audit work should be limited to those matters where the external auditor is most appropriately placed to carry out the work, unless there is a conflict of interest. Consequently, non-audit services have historically been low. In the year under review, total non-audit fees were £nil (2016: £7,000).

Significant financial issues relating to the 2017 accounts

The Code requires us to describe any significant issues considered in relation to the financial statements and how those issues were addressed.

No new significant issues arose during the course of the audit. As reported in previous years, an area of consideration is that relating to bad debt provisions.

Audit committee report continued

Management makes an estimate of a number of bad debt provisions for non-collection of fees and costs as part of the risk management and control framework.

Other issues that arose included: the risk that portfolio investments may not be beneficially owned or correctly valued; and that revenue is appropriately recognised. The committee has received assurance on these matters from management.

The committee is satisfied that the judgements made by management are reasonable and that appropriate disclosures have been included in the accounts. Taken in its entirety, the committee was able to conclude that the financial statements themselves and the annual report as a whole are fair, balanced and understandable and provide the necessary information for shareholders to assess the Corporation and group's position and performance, business model and strategy. That conclusion was reported to the board.

Mark Bridgeman
Chairman, audit committee

Remuneration report

PART 1 – REMUNERATION COMMITTEE CHAIRMAN'S ANNUAL STATEMENT

Dear Shareholder

I am pleased to present the Corporation's remuneration report for the year ending 31 December 2017.

Our policy continues to balance the interests of shareholders with those of the IPS businesses staff. We continue to believe that:

- remuneration packages should be competitive but not extravagant and should broadly be in line with average packages in the markets in which Law Debenture operates;
- there should be a clear link between total remuneration (including a profit related element) and performance; and
- there should be no reward for failure, but the executives should be rewarded for the performance of the IPS businesses, which are central to Law Debenture's business model and unique identity.

Our annual remuneration report shows how we implemented the policy during 2017.

Our remuneration report – see Part 3 on page 45 – is audited (as indicated) to the extent required by the relevant Regulations. The key points in our policy are that: the chief executive and executive staff will be remunerated on a transparent basis; performance related elements will be measured against the IPS businesses, not against the investment trust; and there will only be a small number of incentive schemes, none of which will be Long Term Incentive Plans in the conventional sense.

Our policy requires us to report retrospectively on the performance targets that were set in any given year. No report is given this year because it was an exceptional one for the following reasons.

Michael Adams resigned as CEO in October. He was paid three months' salary in lieu of notice, but with no other termination payments, benefits or bonus payments. Entitlement to previously awarded deferred shares was lost, although the claw back and malus provisions did not have to be applied to cash bonuses previously awarded.

Tim Fullwood's appointment as CEO was at short notice, for an interim period and – importantly – he continued as Chief Financial Officer as well as CEO. The committee agreed that it would be appropriate to set a salary at the maximum allowable for a CEO under the remuneration policy (i.e. the previous CEO's basic salary plus 20%, pro-rated). The committee also agreed that when the

permanent new CEO was appointed, it should be on a salary no greater than that paid to Michael Adams. That is the basis upon which Denis Jackson was appointed.

Following the year end, the committee resolved that Tim Fullwood's performance as interim CEO and CFO had been outstanding and decided to award him a bonus of 100% of his salary, pro-rated for the period that he was CEO. This resulted in a payment of £66,173. The bonus formula provides that the fund notionally available for the executive director's bonus was £208,140, so as a result the balance of £141,967 has been credited to shareholder funds.

The committee has looked carefully at the limits on the bonus arrangements as set out in the remuneration policy. It has decided to seek shareholder approval for a change to the formula governing how much (in percentage terms) of the IPS profits is made available for bonuses.

The IPS bonus pool amounts are a relatively low percentage of the IPS distributable profits, historically delivering on average approximately 80% of the profits to the shareholders and 20% to the staff. As investment is made in new staff to try and grow the business, the amount available for distribution per capita decreases. This has become a constraint on the ability of the CEO to keep existing employees motivated and to incentivise new employees of sufficient calibre to help move the businesses forward and generate increased profits.

The committee is therefore proposing a modest increase in the 'pool amount' as shown in the table on page 40. The change introduces a step up in the bonus amount available if profits increase by 3% or more. This can be summarised as follows:

- If profits increase by less than 3%, no change.
- If profits increase by between 3% and 20%, the pool amount will increase incrementally from 22.3% (19%) to 26% (21.99%) of IPS profits.
- If profits increase by more than 20%, the committee may use its discretion to increase the size of the bonus pool above 26% of IPS profits.

In addition, the committee recognises that the current method of calculating the bonus pool by reference to a rolling three year average of IPS profits reduces the impact of annual increases or decreases in profit on the level of bonus, which can both operate unfairly and reduce the incentive provided by the bonus system. This was originally introduced as a means of smoothing out fluctuations in annual profits. However, the committee is satisfied that any exceptional items are already excluded

Remuneration report continued

from the profit figure used in the calculation so this protection is not necessary. The committee therefore proposes to amend this so that the pool is calculated by reference to the IPS profits in the year to which the bonus relates.

Finally, the committee proposes to include performance criteria as a requirement for participation in the general bonus scheme as well. Up to now, the general bonus has been paid to all UK employees other than the Chief Executive irrespective of individual performance, which can operate to reward individuals for indifferent performance and the committee believes that a more targeted approach would be more appropriate.

The board strongly believes that delivering meaningful increases in IPS business profits aligns shareholders' interests with those of the staff. Profits will not be increased without some investment and incentivisation. The committee therefore believes that it is in the interests of shareholders to approve the proposed amendments to the policy, put as resolution 3 at the AGM.

Robert Laing
Chairman, remuneration committee

PART 2 – REMUNERATION POLICY

Our remuneration policy was approved at the 2017 AGM. The policy is predicated on the assumption that there will be only one executive director of the Corporation (the 'Executive Director') in post at any given time. At the moment this is the Chief Executive Officer, Denis Jackson. Should the board decide to increase the number of Executive Directors, other than for short periods to enable smooth succession, then the policy will be re-examined and if necessary, re-submitted to shareholders for approval. The policy applies to UK directors of the Corporation and senior staff employed in its subsidiaries,

in the case of non-UK subsidiaries subject to local legal obligations.

The policy is as set out below. As indicated in the chairman's statement above, some changes are proposed against the 2017 policy, as indicated in the first column.

Non-executive directors are appointed for an indefinite term, subject to annual re-election by the shareholders. Non-executive directors do not qualify for compensation payable on early termination of their roles.

A. Executive Director and senior staff

The major components of Law Debenture's remuneration package for the Executive Director and senior staff will be as set out in the table below (Table 2A).

Component	Commentary
Basic salary	Set at levels consistent with individual performance and market rates applicable to positions of similar complexity and responsibility as measured annually by an independent remuneration consultant, but ordinarily subject to a cap for the Executive Director of increasing by no more than inflation or by that amount awarded to the rest of the workforce.
Benefits package	<p>Consists of private medical insurance, life insurance cover, disability income plan, season ticket loan and professional subscriptions. The remuneration committee may award non-pensionable cash payments in lieu of one or more of these benefits. Such payments will be capped at the equivalent gross amount that it would have cost to provide the benefit being foregone.</p> <p>Private medical insurance – All staff including the Executive Director are entitled to receive private health scheme membership for themselves (family cover and any other extensions require contribution by the executive).</p>

Component	Commentary
Benefits package continued	<p>Life insurance cover – Life insurance cover is provided to all members of staff, including the Executive Director. The cover provides for a payment of 6 times salary in the event of death in service, subject to the HMRC notional salary cap (£154,200 from 1 January 2018).</p> <p>Disability Income Plan – A standard benefit for all staff, including the Executive Director, whereby subject to the length of service conditions, 75% of salary continues to be paid after 26 weeks' absence through illness.</p> <p>Season ticket loan – Season ticket loans are available to all staff including the Executive Director. The loans are interest free, repayable from monthly salary.</p> <p>Professional subscriptions – One professional subscription will be paid for the Executive Director (and all other members of UK staff) if it can be demonstrated that the professional membership is relevant to the role.</p>
Pension arrangements	<p>The funded contributory, HMRC approved, final salary occupational pension scheme was closed to new members and closed for future accruals for existing members as from 31 December 2016. Employer contributions of 12% of reference salary are, from 1 January 2017, made into the Law Debenture Flexible Retirement Plan ('FRP'), a defined contribution scheme operated by Standard Life. A one off salary increment was made to certain employees with effect from 1 January 2017 in consideration for the change in benefits.</p> <p>The remuneration committee reserves the right to negotiate amendments to the FRP if it is deemed in the best interests of shareholders to do so.</p>
Bonus arrangements Proposed amendment Payment of general bonus to be dependent on individual performance.	<p>Employees are eligible for the following annual bonuses which are discretionary, not contractual, and subject to performance.</p> <p>a) A general discretionary bonus payable to all UK IPS employees other than the Executive Director. This general bonus, which will be between 5-15% of salary, is dependent on the IPS profits in a given year being at least 80% of the IPS profits measured against a rolling average of the three prior years' performance.</p> <p>b) Individual performance related discretionary bonus payable to middle and senior management (including the Executive Director) as a part of their overall remuneration package, a portion of which will be deferred. No discretionary bonuses are payable unless IPS profits in a given year are at least 80% of the IPS profits measured against a rolling average of the three prior years' performance.</p> <p>c) One off performance related bonuses may be paid to any employee not entitled to a discretionary performance related bonus to reflect outstanding performance. Again, the 80% trigger applies. A sum totalling £30,000 will be held back from the bonus pool and used to pay "spot bonuses" where an employee in this category performs particularly well on a specific project during the year. Any undistributed spot bonus amount at each year end will be credited to shareholders' funds.</p>

Remuneration report continued

Component		Commentary	
Bonus arrangements continued			
Proposed new calculation basis		Calculation of amount available for distribution	
From 1 January 2018, the total pool distributable to be calculated by reference to the IPS profits in the year under review.		The Executive Director and staff eligible for the discretionary performance related bonus will receive awards based on the profits of the IPS in the year under review, with the total pool distributable being calculated by reference to performance against the rolling average of IPS profits for the last three reported years. All relevant figures will be subject to audit and disclosed in the annual report and financial statements. This calculation basis enables smoothing out of any exceptional items, as can happen with the nature of the IPS businesses. The formula for establishing how much profit will be distributable as bonuses is as follows:	
Proposed new pool amount		Performance achieved (as percentage of three year rolling average)	Pool amount (percentage of IPS profit made in the year under review)
79.99% or lower	0%	79.99% or lower	0%
80 - 102.99%	15 - 19.46%	80 - 99.99%	15 - 18.99%
103 - 120%	22.33 - 26%	100 - 119.9%	19 - 21.99%
Above 120%	26% plus remco discretion	120% and above	22 - 25%
		Once the committee has established the total bonus pool for distribution, it will determine an award payable to the Executive Director taking into account the performance measures set out below. The first 11% of the total bonus pool will be available for this purpose. Other than for outstanding performance when an award up to 100% of basic salary may be made, it is expected that the Executive Director's bonus will normally be between 0 and 75% of basic salary. Should the 11% set aside prove to be insufficient to make an award up to 75% of basic salary, or should the committee decide that the Executive Director's performance has been outstanding and warrants a payment higher than 75% of salary, then the committee may resolve to draw such further amounts as necessary from the IPS profits to make that higher award. On the other hand, should the committee decide not to utilise the full amount set aside in this manner, then any surplus from the 11% set aside after the committee has finalised the sum payable to the Executive Director will be credited to shareholders' funds.	
		The remaining 89% of the bonus pool will be distributed firstly, to fund the general bonus and secondly, to those individuals entitled to receive a discretionary performance related or spot bonus award.	
		For the purpose of this policy, 'profit' is deemed to be the reported amount of IPS profit before tax and bonus.	
		The total bonus pool will be used to pay any employers' NI due on awards made.	
		Basis of distribution of individual discretionary awards – performance measures	
		Individual awards will be made to the Executive Director dependent on whether performance has been assessed as satisfactory, good, excellent or outstanding.	

Component	Commentary												
Bonus arrangements continued	<p data-bbox="582 421 1173 488">Basis of distribution of individual discretionary awards – performance measures (continued)</p> <p data-bbox="582 499 1029 533">Awards will be made in the following ranges:</p> <table data-bbox="582 544 1417 768"> <tr> <th data-bbox="582 544 981 577">Performance</th><th data-bbox="981 544 1417 577">Bonus (as % of basic salary)</th></tr> <tr> <td data-bbox="582 577 981 611">Not adequate</td><td data-bbox="981 577 1417 611">0%</td></tr> <tr> <td data-bbox="582 611 981 645">Satisfactory</td><td data-bbox="981 611 1417 645">0-25%</td></tr> <tr> <td data-bbox="582 645 981 678">Good</td><td data-bbox="981 645 1417 678">25-50%</td></tr> <tr> <td data-bbox="582 678 981 712">Excellent</td><td data-bbox="981 678 1417 712">50-75%</td></tr> <tr> <td data-bbox="582 712 981 768">Outstanding</td><td data-bbox="981 712 1417 768">75-100%</td></tr> </table> <p data-bbox="582 779 1417 869">Where performance is deemed to be 'not adequate', no discretionary bonus is payable even if the IPS profits have been sufficient to generate a bonus pool.</p> <p data-bbox="582 880 1417 969">Performance awards for senior staff will also be assessed on similar parameters; more junior staff who are entitled to a discretionary award will receive graduated percentages between 0 and 50% of basic salary.</p> <p data-bbox="582 981 1417 1115">Awards above 75% of basic salary will only be made in exceptional circumstances. 75% is thus the effective cap, but recognising that outstanding performance may warrant a higher award in some circumstances.</p> <p data-bbox="582 1126 1061 1160">Performance is measured against certain KPIs:</p> <ul data-bbox="582 1171 1417 1529" style="list-style-type: none"> • an individual's personal performance including performance against targets set annually (both financial and non-financial); • revenue performance of an individual's department against budget and/or prior year (or for the Executive Director or employees in non-fee earning departments, the performance of the IPS as a whole); • percentage change in profit of an individual's department over the year's and/or prior year budget (or for the Executive Director or employees in a non-fee earning department, the performance of the IPS profits as a whole); and • delivery of costs against budget. <p data-bbox="582 1541 1417 1731">In addition, for the Executive Director, the committee will take into account performance that is non-financial and not specific to a particular year or a particular strategic target (such as acquisition and disposal policy, exceptional events, etc) and will assess any factors relating to the performance of the investment trust portfolio that may be deemed relevant.</p> <p data-bbox="582 1742 1417 1995">It is not the intention to state publicly and in advance what the financial targets will be. Given that performance is in respect of the IPS businesses, financial targets are commercially sensitive and could, if published, compromise our competitiveness. However, commencing in the annual report for the year ending 31 December 2017, the remuneration report will set out, without breaching commercial sensitivity, the targets that were set for the Executive Director for the year under review and his performance against those targets.</p>	Performance	Bonus (as % of basic salary)	Not adequate	0%	Satisfactory	0-25%	Good	25-50%	Excellent	50-75%	Outstanding	75-100%
Performance	Bonus (as % of basic salary)												
Not adequate	0%												
Satisfactory	0-25%												
Good	25-50%												
Excellent	50-75%												
Outstanding	75-100%												

Remuneration report continued

Component	Commentary
Bonus arrangements continued	<p>Deferred element</p> <p>All UK recipients of a discretionary bonus will have between one third and one half of the bonus withheld for three years under the Deferred Share Bonus Plan. The remuneration committee will decide the percentage to be withheld on a case by case basis. Shares will be purchased in the open market up to the amount of an individual's bonus to be withheld. The shares will be held on trust for the withholding period, to be released to the individual on the third anniversary of grant or earlier if good leaver provisions apply. The individual must pay PAYE and NI before the shares are released, otherwise they are forfeited. Entitlement to deferred shares will normally be lost if the individual gives notice to resign, or is put on notice of termination for cause, before the award release date, unless the committee exercises its discretion, which it is entitled to do under the rules. Dividend rights and voting rights on shares held pending release will be waived.</p> <p>Clawback and malus</p> <p>The following rules apply:</p> <ul style="list-style-type: none"> i) clawback – there is a requirement on the Executive Director to pay back an amount already received under the bonus arrangements if: <ul style="list-style-type: none"> a) the IPS profits turn out to have been overstated at the time a payment or share award was made; or b) it is later discovered that the Executive Director was in breach of contract at the time a payment or share award was made. ii) malus is the forfeit of all or part of a bonus/share award before it has vested and been paid. Any cash award determined but not yet paid, or any deferred shares awarded but not yet vested, may be reduced or taken away altogether if the circumstances described under 'clawback' above are discovered to be the case before vesting or payment.
Long term incentive plans	<p>No long term incentive plans exist and the committee does not intend to introduce such a plan whilst this policy remains in place.</p>
Schemes available	<p>Eligible staff are able to join a Save As You Earn Share Save Plan ('SAYE') and/or a Share Incentive Plan ('SIP'). Both plans are HMRC approved. The committee intends to maintain these schemes and operate them in accordance with scheme rules and HMRC Regulations. Both schemes require employees to contribute their own money and participation is open to all UK employees. While offering employees some tax advantages, the Schemes have a negligible operating cost and are deemed to be a key part of the Corporation's ability to recruit and retain staff.</p> <p>Under the SAYE, the Executive Director and all UK members of staff may make monthly savings in aggregate up to HMRC limits (currently £500 per month) direct from post-tax pay with a guaranteed tax free return after five years. On joining the scheme, savers are given an option to acquire shares in the Corporation at the end of the five year saving period, at a price fixed at the beginning of the saving period. This will be the market price of the shares on the invitation date or the latest published NAV, whichever is higher. At the end</p>

Component	Commentary
Schemes available continued	<p>of the five year saving period, participants may choose to apply the amount saved to exercise the options over the shares notified at the outset of the saving period, or they may choose to relinquish their options in favour of receiving a cash repayment of all of their contribution plus a bonus as specified by HMRC (current HMRC rules do not permit a bonus).</p> <p>The SIP enables participants (all the UK employees) to sacrifice up to the HMRC limit (currently £5,400) of their pre-tax cash bonus to buy the Corporation's shares at current market price. These are held by a trustee and released tax free after five years. Any earlier release is subject to PAYE and NI. Participants receive dividend and voting rights on shares held in the SIP during the five year trust period.</p>

B. Non-executive directors

The components of Law Debenture's remuneration package for non-executive directors of the Corporation are set out in the table below (Table 2B). Fee levels stated below reflect the amount payable at the time the 2017 policy was approved by shareholders.

Component	Commentary										
Basic salary	<p>The non-executive directors receive fees for their services as follows:</p> <table> <tr> <td>NED fee</td><td>£41,250</td></tr> <tr> <td>Chairman's fee*</td><td>£80,000</td></tr> <tr> <td>Non-executive director of other group company</td><td>£5,600</td></tr> <tr> <td>Committee chair</td><td>£5,150</td></tr> <tr> <td>Pension scheme chair**</td><td>£15,500</td></tr> </table> <p>* The Chairman is paid a single fee which includes any other group directorships and committee roles. Actual fee paid may be lower if other roles decrease.</p> <p>** If undertaken by a non-executive director.</p> <p>The fees are reviewed by the board on advice from the Executive Director, who from time to time undertakes comparative studies using an independent remuneration consultant to ensure that the non-executive fee levels are consistent with the marketplace. Fees will only be increased in line with inflation unless the recommendation from the external consultant justifies consideration of a higher award.</p> <p>The Chairman is a non-executive director.</p>	NED fee	£41,250	Chairman's fee*	£80,000	Non-executive director of other group company	£5,600	Committee chair	£5,150	Pension scheme chair**	£15,500
NED fee	£41,250										
Chairman's fee*	£80,000										
Non-executive director of other group company	£5,600										
Committee chair	£5,150										
Pension scheme chair**	£15,500										
Benefits package	None.										
Pension arrangements	None.										
Bonus and other incentive arrangements	None.										

Remuneration report continued

C. Recruitment of new directors

Any new Executive Director recruited while this policy is in force will be remunerated in accordance with the policies set out in Table 2A. In addition, the following rules will apply:

- no new Executive Director will receive a starting salary that exceeds the existing Executive Director's basic salary by more than 20%;
- no additional bonus or long term incentive arrangements will be established without prior shareholder approval;
- no 'golden hello' payments will be made;
- relocation packages will only be paid at the discretion of the remuneration committee; and
- the remuneration committee may agree to a payment of up to one third of the basic starting salary of a new Executive Director in lieu of any deferred bonus payments awarded and due to the executive from a former employer, but which are being sacrificed in order to join Law Debenture. As far as practicable, any such payments will be subject to the same deferment and withholding provisions that applied to the entitlement being sacrificed.

Any new non-executive directors will receive fees in accordance with Table 2B.

D. Compensation for loss of office

Executive Directors are appointed with a notice period of six months, with no contractual provisions for compensation payable on early termination (with notice) of the contract. Otherwise, there will be an entitlement to receive salary and benefits during the notice period, which may be paid 'in lieu' of all or part of any period of notice. There are no entitlements to payments of any sort in the event that for cause an Executive Director's employment is summarily terminated. In the event that an Executive Director is given notice of termination of employment within twelve months of any change in control of the Corporation, he/she will be given not less than twelve month's written notice and the same arrangements for receiving salary and benefits during this period will apply as described above.

Non-executive directors will not be entitled to compensation on termination of their directorship, no matter what the reason for termination.

E. Diagrammatic summary of fixed versus variable remuneration receivable – the Executive Director

The following chart demonstrates minimum, in-line and maximum amounts potentially receivable by the Executive Director.

F. Closing statements

In deriving the policy set out above, the remuneration committee has considered employment conditions generally as they apply to staff across the IPS businesses along with legislative and governance requirements. The aim of the policy remains to ensure that the Executive Director receives broadly the same elements of salary, bonus and benefits as the generality of staff, with awards as to quantum based on similar performance conditions and measurements.

The exceptions for the Executive Director are:

- the remuneration committee may take account of the Executive Director's contribution to the investment trust strategy and performance, as well as the performance of the IPS businesses;
- the Executive Director (along with senior staff) may receive higher percentage bonus payments than more junior staff; and
- the Executive Director is not eligible for the general bonus.

PART 3 – ANNUAL REMUNERATION REPORT

The following paragraphs are set out in the form prescribed by the Regulations. Certain elements of the report have been audited, as clearly indicated.

A. Total remuneration (audited)

	Total salary/fees £	Annual and deferred cash bonus £	Deferred share bonus received £	Benefits £	Pension related benefits £	Other £	Total receivable £
Executive Directors – 2017							
M. Adams*	238,958	–	–	4,744	28,675	71,688	344,065
T. Fullwood**	66,173	66,173	–	9,926	–	–	142,272
	305,131	66,173	–	14,670	28,675	71,688	486,337
Executive Directors – 2016							
M. Adams	112,821	49,000	–	1,788	16,923	–	180,532
C. Banskzy***	332,902	87,625	292,427	4,807	40,055	–	757,816
	445,723	136,625	292,427	6,595	56,978	–	938,348

* Mr Adams resigned 22 October 2017. Mr Adams was a member of the flexible retirement plan to which the group made contributions. On departure, Mr Adams received three months salary in lieu of notice and a payment in respect of accrued holiday (totalling £71,688).

** Mr Fullwood was appointed interim Chief Executive from 22 October for a fixed term until retirement at 31 December 2017. Mr D Jackson was appointed Chief Executive Officer from 1 January 2018.

*** Retired 31 August 2016, paid until contractual leaving date 31 October 2016, including pay in respect of untaken holiday.

Notes

1. Mr T Fullwood received an agreed salary of £66,173 for the fixed term of his appointment together with a cash bonus of £66,173. The annual salary for Mr D Jackson from 1 January 2018 is £286,750 (Mr Adams from 1 January 2017: £286,750).
2. Mrs Banskzy received a cash allowance in lieu of pension benefits, which is included in pension related benefits. Mrs Banskzy has a preserved defined pension benefit, which at the time she left the pension plan on 31 March 2006 was £7,333 per annum. This increases with inflation in line with the rules of the pension scheme. Mrs Banskzy's normal retirement date under the plan was 24 July 2015.
3. Annual cash bonuses are in respect of the years ended 31 December 2017 and 31 December 2016. Deferred share bonus received is in respect of the shares received under the scheme during the year (see C. Deferred Share Plan).
4. The balance of the maximum amount of the bonus pool available to make an award to the Executive Director of £141,967 has been released to shareholders' funds.
5. Benefits were the cost of life insurance cover and the disability income plan together with a payment in lieu of private medical insurance.
6. There are no long term incentive plans.

	Total fees receivable for 2017 £	Total fees receivable for 2016 £
Non-executive directors		
C. Smith	80,000	78,833
R. Hingley*	10,313	–
M. Bridgeman	46,400	46,167
R. Laing	52,000	51,667
T. Bond	41,250	41,042
	229,963	217,709

* Director from 1 October 2017.

Remuneration report continued

B. Save As You Earn Share Save Plan 2012 (audited)

	Interest as at 31 December 2016	Interest acquired/ (lapsed) in 2017	Exercise price	Market price at invitation date	Interest as at 31 December 2017	Earliest exercise	Latest exercise
M. Adams	6,051	(6,051)	–	–	–	–	–

C. Deferred Share Plan (audited)

	Interest at 31 December 2016	Interest acquired in 2017	Interest (lapsed) in 2017	Purchase price	Interest at 31 December 2017	Date shares released
M. Adams	–	4,286	(4,286)	571.66	–	n/a

The value of the shares at vesting is included in directors' remuneration (Table 3A above) and PAYE and NI was paid on that basis, calculated at the closing market price on the day before vesting, as follows:

	2017 £	2016 £
14 March 2016, 14,851 shares at 480.00p	–	71,285
31 August 2016, 45,131 shares at 490.00p	–	221,142
	–	292,427

D. Miscellaneous disclosures (audited)

No payments were made to former directors during the year.

No payments were made to any director for loss of office.

Directors are encouraged to hold shares throughout the term of their appointment, to align their own interests with those of the shareholders as a whole. Directors' shareholdings at 31 December 2017 (and at the date of this report, unless otherwise indicated) were as follows:

	Beneficial interests as at 31 December 2017	Beneficial interests as at 31 December 2016	Shares receivable but not vested at 31 December 2017
M. Adams	n/a	145	–
T. Fullwood	114,823	n/a	–
T. Bond	–	–	–
M. Bridgeman*	4,153	4,513	–
R. Hingley	4,870	n/a	–
R. Laing	12,300	12,300	–
C. Smith	55,000	55,000	–

* Interests of connected persons in addition to his beneficial holding – 1,120 shares.

E. Aggregate directors' remuneration (audited)

	2017 £	2016 £
Emoluments	716,300	1,156,057

F. Performance graph

G. Executive Directors – diagrammatic summaries

The Regulations require us to publish the following tables relating to Executive Directors. For Law Debenture, the managing director/chief executive is the only Executive Director.

i) Historical remuneration

The table below sets out the Executive Director's total remuneration over the same period as the performance graph above.

Year	Single figure of total remuneration £	Annual bonus and deferred bonus award (against maximum %)
2017 – T. Fullwood	142,272	100.0%
2017 – M. Adams	344,065	0%
2016 – M. Adams*	180,532	65.1%
2016 – C. Banszky**	757,816	0%
2015	677,473	100.0%
2014	690,725	62.0%
2013	636,921	72.1%
2012	636,923	70.0%
2011	602,676	75.0%
2010	588,482	90.0%
2009	528,443	67.5%
2008	510,780	70.0%

* The annual bonus and deferred share award for Mr Adams in respect of 2016 is based upon his salary paid from appointment to 31 December 2016. Shares awarded to him have since lapsed.

** The deferred cash bonus and deferred share bonus to Mrs Banszky were awarded in prior years.

The annual bonus pay-out percentage maximum has always effectively been 75% but with discretion to pay up to 100% in exceptional circumstances.

The maximum bonus payment was 100% each year. The bonus payment includes the deferred element (see Table 2A).

ii) Percentage change in remuneration

The following table shows the percentage change in remuneration of the Executive Director compared to UK employees as a whole during the year.

	Salary %	Benefits %	2017 Bonus %	Salary %	Benefits %	2016 Bonus %
Executive Director	1.6	18.0	–	3.8	(4.4)	(100.0)
UK employees as a whole	1.9	(3.4)	(3.0)	3.8	14.3	6.2

1. The figure used to calculate the Executive Director's salary is 'total salary/fees' figure at Table 3A.
2. The benefits and bonus are as set out in Table 3A, which exclude pension benefits.
3. The information for the Executive Director solely relates to Mr Adams, who received no bonus award in relation to 2017.

Remuneration report continued

iii) Relative spend on salaries

The following table shows the total amount spent on remuneration (to all group employees, including the Executive Director) with a comparator to last year, along with total distributions to shareholders by way of dividend or (where applicable) share buy-back or other distributions.

Year	2017 £000	2016 £000
Total remuneration spend	12,330	12,717
Total distributed to shareholders	20,442	19,722

1. Total remuneration includes bonuses, employers' NI and pension costs and is the figure reported at note 3 of the accounts.
2. Amounts distributed to shareholders are the totals of the final and interim dividends in respect of that year. There were no other distributions. The 2017 figure assumes that shareholders approve the proposed dividend at the AGM on 11 April 2018.

iv) Statement of policy implementation in the current year

The remuneration committee is committed to implementing the remuneration policy set out at Part 2 above during the current financial year. Performance measures and weightings applicable to bonus calculations will be calculated in accordance with the policy at Table 2A. The IPS profit before tax and bonus, used to calculate the 2017 bonus pool, was £11,468,000 (2016: £11,712,000).

H. Consideration of matters relating to directors' remuneration

The board delegates all remuneration matters to the remuneration committee save for NED fees, which are considered by the board on advice from the chief executive.

The members of the committee who served during the year are:

R. Laing – Chairman
R. Hingley (from 1 October)
T. Bond
M. Bridgeman
C. Smith

During the year, the committee took advice from the following: the Executive Director (although not in respect of his own remuneration), the Chief Financial Officer and the Company Secretary; Lesley Pearson, an independent remuneration consultant who has no other connection to the Corporation and its subsidiaries; Linklaters LLP which has no other connection with the Corporation, in respect of operation of our schemes and the remuneration policy; Herbert Smith Freehills in respect of employment law; and Odgers Berndtson, which has no other connection with the Corporation or its subsidiaries, in respect of both executive and non-executive recruitment.

I. Voting at general meetings

At the AGM on 11 April 2017, the directors' remuneration report for the year ended 31 December 2016 received the following votes: for 99.50%; against 0.50%; votes withheld represented 0.30% of the total votes cast. The remuneration policy received the following votes: for 99.66%; against 0.34%; votes withheld represented 0.29% of the total votes cast.

Christopher Smith

Chairman, non-executive director

Appointed to the board in March 2009. Former Partner, Cazenove & Co. and Managing Director-Corporate Finance of JP Morgan Cazenove. Over 30 years' experience in corporate finance and equity capital markets. He is chairman of CG Asset Management and deputy chairman of Allchurches Trust Limited and a non-executive director of DockOn AG. He is chairman of the nominations committee, a member of the remuneration committee and chairman of Law Debenture Trust Company of New York Inc.

Denis Jackson

Chief executive officer

Appointed to the board in January 2018 having joined Law Debenture in July 2017 as Chief Commercial Officer. He was previously at Capita plc as director of new business enterprise, having been a director at Throgmorton UK Limited (which Capita acquired). Prior to that, he was regional general manager – Europe and the United States – for Tibra Trading Europe Limited, a FCA regulated proprietary trading company, which he joined from Citigroup (formerly Salomon Brothers). He spent almost 20 years there in a variety of roles including in Treasury (both in New York and London), as Head of the Finance Desk in Hong Kong, Head of Fixed Income Prime Brokerage in New York and ultimately, Head of EMEA Prime Brokerage Sales.

Tim Bond

Non-executive director

Appointed to the board in April 2015. Partner of Odey Asset Management LLP, which he joined in 2010, he currently manages Odey's Odyssey Fund. He previously spent 12 years at Barclays Capital as Managing Director and head of global asset allocation and was editor and principal author of Barclays Capital's Equity Gilt Study and chief advisor to the bank's RADAR fund. Before Barclays, he worked as a strategist at Moore Capital and at Tokai Bank Europe. He is a member of the audit, remuneration and nominations committees.

Robert Laing

Non-executive director

Appointed to the board in April 2012. Admitted as a solicitor in England in 1977 and in Scotland in 1985. He worked for Slaughter and May from 1975 until 1983 when he joined Maclay Murray & Spens. He was a partner in that firm (which has since merged with Dentons) from 1985 and its chairman from 1 June 2010 until his retirement from the firm in May 2016. He is a

non-executive director of The Independent Investment Trust plc. Senior independent director, chairman of the remuneration committee and a member of the audit and nominations committees and a non-executive director of L.D.C. Reporting Services Limited.

Mark Bridgeman

Non-executive director

Appointed to the board in March 2014. He spent 19 years with Schroders plc as an analyst and then fund manager, rising to become Global Head of Research. He now manages a large rural estate and farming business in Northumberland. He is a non-executive director of JP Morgan Brazil Investment Trust plc, Blackrock Emerging Europe plc and North East Finance (Holdco) Limited. He is deputy president and chairman of the board of the Country Land and Business Association and is also on the boards of three charities. Chairman of the audit committee and a member of the remuneration and nominations committees.

Robert Hingley

Non-executive director

Appointed to the board in October 2017. A corporate financier with over 30 years' experience. A partner of Ondra LLP until October 2017. Before that, in 2012 he joined the Association of British Insurers as Director, Investment Affairs and acted as a consultant following the merger of ABI's Investment Affairs with the Investment Management Association, until the end of 2014. From 2010 until 2015, he was a Managing Director, and later Senior Advisor, at Lazard. He was previously Director-General of The Takeover Panel, on secondment from Lexicon Partners, where he was Vice Chairman. Prior to that, he was Co-Head of the Global Financial Institutions Group and Head of German Investment Banking at Citigroup Global Capital Markets, which acquired the investment banking business of Schroders in 2000. He joined Schroders in 1985 after having qualified as a solicitor with Clifford Chance in 1984. He is Chairman of Phoenix Spree Deutschland Limited, a member of The Takeover Panel and trustee/governor of several charitable organisations. He is a member of the audit, remuneration and nominations committees and, subject to shareholder approval, will succeed Christopher Smith as Chairman at the conclusion of the AGM in April 2018.

Corporation advisers and information

Registered office

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London EC2V 7EX
Telephone: 020 7606 5451
Facsimile: 020 7606 0643
Website: www.lawdebenture.com
(Registered in England – No. 30397)

Alternative Investment Fund Manager

The Law Debenture Corporation p.l.c.

Investment portfolio manager

Janus Henderson Investors
201 Bishopsgate
London EC2M 3AE

Auditors

BDO LLP
55 Baker Street
London W1U 7EU

Depository

National Westminster Bank plc

Global custodian

HSBC Group (under delegation by the depository)

Registrar and transfer office

Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol BS99 6ZZ
Telephone: 0370 707 1129

Stockbrokers

J.P. Morgan Cazenove Limited
25 Bank Street
London E14 5JP

A member of

aic
The Association of
Investment Companies

Investment manager

James Henderson

Joined Henderson Global Investors (now Janus Henderson Investors) in 1983 and has been an investment trust portfolio manager since 1990. He first became involved in the management of Law Debenture's portfolio in 1994 and took over lead responsibility for management of the portfolio in June 2003. He also manages Lowland Investment Company plc, Henderson Opportunities Trust plc and Henderson UK Equity Income & Growth Fund.

James is assisted by Laura Foll, who first became involved with Law Debenture's portfolio in September 2011.

Independent auditor's report

to the members of The Law Debenture Corporation p.l.c.

Opinion

We have audited the financial statements of The Law Debenture Corporation p.l.c. (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2017 which comprise the group income statement, the group statement of comprehensive income, the group and corporation statement of financial position, the group and corporation statement of changes in equity, the group and corporation statements of cash flows and the related notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion the financial statements:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2017 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the group financial statements, Article 4 of the IAS Regulation.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our Report. We are independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the Annual Report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the Annual Report set out on pages 10 and 11 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation set out on pages 32 and 33 in the Annual Report that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity;
- the directors' statement set out on page 31 in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the group and the parent company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the directors' statement relating to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the directors' explanation set out on page 31 in the Annual Report as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent auditor's report continued

Matter	Audit response
<p><i>Valuation, existence and ownership of investments</i></p> <p>Investments comprise 83% of the total assets of the group. The investment portfolio at the year-end comprised of listed equity investments valued at £732.0 million (note 14).</p> <p>We consider the valuation, existence and ownership of investments to be the most significant audit areas as investments represent the most significant balance in the financial statements and underpin the principal activity of the entity.</p> <p>We also consider the valuation of investments with respect to unrealised gains/losses to be a significant area.</p>	<p>We responded to this matter by testing the valuation, existence and ownership of 100% of the portfolio of listed investments. We performed the following procedures:</p> <ul style="list-style-type: none"> • Confirmed against independent data sources that the correct bid-price has been used for the year end fair value • Checked the appropriateness of the valuation methodology applied and confirmed that there are no contra indicators, such as liquidity considerations, to suggest that bid price is not the most appropriate indication of fair value • Agreed the investment holdings to independently received third party confirmation from the custodian to confirm existence and completeness • Reviewed the latest available assurance report addressing the relevant controls in place at the custodian <p>We also considered the completeness, accuracy and clarity of investment related disclosures.</p> <p>For the unrealised gains/losses on investments held at fair value, we tested the valuation of the portfolio at the year-end (see page 72), together with testing the reconciliation of opening and closing investments.</p> <p>No errors above our reporting threshold were detected as a result of our testing.</p>
<p><i>Completeness of income from investments and the existence of income in relation to the provision of professional services (Note 1 to the financial statements)</i></p> <p>We consider the completeness of dividend income recognition and its presentation in the Income Statement, as set out in the requirements of The Association of Investment Companies Statement of Recommended Practice (the 'AIC SORP' issued in November 2014 and updated in January 2017 with consequential amendments) to be a significant risk.</p> <p>Revenue also consists of fees receivable from the provision of professional services. Revenue recognition in the professional services component of the group is considered to be a risk as the timing of invoicing of fees results in amounts being accrued or deferred at the year-end based on management's estimates. This is because incomplete or inaccurate income could have a material impact on the Company's net asset value.</p>	<p>We assessed the accounting policy for income recognition in the Investment Trust for compliance with accounting standards and the AIC SORP and performed testing to confirm the nature of the revenue and to check that income had been accounted for in accordance with this stated accounting policy.</p> <p>In respect of completeness of dividend income, we tested that the appropriate dividends had been received in the year by reference to independent data of dividends declared on a sample of investment holdings in the portfolio. Our testing did not identify any unrecorded dividends.</p> <p>In respect of fee income from the provision of professional services, for a sample we agreed to contract or similar agreement, invoice and receipt of cash. We also obtained a breakdown of accrued and deferred income and selected a sample which we recalculated to gain assurance that the relevant proportion of income had been recognised in the year. Assurance over completeness was gained through a number of procedures including cut-off testing and reviewing client take on records. In addition, we performed controls testing where appropriate, on the key manual controls operating in the year assessing their implementation and effectiveness.</p> <p>No errors above our reporting threshold were detected as a result of our testing.</p>

Matter	Audit response
<p><i>Defined benefit pension scheme (closed to new members and future accruals on 31 December 2016) (note 24 to the financial statements)</i></p> <p>The group operates a defined benefit pension scheme.</p> <p>There is a high degree of estimation in calculating the year end valuation, which has been prepared by management's actuaries, as it is based on information and assumptions made by management in respect of the key inputs into the calculation.</p>	<p>We instructed an expert to complete a review of the pension accounting figures provided by the group, including the assumptions made, under IAS 19 which is the accounting standard for employee benefits. We considered the expert's objectivity and competence and evaluated the findings of their work.</p> <p>We benchmarked the key assumptions made by management to the industry standards and where outliers or inconsistencies were noted management were challenged on the appropriateness of the assumptions made and the audit team made inquiries and where relevant we obtained supporting information in order to gain sufficient appropriate evidence that amounts in relation to the defined benefit pension scheme were not materially misstated.</p> <p>No errors above our reporting threshold were detected as a result of our testing.</p>

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

We determined final materiality for the financial statements as a whole to be £7.3 million based on 1% of the portfolio value at year end. In determining this, we based our assessment on a percentage of portfolio value. On the basis of our risk assessment, together with our assessment of the group's control environment, our judgement is that performance materiality for the financial statements should be 65% of materiality, namely £4.7 million. Our objective in adopting this approach was to ensure that total detected and undetected audit differences do not exceed our final materiality of £7.3 million for the financial statements as a whole.

International Standards on Auditing (UK) also allow the auditor to set a lower materiality for particular classes of transaction, balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. In this

context, we set a lower level of materiality to apply to those classes of transactions and balances which impact on the costs and the net revenue returns of the professional services business. We determined materiality for these areas to be £669,000.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £145,000, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

Our audit approach was developed by obtaining an understanding of the group's activities, the key functions undertaken by the board and the overall control environment. Based on this understanding we assessed those aspects of the group's transactions and balances which were most likely to give rise to a material misstatement.

Audits of the components were performed at a materiality level calculated by reference to a proportion of group materiality appropriate to the relative scale of the business concerned. The group audit team have responsibility for the audit of all components included in the consolidated financial statements and the audits of the significant components were performed by the UK audit team.

Independent auditor's report continued

Other information

The other information comprises the information included in the annual report, including the financial summary, the chairman's statement, the strategic report, the investment manager's review, the directors' report, the statement of corporate governance, the audit committee report, the remuneration report, other than the financial statements and our Auditor's Report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our Report, we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable** – the statement given as to why the annual report does not include a statement by the directors that they consider the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit Committee reporting** – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit; or
- **Directors' statement of compliance with the UK Corporate Governance Code** – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- 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 strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements and those Reports have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a corporate governance statement has not been prepared by the parent company.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 28, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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 Auditor's Report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this Report, or for the opinions we have formed.

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditor's Report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Our audit was performed using the materiality thresholds outlined elsewhere in this Report. We have therefore tested all classes of transactions, account balances and disclosures at or in excess of these thresholds. Consequently, we consider it unlikely that there will be any undetected fraud with an impact exceeding our materiality thresholds. It is possible that there are undetected instances of fraud whose impact is below these thresholds.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our Auditor's Report.

Other matters which we are required to address

Following the recommendation of the audit committee, we were appointed on 11 April 2017 to audit the financial statements for the year ended 31 December 2017 and subsequent financial periods. The period of total uninterrupted engagement is 9 years, covering the years ending 31 December 2009 to 31 December 2017. Due to the length of tenure, the company undertook a competitive tender process in November 2017 which resulted in the recommendation that BDO LLP be reappointed at the next AGM.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company and we remain independent of the group and the parent company in conducting our audit.

Subject to transitional arrangements, there is a limit on the amount of fees that may be charged by an auditor in respect of non-audit services. This fee 'cap' is calculated by reference to the fees charged for the audits of the group financial statements and the financial statements of subsidiary undertakings over a three year period. For the purposes of calculating this cap the fees for the following service may be disregarded as non-audit services on the grounds that they relate to services required by EU or national law;

- Interim review of half yearly results
- Limited assurance CASS Report to the FCA

Our audit opinion is consistent with the additional Report to the audit committee.



Daniel Taylor (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London,
United Kingdom
27 February 2018

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Group income statement for the year ended 31 December

	Notes	2017			2016		
		Revenue £000	Capital £000	Total* £000	Revenue £000	Capital £000	Total* £000
UK dividends		17,017	–	17,017	16,468	–	16,468
UK special dividends		743	–	743	831	–	831
Overseas dividends		3,646	–	3,646	3,021	–	3,021
Overseas special dividends		57	–	57	157	–	157
		21,463	–	21,463	20,477	–	20,477
Interest income	6	139	–	139	303	–	303
Independent professional services fees		31,021	–	31,021	30,735	–	30,735
Other income		344	–	344	225	–	225
Total income		52,967	–	52,967	51,740	–	51,740
Net gain on investments held at fair value through profit or loss	2	3,275	79,674	82,949	–	105,437	105,437
Total income and capital gains		56,242	79,674	135,916	51,740	105,437	157,177
Cost of sales		(3,875)	–	(3,875)	(3,565)	–	(3,565)
Administrative expenses	3	(20,842)	(407)	(21,249)	(20,776)	(9)	(20,785)
Provision for onerous contracts	4	245	–	245	(3,031)	–	(3,031)
Operating profit		31,770	79,267	111,037	24,368	105,428	129,796
Finance costs							
Interest payable	6	(4,785)	–	(4,785)	(5,542)	–	(5,542)
Profit before taxation	7	26,985	79,267	106,252	18,826	105,428	124,254
Taxation	8	(1,391)	–	(1,391)	17	–	17
Profit for the year	7	25,594	79,267	104,861	18,843	105,428	124,271
Return per ordinary share (pence)	10	21.66	67.10	88.76	15.96	89.30	105.26
Diluted return per ordinary share (pence)	10	21.66	67.09	88.75	15.96	89.30	105.26

*See note 1.

Statement of comprehensive income for the year ended 31 December

	2017			2016		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Group						
Profit for the year	25,594	79,267	104,861	18,843	105,428	124,271
Foreign exchange on translation of foreign operations	–	(495)	(495)	–	1,247	1,247
Pension actuarial gains/(losses)	1,800	–	1,800	(2,200)	–	(2,200)
Taxation on pension	(342)	–	(342)	417	–	417
Other comprehensive income for the year	1,458	(495)	963	(1,783)	1,247	(536)
Total comprehensive income for the year	27,052	78,772	105,824	17,060	106,675	123,735

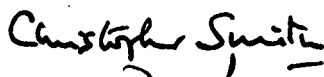
Statement of financial position as at 31 December

		Group		Corporation	
	Notes	2017 £000	2016 £000	2017 £000	2016 £000
Assets					
Non current assets					
Goodwill	11	1,920	1,968	–	–
Property, plant and equipment	12	129	161	–	–
Other intangible assets	13	161	70	–	–
Investments held at fair value through profit or loss	14	735,872	696,080	735,633	695,798
Investments in subsidiary undertakings	14	–	–	96,311	96,311
Retirement benefit asset	24	300	–	–	–
Deferred tax assets	8	614	1,312	–	–
Total non current assets		738,996	699,591	831,944	792,109
Current assets					
Trade and other receivables	15	6,417	6,680	1,000	681
Other accrued income and prepaid expenses		5,003	4,603	1,413	1,163
Cash and cash equivalents	16	134,011	94,804	78,549	45,606
Total current assets		145,431	106,087	80,962	47,450
Total assets		884,427	805,678	912,906	839,559
Current liabilities					
Amounts owed to subsidiary undertakings		–	–	53,597	62,089
Trade and other payables	17	11,649	13,346	1,385	1,755
Corporation tax payable		–	–	20	20
Other taxation including social security		570	444	386	320
Deferred income		3,942	3,826	16	16
Derivative financial instruments	20	299	2,029	299	2,029
Total current liabilities		16,460	19,645	55,703	66,229
Non current liabilities and deferred income					
Long term borrowings	21	114,068	114,024	74,516	74,499
Retirement benefit obligations	24	–	2,300	–	–
Deferred income		3,974	4,318	155	165
Provision for onerous contracts	4	1,667	3,106	–	–
Total non current liabilities		119,709	123,748	74,671	74,664
Total net assets		748,258	662,285	782,532	698,666
Equity					
Called up share capital	18	5,918	5,917	5,918	5,917
Share premium		8,787	8,722	8,787	8,722
Own shares	18	(1,033)	(1,197)	–	–
Capital redemption		8	8	8	8
Translation reserve		1,661	2,156	–	–
Capital reserves	19	688,344	609,077	745,025	662,307
Retained earnings		44,573	37,602	22,794	21,712
Total equity		748,258	662,285	782,532	698,666

As permitted by Section 408 of the Companies Act 2006, the Corporation has not presented its own income statement, however its profit for the year was £103,881,000 (2016: profit £119,642,000).

Approved and authorised for issue by the board on 27 February 2018 and signed on its behalf by:

C. Smith Chairman



D. Jackson Chief executive



Registered number 30397

Statement of changes in equity for the year ended 31 December

Group	Called up share capital £000	Share premium £000
Equity at 1 January 2016	5,916	8,667
Profit	–	–
Foreign exchange	–	–
Actuarial (loss) on pension scheme (net of tax)	–	–
Total comprehensive income	–	–
Issue of shares	1	55
Dividend relating to 2015	–	–
Dividend relating to 2016	–	–
Movement in own shares	–	–
Total equity at 31 December 2016	5,917	8,722

Equity at 1 January 2017	5,917	8,722
Profit	–	–
Foreign exchange	–	–
Actuarial gain on pension scheme (net of tax)	–	–
Total comprehensive income	–	–
Issue of shares	1	65
Dividend relating to 2016	–	–
Dividend relating to 2017	–	–
Movement in own shares	–	–
Total equity at 31 December 2017	5,918	8,787

Corporation	Share capital £000	Share premium £000
Equity at 1 January 2016	5,916	8,667
Total comprehensive income	–	–
Issue of shares	1	55
Dividend relating to 2015	–	–
Dividend relating to 2016	–	–
Total equity at 31 December 2016	5,917	8,722

Equity at 1 January 2017	5,917	8,722
Total comprehensive income	–	–
Issue of shares	1	65
Dividend relating to 2016	–	–
Dividend relating to 2017	–	–
Total equity at 31 December 2017	5,918	8,787

Capital reserves comprises realised and unrealised gains on investments held at fair value through profit or loss (see note 19).

Own shares £000	Capital redemption £000	Translation reserve £000	Capital reserves £000	Retained earnings £000	Total £000
(1,493)	8	909	503,649	39,664	557,320
-	-	-	105,428	18,843	124,271
-	-	1,247	-	-	1,247
-	-	-	-	(1,783)	(1,783)
-	-	1,247	105,428	17,060	123,735
-	-	-	-	-	56
-	-	-	-	(12,983)	(12,983)
-	-	-	-	(6,139)	(6,139)
296	-	-	-	-	296
(1,197)	8	2,156	609,077	37,602	662,285
(1,197)	8	2,156	609,077	37,602	662,285
-	-	-	79,267	25,594	104,861
-	-	(495)	-	-	(495)
-	-	-	-	1,458	1,458
-	-	(495)	79,267	27,052	105,824
-	-	-	-	-	66
-	-	-	-	(13,582)	(13,582)
-	-	-	-	(6,499)	(6,499)
164	-	-	-	-	164
(1,033)	8	1,661	688,344	44,573	748,258
Own shares £000	Capital redemption £000	Translation reserve £000	Capital reserves £000	Retained earnings £000	Total £000
-	8	-	563,161	20,338	598,090
-	-	-	99,146	20,496	119,642
-	-	-	-	-	56
-	-	-	-	(12,983)	(12,983)
-	-	-	-	(6,139)	(6,139)
-	8	-	662,307	21,712	698,666
-	8	-	662,307	21,712	698,666
-	-	-	82,718	21,163	103,881
-	-	-	-	-	66
-	-	-	-	(13,582)	(13,582)
-	-	-	-	(6,499)	(6,499)
-	8	-	745,025	22,794	782,532

Statements of cash flows for the year ended 31 December

	Group		Corporation	
	2017 £000	2016 £000	2017 £000	2016 £000
Operating activities				
Operating profit before interest payable and taxation	111,037	129,796	109,271	125,140
(Gains) on investments	(79,267)	(105,428)	(82,718)	(99,146)
(Profit) on sale of unlisted investment	(3,275)	–	–	–
Foreign exchange	(13)	(68)	–	–
Depreciation of property, plant and equipment	101	112	–	–
Amortisation of intangible assets	61	20	–	–
Provision for impairment of goodwill	–	418	–	–
(Increase)/decrease in receivables	(137)	678	(569)	(522)
(Decrease)/increase in payables	(2,000)	1,763	(297)	673
Transfer (from) capital reserves	(142)	(157)	(142)	(157)
Normal pension contributions in excess of cost	(800)	(1,300)	–	–
Cash generated from operating activities	25,565	25,834	25,545	25,988
Taxation	(1,035)	(560)	–	–
Operating cash flow	24,530	25,274	25,545	25,988
Investing activities				
Acquisition of property, plant and equipment	(74)	(53)	–	–
Expenditure on intangible assets	(149)	(75)	–	–
Purchase of investments	(80,356)	(91,494)	(80,356)	(91,481)
Sale of investments	120,089	122,248	120,089	122,198
Sale of unlisted investment	3,318	–	–	–
Cash flow from investing activities	42,828	30,626	39,733	30,717
Financing activities				
Intercompany funding	–	–	(8,492)	472
Derivative financial instrument	1,698	(4,775)	1,698	(4,775)
Interest paid	(5,916)	(5,542)	(5,390)	(5,498)
Dividends paid	(20,081)	(19,122)	(20,081)	(19,122)
Proceeds of increase in share capital	66	56	66	56
Purchase of own shares	164	296	–	–
Net cash flow from financing activities	(24,069)	(29,087)	(32,199)	(28,867)
Net increase in cash and cash equivalents	43,289	26,813	33,079	27,838
Cash and cash equivalents at beginning of period	94,804	60,301	45,606	17,607
Foreign exchange (losses)/gains on cash and cash equivalents	(4,082)	7,690	(136)	161
Cash and cash equivalents at end of period	134,011	94,804	78,549	45,606
Cash and cash equivalents comprise				
Cash and cash equivalents	134,011	94,804	78,549	45,606

Notes to the accounts for the year ended 31 December 2017

1 | Summary of significant accounting policies

General information

The Law Debenture Corporation p.l.c. is a public company incorporated in the United Kingdom. The address of the registered office is given on page 50. The group's operations and its principal activities are as an investment trust and the provider of independent professional services.

Basis of preparation

The financial statements have been prepared on a going concern basis and under the historical cost basis of accounting, modified to include the revaluation of investments at fair value through profit or loss.

The financial statements of The Law Debenture Corporation p.l.c. and the group have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union.

Where presentational guidance set out in the Statement of Recommended Practice Financial Statements of Investment Trust Companies (SORP) is consistent with the requirements of IFRS, the directors have sought to prepare the financial statements on a basis compliant with the recommendations of the SORP.

Critical accounting estimates and judgements

The preparation of the financial statements necessarily requires the exercise of judgement both in application of accounting policies which are set out below and in the selection of assumptions used in the calculation of estimates. These estimates and judgements are reviewed on an ongoing basis and are continually evaluated based on historical experience and other factors. However, actual results may differ from these estimates. The most significantly affected component of the financial statements and associated critical judgements is as follows:

Defined benefit scheme

The calculation of the defined benefit scheme assets and obligations is sensitive to the assumptions used. The assumptions used are given in note 24 to the financial statements.

The sensitivity to changes in assumptions and conditions which are significant to the calculation of the asset have been considered and the following is an illustration of the potential impact.

	Increase/(decrease) in liability	
	at 31 December 2017 £ million	at 31 December 2016 £ million
Discount rate +0.1%	(1.1)	(1.1)
Inflation assumptions +0.1%	0.8	0.9
Life expectancy at 65 +1 year	2.0	1.9
RPI/CPI gap 1.1% instead of 1.0%	(0.3)	(0.2)

The directors take advice from an actuary when selecting assumptions.

New IFRSs, interpretations and amendments not yet effective

None of the new standards, interpretations or amendments, which are effective for the first time in these financial statements, has had a material impact on the financial statements.

The following relevant standards and interpretations were issued by the International Accounting Standards Board ('IASB') or the IFRS Interpretations Committee ('IFRIC') before the period end but are as yet not effective for the 2017 year end:

IFRS 9 Financial Instruments (effective for annual periods beginning on or after 1 January 2018).

Early adoption is permitted and has been endorsed for use in the EU.

The group will apply IFRS 9 from 1 January 2018. Based on the group's assessment, there will be no material financial impact as a result of the implementation of IFRS 9. The following are the key areas that are affected:

Classification – the classification of financial assets as "fair value through profit and loss" is unchanged.

Impairment – IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward looking 'expected credit loss' model. The impact to the group will only be in relation to the impairment of trade and other receivables.

The impairment assessment will be made on a simplified approach basis and is not expected to have any material impact on the financial assets of the group. There are no other impairment impacts expected from the implementation of IFRS 9.

Notes to the accounts continued

1 | Summary of significant accounting policies continued

Long term borrowings – continue to be recognised initially at fair value, which is generally the proceeds net of transaction costs incurred. The difference between the proceeds net of transaction costs and the redemption value will continue to be recognised in the income statement over the term of the borrowings using the effective interest rate method.

Hedge accounting – when initially applying IFRS 9, the group may choose as its accounting policy to continue to apply the hedge accounting requirements of IAS 39 instead of the requirements in Chapter 6 of IFRS 9. The group has elected to continue to apply IAS 39. Disclosure of the hedge accounting in accordance with IFRS 9 will be made by the group.

IFRS 15 Revenue from contracts with customers (effective for annual periods beginning on or after 1 January 2018). *Early adoption is permitted and has been endorsed for use in the EU.*

The group will apply IFRS 15 from 1 January 2018. Based on management's assessment, there will be no financial impact as a result of the implementation of IFRS 15. Revenue is measured based on the consideration specified in a contract with a customer and is recognised by the group when it transfers control over a service to a customer. Each of the revenue streams generated by the IPS businesses has been assessed and no amendment to the current revenue recognition policy is required.

IFRS 16 Leases (effective for annual periods beginning on or after 1 January 2019). *Early adoption is permitted if IFRS 15 has been adopted, but has not yet been endorsed for use in the EU.*

The group is still assessing the likely impact on its financial statements. However, it is likely to have a significant impact on assets and liabilities but may not have a significant impact on net assets. IFRS 16 will give rise to the recognition of an asset in respect of leases currently treated as operating leases. Lease costs will be recognised in the form of depreciation and interest. See note 23 for details of the lease commitments.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of The Law Debenture Corporation p.l.c. and entities controlled by the Corporation (its subsidiaries) made up to the end of the financial period. The Corporation controls an investment if all three of the following elements are present: power over the investee, exposure to variable returns from the investee, and the ability of the investor to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

The assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess consideration over the fair values of the identifiable net assets acquired is recognised as goodwill.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. The financial statements of subsidiaries are adjusted, where necessary, to ensure the accounting policies used are consistent with those adopted by the group.

Presentation of income statement and statement of comprehensive income

In order to better reflect the activities of an investment trust company and in accordance with the SORP, supplementary information which analyses the income statement and statement of comprehensive income between items of a revenue and capital nature has been presented. Additionally, the net revenue is the measure the directors believe appropriate in assessing the group's compliance with certain requirements set out in Sections 1158-1159 of the Corporation Tax Act 2010.

Segment reporting

Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the directors in deciding how to allocate resources and in assessing performance. The group comprises two operating segments; the investment trust and independent professional services. This is consistent with internal reporting.

Foreign currencies

Transactions recorded in foreign currencies are translated into sterling at the exchange rate ruling on the date of the transaction.

Assets and liabilities denominated in foreign currencies at the reporting date are translated into sterling at the exchange rate ruling at that date. Gains and losses on translation are included in profit or loss for the period, however exchange gains or losses on investments held at fair value through profit or loss are included as part of their fair value gain or loss.

1 | Summary of significant accounting policies continued

The assets and liabilities of overseas subsidiaries are translated at exchange rates prevailing on the reporting date. Income and expenses of overseas subsidiaries are translated at the average exchange rates for the period. Exchange differences arising from the translation of net investment in foreign subsidiaries are recognised in the statement of comprehensive income and transferred to the group's translation reserve.

Property, plant and equipment

All property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the item. Depreciation is calculated using the straight-line method to allocate the cost over the assets' estimated useful lives as follows:

Leasehold improvements	over the remaining lease period
Office furniture and equipment	3-10 years

Intangible assets

Computer software

Computer software is capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of between three and five years.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill which is recognised as an asset is reviewed for impairment at least annually. Any impairment would be recognised in profit or loss and is not subsequently reversed.

Impairment of assets

An impairment loss is recognised for the amount by which an asset's carrying amount exceeds its recoverable amount. Assets are reviewed on a regular basis and tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Financial instruments

Investments

Listed and unlisted investments, which comprise the investment trust portfolio, have been designated as investments held at fair value through profit or loss. Purchases and sales of listed and unlisted investments are recognised on the date on which the group commits to purchase or sell the investment. Investments are initially recognised at fair value and transaction costs are expensed as incurred. Gains and losses arising from listed and unlisted investments, as assets at fair value through profit or loss, are included in the income statement in the period in which they arise.

The fair value of listed investments is based on quoted market prices at the reporting date. The quoted market price used is the bid price. The fair value of unlisted investments is determined by the directors with reference to the International Private Equity and Venture Capital Valuation ('IPEV') guidelines.

Gains and losses on investments and direct transaction costs are analysed within the income statement as capital. All other costs of the investment trust are treated as revenue items.

Trade receivables

Trade receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Trade payables

Trade payables are not interest bearing and are stated at their nominal value.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held with banks and other short term highly liquid investments with original maturities of three months or less.

Notes to the accounts continued

1 | Summary of significant accounting policies continued

Borrowings

Borrowings are recognised initially at fair value, which is generally the proceeds net of transaction costs incurred. The difference between the proceeds net of transaction costs and the redemption value is recognised in the income statement over the term of the borrowings using the effective interest rate method, so as to generate a constant rate of return on the amount outstanding.

Hedge accounting

The group has designated US dollar/sterling foreign exchange forward swaps as hedging instruments to hedge the net investment in its US operations. The hedges were documented at the inception of the relationships and on an ongoing basis the group reviews and documents the effectiveness of the hedges.

The gain or loss on the hedging instruments relating to the effective portion of the hedges is recognised in other comprehensive income and accumulated in the translation reserve.

Share capital

Ordinary shares are classified as equity. The ordinary shares of the Corporation which have been purchased by the Employee Share Ownership Trust ('ESOT') to provide share based payments to employees are valued at cost and deducted from equity.

Taxation

Current tax is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense which are either never taxable or deductible or are taxable or deductible in other periods. The group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the year end date.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.

Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each year end date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to recover the asset.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is expected to be settled or the asset is expected to be realised based on tax rates that have been enacted or substantively enacted at the year end date.

Revenue recognition

Dividend income

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Interest income

Interest income is accrued on a time basis using the effective interest rate applicable.

Sales of services

Fees comprise the fair value of the sales of services net of value added tax and after eliminating sales within the group. Sales of services are recognised in the accounting period in which the services are rendered, provided that the outcome of the transaction can be estimated reliably. Where the outcome of a transaction can be estimated reliably, sales are assessed on the basis of the actual services provided as a proportion of the total services to be provided.

Where payments are received in advance for services/transactions which extend beyond the period end then the amount relating to future periods is deferred using an appropriate discount rate.

1 | Summary of significant accounting policies continued

Employee benefits

Pension costs

The group operates a defined benefit pension plan, which was closed to new members and future accrual on 31 December 2016. The cost of providing benefits under the plan is determined using the projected unit credit method, with independent actuarial calculations being carried out at each year end date. Actuarial gains and losses are recognised in full in the period in which they occur through other comprehensive income.

The asset recognised in the statement of financial position in respect of the defined benefit plan is the present value of the defined benefit obligation at the year end date less the fair value of the plan assets.

In addition the group operates defined contribution plans, where the cost recognised is the contributions paid in respect of the year.

Profit share schemes

The group recognises provisions in respect of its profit share schemes when contractually obliged or when there is a past practice that has created a constructive obligation.

Share based plans

The group has awarded share options to executives and the group makes equity based awards to executives.

Share based payments are measured at fair value at the date of grant using an appropriate option valuation technique, which is expensed on a straight-line basis over the vesting period, based on the group's estimate of shares that will eventually vest.

Reserves

A description of each of the reserves follows:

Share premium

This reserve represents the difference between the issue price of shares and the nominal value of shares at the date of issue, net of related issue costs.

Capital redemption

This reserve was created on the cancellation and repayment of the Corporation's share capital.

Own shares

This represents the cost of shares purchased by the ESOT.

Capital reserves

The following are dealt with through this reserve:

- gains and losses on realisation of investments; and
- changes in fair value investments which are readily convertible to cash.

Retained earnings

Net revenue profits and losses of the Corporation and its subsidiaries and the fair value costs of share based payments which are revenue in nature are dealt with in this reserve.

Translation reserve

This reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries and the gains or losses on hedging instruments relating to the effective portion of the hedge related to the net investment in foreign subsidiaries.

Leases

Operating leases

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases.

Payments made under operating leases, net of incentives received from the lessor, are charged to the income statement on a straight-line basis over the period of the lease.

Dividend distribution

Dividends are recognised when they become legally payable. In the case of interim dividends to equity shareholders, this is when declared by the directors. In the case of final dividends, this is when approved by the shareholders.

Notes to the accounts continued

2 | Net capital gain/(loss) on investments

	2017 £000	2016 £000
Realised gains based on historical cost	60,439	42,830
Amounts recognised as unrealised in previous years	(40,046)	(23,551)
Realised gains based on carrying value at previous year end date	20,393	19,279
Unrealised gains on investments	62,698	86,315
	83,091	105,594
Realised gain on sale of unlisted investment*	(3,275)	–
Transfers (to) revenue	(142)	(157)
	79,674	105,437

*During August 2017 the group completed the disposal of its minority interest in an unlisted investment within the IPS business segment ("Nordic Trustee Holding ASA"). The consideration received of £3,318,000 resulted in a gain on disposal of £3,275,000 (investment held at original cost of £43,000 which was considered as fair value).

3 | Administrative expenses

	2017 £000	2016 £000
Administrative expenses include:		
Salaries and directors' fees	10,249	10,786
Social security costs	1,351	1,238
Other pension costs	730	693
	12,330	12,717
Investment management fee	2,032	1,687
Provision for impairment of goodwill	–	418
Depreciation – property, plant and equipment	101	112
Amortisation – intangible assets	61	20
Operating leases – land and buildings	1,214	1,314
Foreign exchange	10	(111)
Auditors' remuneration	193	195

During the year, the group employed an average of 120 staff (2016: 115). All staff are engaged in the provision of independent professional services. The Corporation has no employees.

Details of the terms of the investment management agreement are provided on page 9 of the strategic report.

Administrative expenses charged to capital are transaction costs and foreign exchange differences on the purchase of investments held at fair value through profit or loss.

Cost of sales represents legal charges which are recovered as part of fees.

A more detailed analysis of the auditors' remuneration on a worldwide basis is provided below:

	2017 £000	2016 £000
Audit services		
– fees payable to the Corporation's auditors for the audit of its financial statements*	177	175
– audit related regulatory	16	13
Tax services	–	7
	193	195

* Including the Corporation £37,000 (2016: £35,000).

3 | Administrative expenses continued

A description of the work of the audit committee is set out in the audit committee report on pages 34 to 36 and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditors.

4 | Provision for onerous contracts

Group	2017 £000	2016 £000
At 1 January	3,106	–
(Release)/provision made in the year	(245)	3,031
Utilisation of provision in the year	(1,131)	–
Foreign exchange	(63)	75
At 31 December	1,667	3,106

In December 2016 the group completed the disposal of substantially all of its US corporate trust business for a consideration of \$1. The disposal was the completion of the first part of a strategy to exit the US corporate trust business, so as to release the \$50 million of capital required by the business. At the time of disposal the contracts remaining were assessed and deemed to generate insufficient income to cover the costs of running and financing the remainder of the business up to the eventual date of its closure. A provision for onerous costs representing the expected net future costs up to the date of disposal or completion of the remaining contracts was included in the year ended 31 December 2016 of £3,106,000. The remaining provision at 31 December 2017 comprises financing costs of £1,131,000 (2016: £2,262,000) and net running costs (including the cost of closure) of \$725,000 (2016: \$1,043,000). A reassessment of the provision required at December 2017 resulted in a release of £245,000 (2016: provision made of £3,031,000).

5 | Remuneration of directors (key management personnel)

The remuneration of the directors, who are the key management personnel of the group, comprises the following:

	2017 £	2016 £
Short term benefits including fees in respect of non-executive directors	716,300	863,630
Deferred share bonus scheme	–	292,427
	716,300	1,156,057

Details for each individual director are shown in the remuneration report on page 45.

6 | Interest

	2017 £000	2016 £000
Interest income		
Interest on bank deposits	1	1
Returns on money market funds	138	302
	139	303
Interest payable		
Interest on pension scheme (net)	100	100
Implied interest on derivative financial instruments	539	165
Interest on long-term debt	5,277	5,277
Utilisation of onerous provision in the year (see note 4)	(1,131)	–
	4,785	5,542
Interest (net)	(4,646)	(5,239)

Notes to the accounts continued

7 | Segmental analysis

	Investment trust		Independent professional services		Group charges		Total	
	31 December 2017 £000	31 December 2016 £000	31 December 2017 £000	31 December 2016 £000	31 December 2017 £000	31 December 2016 £000	31 December 2017 £000	31 December 2016 £000
Revenue								
Segment income	21,463	20,477	31,021	30,735	–	–	52,484	51,212
Net gain on investments	–	–	3,275	–	–	–	3,275	–
Other income	95	74	249	151	–	–	344	225
Cost of sales	–	–	(3,875)	(3,565)	–	–	(3,875)	(3,565)
Administration costs	(3,274)	(2,739)	(17,568)	(17,573)	–	(464)	(20,842)	(20,776)
(Release)/provision for onerous contracts	–	–	–	–	245	(3,031)	245	(3,031)
	18,284	17,812	13,102	9,748	245	(3,495)	31,631	24,065
Interest (net) (note 6)	(4,561)	(4,964)	(85)	(275)	–	–	(4,646)	(5,239)
Return, including profit on ordinary activities before taxation	13,723	12,848	13,017	9,473	245	(3,495)	26,985	18,826
Taxation	–	–	(1,287)	(405)	(104)	422	(1,391)	17
Return, including profit attributable to shareholders	13,723	12,848	11,730	9,068	141	(3,073)	25,594	18,843
Revenue return per ordinary share	11.61	10.88	9.93	7.68	0.12	(2.60)	21.66	15.96
Assets	816,595	743,248	67,613	62,052	227	378	884,435	805,678
Liabilities	(90,152)	(97,230)	(44,358)	(43,057)	(1,667)	(3,106)	(136,177)	(143,393)
Total net assets	726,443	646,018	23,255	18,995	(1,440)	(2,728)	748,258	662,285

The capital element of the income statement is wholly attributable to the investment trust. Details regarding the segments are included on page 1 – Group summary and in note 1 – Segment reporting.

	Investment trust		Independent professional services		Total	
	31 December 2017 £000	31 December 2016 £000	31 December 2017 £000	31 December 2016 £000	31 December 2017 £000	31 December 2016 £000
Other information						
Capital expenditure	–	–	226	128	226	128
Depreciation/amortisation	–	–	162	132	162	132

Group charges before taxation during the year comprised the following:

	2017 £000	2016 £000
Closure of the US trust business		
Staff termination and legal costs incurred (see note 4)	–	(437)
Release/(provision) for onerous contracts (see note 4)	245	(3,031)
	245	(3,468)
Impairment of goodwill in Delaware Corporate Services Inc. (see note 11)	–	(418)
Past service credit on closure of defined benefit pension scheme net of costs of closure (see note 24)	–	391
	245	(3,495)

8 | Taxation

	2017 £000	2016 £000
Taxation based on revenue for the year comprises:		
UK Corporation tax at 19.25% (2016: 20%)	824	83
Overseas tax charge/(credit)	255	(59)
Total current tax charge	1,079	24
Deferred tax charge/(credit)	312	(41)
Charge/(credit) for the year	1,391	(17)

Taxation

The charge/(credit) for the year can be reconciled to the profit per the income statement as follows:

	2017 £000	2016 £000
Profit before taxation	106,252	124,254
Tax on ordinary activities at standard rate 19.25% (2016: 20%)	20,454	24,851
Effects of:		
Expenses not deductible for tax purposes	47	405
Higher rates of tax on overseas income/(losses)	84	(238)
Non-taxable capital (gains)	(15,259)	(21,002)
Tax credit on dividend income	(4,087)	(4,047)
Limit on group relief for UK interest expense	412	–
Prior year over provision in respect of current tax	(100)	–
Prior year over provision in respect of deferred tax	(56)	–
Deferred tax on movement in provision for onerous contracts	(104)	–
Change in tax rate for deferred tax	–	14
	1,391	(17)

The group expects that a substantial portion of its future income will continue to be in the form of dividend receipts and capital gains and losses, which constitute non-taxable income. On this basis, the group tax charge is expected to remain significantly different to the standard UK rate of 19%.

Deferred tax

The following are the major deferred tax liabilities and assets recognised by the group and movements thereon during the current and prior reporting period.

Group	Accelerated tax depreciation £000	Retirement benefit obligations £000	Total £000
Deferred tax assets/(liabilities)			
At 1 January 2016	544	280	824
Credit/(charge) to income	301	(260)	41
Credit to other comprehensive income	–	417	417
Foreign exchange	30	–	30
At 1 January 2017	875	437	1,312
(Charge) to income	(160)	(152)	(312)
(Charge) to other comprehensive income	–	(342)	(342)
Foreign exchange	(44)	–	(44)
At 31 December 2017	671	(57)	614

In accordance with the accounting policy, deferred tax is calculated at the tax rates that are expected to apply to the reversal. Overseas taxes reflect the current rate, whilst UK taxes are at the enacted rate of 19%.

A deferred tax asset has not been recognised in respect of overseas losses of £1,198,480 (2016: £1,415,000) as their usability cannot be predicted with reasonable certainty.

Notes to the accounts continued

9 | Dividends on ordinary shares

	2017 £000	2016 £000
Dividends on ordinary shares comprise the following:		
2017 Interim 5.50p (2016: 5.20p)	6,499	6,139
2016 Final 11.50p (2015: 11.00p)	13,582	12,983
Total for year	20,081	19,122
Proposed final dividend for the year ended 31 December 2017	13,943	

The proposed final dividend is subject to approval by shareholders at the annual general meeting and has not been included as a liability in these financial statements.

Set out below is the total dividend payable in respect of the financial year, which is the basis on which the requirements of Sections 1158-1159 of the Corporation Tax Act 2010 are considered.

	2017 £000	2016 £000
2017 Interim 5.50p (2016: 5.20p)	6,499	6,139
2017 Final 11.80p (2016: 11.50p)	13,943	13,583
	20,442	19,722

On this basis, The Law Debenture Corporation p.l.c. satisfies the requirements of Sections 1158-1159 of the Corporation Tax Act 2010, as an approved investment trust company.

Dividends have been waived in respect of the shares owned by the ESOT (see note 18).

10 | Return per share

Revenue return is based on profits attributable of £25,594,000 (2016: £18,843,000).

Capital return per share is based on capital gains for the year of £79,267,000 (2016: gains £105,428,000).

Total return per share is based on gain for the year of £104,861,000 (2016: £124,271,000).

The calculations of returns per share are based on 118,136,983 (2016: 118,063,495) shares, being the weighted average number of shares in issue during the year after adjusting for shares owned by the ESOT. In 2017, total revenue and capital diluted returns per share were calculated using 118,156,483 shares (2016: 118,064,394 shares), being the diluted weighted average number of shares in issue assuming exercise of options at less than fair value. There were 32,776 (2016: 77,720) antidilutive shares.

11 | Goodwill

Group	2017 £000	2016 £000
Cost		
At 1 January	2,427	2,256
Foreign exchange	(88)	171
At 31 December	2,339	2,427
Provision for impairment		
At 1 January	459	—
Provision in year	—	418
Foreign exchange	(40)	41
At 31 December	419	459
Net book value at 31 December	1,920	1,968

11 | Goodwill continued

The goodwill is identifiable with separate operating companies (Safecall Limited: £1,419,000; and Delaware Corporate Services Inc.: £501,000). At 31 December 2017 the goodwill in relation to the operating companies was reviewed. The review assessed whether the carrying value of goodwill was supported by the net present value of future cash flows based on management forecasts for 2018.

The review for Safecall was assessed using annual growth for five years of 5% with no terminal growth, which is based on current expectations and a discount rate of 9% (2016: 9%). Sensitivity analysis was also completed using annual growth of 2% and a discount rate of 10% and on neither basis was the goodwill considered to be impaired.

The review of Delaware Corporate Services Inc. was assessed using annual growth for five years of 5% with no terminal growth, which is based on current expectations and a discount rate of 9% (2016: 9%). Sensitivity analysis was also completed using annual growth of 2% and a discount rate of 10% and on neither basis was the goodwill considered to be impaired (2016: provision of £418,000).

12 | Property, plant and equipment

Group	2017			2016		
	Leasehold improvements £000	Office furniture & equipment £000	Total £000	Leasehold improvements £000	Office furniture & equipment £000	Total £000
Cost						
At 1 January	881	1,735	2,616	849	1,654	2,503
Additions at cost	–	74	74	5	48	53
Foreign exchange	(15)	(18)	(33)	27	33	60
At 31 December	866	1,791	2,657	881	1,735	2,616
Accumulated depreciation						
At 1 January	830	1,625	2,455	779	1,518	2,297
Foreign exchange	(11)	(17)	(28)	14	32	46
Charge	29	72	101	37	75	112
At 31 December	848	1,680	2,528	830	1,625	2,455
Net book value at 31 December	18	111	129	51	110	161

The Corporation holds no property, plant and equipment.

13 | Other intangible assets

Group	Computer software 2017 £000	Computer software 2016 £000
Cost		
At 1 January	1,533	1,458
Additions at cost	149	75
At 31 December	1,682	1,533
Accumulated amortisation		
At 1 January	1,463	1,442
Foreign exchange	(3)	1
Charge	61	20
At 31 December	1,521	1,463
Net book value at 31 December	161	70

The Corporation holds no other intangible assets.

Notes to the accounts continued

14 | Investments

Investments held at fair value through profit or loss

Group	2017			2016		
	Listed £000	Unlisted £000	Total £000	Listed £000	Unlisted £000	Total £000
Opening cost at 1 January	464,942	3,615	468,557	453,202	3,652	456,854
Gains at 1 January	227,180	343	227,523	164,759	–	164,759
Opening fair value at 1 January	692,122	3,958	696,080	617,961	3,652	621,613
Purchases at cost	80,356	–	80,356	91,481	13	91,494
Cost of acquisition	(248)	–	(248)	(373)	–	(373)
Sales – proceeds	(120,089)	(3,318)	(123,407)	(122,198)	(50)	(122,248)
– realised gains on sales	57,164	3,275	60,439	42,830	–	42,830
Gains/(losses) in the income statement	22,692	(40)	22,652	62,421	343	62,764
Closing fair value at 31 December	731,997	3,875	735,872	692,122	3,958	696,080
Closing cost at 31 December	482,125	3,572	485,697	464,942	3,615	468,557
Gains	249,872	303	250,175	227,180	343	227,523
Closing fair value at 31 December	731,997	3,875	735,872	692,122	3,958	696,080

Corporation	2017			2016		
	Listed £000	Unlisted £000	Total £000	Listed £000	Unlisted £000	Total £000
Opening cost at 1 January	470,040	3,333	473,373	458,300	3,333	461,633
Gains at 1 January	222,082	343	222,425	159,661	–	159,661
Opening fair value at 1 January	692,122	3,676	695,798	617,961	3,333	621,294
Purchases at cost	80,356	–	80,356	91,481	–	91,481
Cost of acquisition	(248)	–	(248)	(373)	–	(373)
Sales – proceeds	(120,089)	–	(120,089)	(122,198)	–	(122,198)
– realised gains on sales	57,164	–	57,164	42,830	–	42,830
Gains/(losses) in the income statement	22,692	(40)	22,652	62,421	343	62,764
Closing fair value at 31 December	731,997	3,636	735,633	692,122	3,676	695,798
Closing cost at 31 December	487,223	3,333	490,556	470,040	3,333	473,373
Gains	244,774	303	245,077	222,082	343	222,425
Closing fair value at 31 December	731,997	3,636	735,633	692,122	3,676	695,798

Listed investments are all traded on active markets and as defined by IFRS 13 are Level 1 financial instruments. As such they are valued at unadjusted quoted bid prices. Unlisted investments are Level 3 financial instruments. They are valued by the directors using unobservable inputs including the underlying net assets of the investments. There were no transfers in or out of Level 3 during the year.

Investments in subsidiary undertakings – Corporation	2017 £000	2016 £000
Cost		
At 1 January and at 31 December	96,311	96,311

The cost of subsidiary undertakings includes capital contributions and as a consequence is not comparable to the fair value of the IPS businesses.

14 | Investments continued

Fair valuation of the IPS

The IPS is represented by the wholly owned subsidiaries of the Corporation, with the exception of Law Debenture Finance p.l.c. The directors have chosen to provide a fair valuation of the IPS businesses, which is not included within the financial statements, to assist the users of the annual report. The fair valuation is used in preparing performance data for the group. The fair value is determined using unobservable inputs (including the group's own data), which represent Level 3 inputs. The directors' estimate of fair value uses the guidelines and methodologies on valuation published by the International Private Equity and Venture Capital Association.

The fair valuation of IPS is based upon the historic earnings before interest, taxation, depreciation and amortisation ('EBITDA'), an appropriate multiple and the surplus net assets of the business at their underlying fair value. The multiple applied in valuing the IPS is from comparable companies sourced from market data, with appropriate adjustments to reflect the difference between the comparable companies and the IPS in respect of growth, margin, size and liquidity.

Fair valuation of the IPS	2017 £000	2016 £000
EBITDA at a multiple of 7.9 (2016: 8.1)	77,396	80,028
Surplus net assets	17,176	9,908
	94,572	89,936

An increase or decrease of 1 in the multiple would give rise to a £9.8 million change in the fair valuation of the IPS. The adjustment to NAV to reflect the IPS fair value is an increase of 61.57p per share (2016: 62.37p).

Subsidiaries and related undertakings

The following is a list of all of the subsidiaries within the Law Debenture group. Each of them is 100% owned within the group and has been consolidated in the group accounts. Unless indicated, all subsidiaries are incorporated and have their registered office in the United Kingdom. All shares issued by group subsidiaries are ordinary shares. The Corporation and the group do not have any significant holdings in any qualifying undertakings other than the subsidiary undertakings listed below.

L.D. Pension Plan Trustee Limited	The Law Debenture Corporation (Deutschland) Limited
L.D.C. Trust Management Limited	L.D.C. Latvia Limited
Law Debenture Investment Management Limited	Law Debenture Trustee for Charities
LDC Reporting Services Limited	Law Debenture (No. 1 Scheme) Trust Corporation
Beagle Nominees Limited	Law Debenture (No. 2 Scheme) Trust Corporation
The Law Debenture Trust Corporation p.l.c.	Law Debenture (No. 3 Scheme) Pension Trust Corporation
The Law Debenture Pension Trust Corporation p.l.c.	The Law Debenture (No. 5) Trust Corporation
Law Debenture Corporate Services Limited	The Law Debenture (CSMA) Pension Trust Corporation
Law Debenture Trustees Limited	The Law Debenture (Britannia) Pension Trust Corporation
The Law Debenture Intermediary Corporation p.l.c.	The Law Debenture (1996) Pension Trust Corporation
Law Debenture Overseas No. 1 Limited	The Law Debenture (Airborne) Pension Trust Corporation
Law Debenture Finance p.l.c.	The Law Debenture (BAA) Pension Trust Corporation
Law Debenture Securitisation Services Limited	The Law Debenture (BIS Management) Pension Trust Corporation
LDPTC Nominees Limited	The Law Debenture (BIS Retirement) Pension Trust Corporation
Law Debenture Governance Services Limited	The Law Debenture (Freemans) Trust Corporation
Safecall Limited	The Law Debenture (GS) Pension Trust Corporation
Safecall Training Limited	The Law Debenture (Intel Old Plan) Pension Trust Corporation
The Whistleblowing Company Limited	
The Sole Trustee plc	

Notes to the accounts continued

14 | Investments continued

The Law Debenture (SAPP) Pension Trust Corporation	LDC Nominee Secretary Limited
The Law Debenture (JLPF) Pension Trust Corporation	LDC DR Trustee Limited
The Law Debenture (JLPP) Pension Trust Corporation	LDC DR Nominees Limited
The Law Debenture (JGRP) Pension Trust Corporation	L.D.C. (SPV No.1) Limited
The Law Debenture (JGSPS) Pension Trust Corporation	LD (Holdco) Limited
The Law Debenture (JIC) Pension Trust Corporation	LD (Bidco) Limited
The Law Debenture (KBPP) Pension Trust Corporation	Minerva House Exfinco Limited
The Law Debenture (KGPP) Pension Trust Corporation	The Law Debenture Corporation (HK) Limited (incorporated/registered office in Hong Kong)
The Law Debenture (LBS) Pension Trust Corporation	Law Debenture Trust (Asia) Limited (incorporated/registered office in Hong Kong)
The Law Debenture (Swiss Re GB) Trust Corporation	Law Debenture China Limited (incorporated/registered office in Hong Kong)
Law Debenture (Ocean) Trust Corporation	Law Debenture Services (HK) Limited (incorporated/registered office in Hong Kong)
Law Debenture (Odyssey) Trust Corporation	The Law Debenture Trust Corporation (Channel Islands) Limited (incorporated/registered office in Jersey)
The Law Debenture (SRL) Pension Trust Corporation	The Law Debenture Trust Corporation (Cayman) Limited (incorporated/registered office in the Cayman Islands)
The Law Debenture (Stena Line EPS) Pension Trust Corporation	The Law Debenture Trust Company of New York (incorporated/registered office in the USA)
The Law Debenture (Tootal) Trust Corporation	Law Debenture Corporate Services Inc. (incorporated/registered office in the USA)
Law Debenture (GWR) Pension Trust Corporation	Law Debenture Holdings Inc. (incorporated/registered office in the USA)
The Law Debenture (JGDBS) Pension Trust Corporation	Delaware Corporate Services Inc. (incorporated/registered office in the USA)
ICI Pensions Trustee Limited	Law Debenture (Ireland) Limited (incorporated/registered office in the Republic of Ireland)
Morgan Crucible Pension Trustees Limited	Law Debenture Ireland (Trustees) Limited (incorporated/registered office in the Republic of Ireland)
AstraZeneca Pensions Trustee Limited	Law Debenture Holdings (Ireland) Limited (incorporated/registered office in the Republic of Ireland)
Law Debenture MC Senior Pension Trust Corporation	LDI (OCS) Limited (incorporated/registered office in the Republic of Ireland)
ICI Specialty Chemicals Pensions Trustee Limited	Registered Shareholder Services No.1 Limited (incorporated/registered office in the Republic of Ireland)
RTL Shareholder SVC Limited	Registered Shareholder Services No.2 Limited (incorporated/registered office in the Republic of Ireland)
Billiton SVC Limited	Registered Shareholder Services No.3 Limited (incorporated/registered office in the Republic of Ireland)
DLC SVC Limited	BHP SVC PTY Limited (incorporated/registered office in Australia)
LDC (NCS) Limited	
LDC (Shares Two) Limited	
Terrier Services Limited	
L.D.C. Securitisation Director No. 1 Limited	
L.D.C. Securitisation Director No. 2 Limited	
L.D.C. Securitisation Director No. 3 Limited	
L.D.C. Securitisation Director No. 4 Limited	
L.D.C. Corporate Director No. 1 Limited	
L.D.C. Corporate Director No. 2 Limited	
L.D.C. Corporate Director No. 3 Limited	
L.D.C. Corporate Director No. 4 Limited	
L.D.C. Corporate Director No. 5 Limited	
CD Corporate Director No. 1 Limited	
CD Corporate Director No. 2 Limited	
LDC Nominee Director No. 1 Limited	
LDC Nominee Director No. 2 Limited	

15 | Trade and other receivables

The carrying value represents trade and other receivables which are not impaired. The directors consider that the carrying value approximates to the fair value. Allowances for impairment are determined by reference to past experience.

16 | Cash and cash equivalents

These comprise cash held at bank by the group, short term bank deposits with an original maturity of three months or less and money market funds with immediate access. The carrying value of these assets approximates to their fair value.

17 | Trade and other payables

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 30 days.

The directors consider that the carrying value of trade and other payables approximates to their fair value, due to their age.

18 | Called up share capital

Group and Corporation

Allotted, issued and fully paid share capital

	2017 £000	2016 £000
Value		
As at 1 January	5,917	5,916
Issued in year	1	1
As at 31 December	5,918	5,917
	Number	Number
Shares		
As at 1 January	118,344,399	118,328,874
Issued in year	13,845	15,525
As at 31 December	118,358,244	118,344,399

During the year to 31 December 2017, 13,845 shares were allotted under the SAYE scheme for a total consideration of £65,979 which includes a premium of £65,287.

During the year, 34,182 options were granted under the Corporation's SAYE scheme. At 31 December 2017, options under the SAYE scheme exercisable from 2017 to 2023 at prices ranging from 398.50p to 594.75p per share were outstanding in respect of 158,062 ordinary shares (2016: 168,726 ordinary shares). During 2017, 29,595 options lapsed or were cancelled (2016: 38,094) and 13,845 (2016: 15,525) were exercised.

Further details of options outstanding are given in the directors' report on page 27.

Own shares held – Group

	2017 £000	2016 £000
Own shares held – cost	1,033	1,197

The own shares held represent the cost of 198,189 (2016: 232,554) ordinary shares of 5p each in the Corporation, acquired by the ESOT in the open market. The shares have been acquired to meet the requirements of the Deferred Share Plan. The dividends and voting rights relating to the shares have been waived. The market value of the shares at 31 December 2017 was £1,246,609 (2016: £1,232,536).

Notes to the accounts continued

19 | Capital reserves

Group	2017			2016		
	Unrealised appreciation £000	Realised reserves £000	Total £000	Unrealised appreciation £000	Realised reserves £000	Total £000
At 1 January	222,354	386,723	609,077	159,756	343,893	503,649
Transfer on disposal of investments	(40,046)	40,046	–	(23,551)	23,551	–
Net gains on investments	62,698	20,393	83,091	86,315	19,279	105,594
Realised gain on sale of unlisted investment	–	(3,275)	(3,275)	–	–	–
Cost of acquisition	(248)	–	(248)	(373)	–	(373)
Foreign exchange	(159)	–	(159)	364	–	364
Transfers (to) revenue	(142)	–	(142)	(157)	–	(157)
At 31 December	244,457	443,887	688,344	222,354	386,723	609,077

Corporation	2017			2016		
	Unrealised appreciation £000	Realised reserves £000	Total £000	Unrealised appreciation £000	Realised reserves £000	Total £000
At 1 January	210,267	452,040	662,307	153,951	409,210	563,161
Transfer on disposal of investments	(40,046)	40,046	–	(23,551)	23,551	–
Net gains on investments	62,698	17,118	79,816	86,315	19,279	105,594
Cost of acquisition	(248)	–	(248)	(373)	–	(373)
Foreign exchange	3,292	–	3,292	(5,918)	–	(5,918)
Transfers (to) revenue	(142)	–	(142)	(157)	–	(157)
At 31 December	235,821	509,204	745,025	210,267	452,040	662,307

20 | Financial instruments

The group's investment objective is to achieve long term capital growth through investing in a diverse portfolio of investments spread both geographically and by sector. In pursuit of this objective, the group has the power to deploy the following financial instruments:

- Quoted equities, unlisted equities and fixed interest securities
- Cash and short term investments and deposits
- Debentures, term loans and bank overdrafts to allow the group to raise finance
- Derivative transactions to manage any of the risks arising from the use of the above instruments
- Derivative transactions to hedge the net investment in overseas subsidiaries

It remains the group's policy that no trading in derivatives is undertaken. Information in respect of the investment portfolio is included on pages 14 to 19.

Capital management

The Corporation is not allowed to retain more than 15% of its income from shares and securities each year and has a policy to increase dividends. However revenue profits are calculated after all expenses. Distributions will not be made if they inhibit the investment strategy. The investment strategy of the Corporation is disclosed on page 8 and includes a ceiling on effective gearing of 50%, with a typical range of 10% net cash to 20% gearing.

Capital is represented by the group's net assets.

20 | Financial instruments continued

The group and Corporation held the following categories of financial assets and liabilities at 31 December 2017.

Group	2017 £000	2016 £000
Assets		
Financial assets held at fair value through profit or loss (designated as such upon initial recognition):		
Equity investments	735,872	696,080
Loans and receivables:		
Trade and other receivables	6,417	6,680
Cash and cash equivalents	134,011	94,804
	140,428	101,484
Total financial assets	876,300	797,564
Liabilities		
Derivative financial instruments at fair value (designated as a hedge from inception)	299	2,029
Financial liabilities measured at amortised cost:		
Loans and payables:		
Trade and other payables	11,649	13,346
Long term borrowings	114,068	114,024
	125,717	127,370
Total financial liabilities	126,016	129,399
Corporation	2017 £000	2016 £000
Assets		
Financial assets held at fair value through profit or loss (designated as such upon initial recognition):		
Equity investments	735,633	695,798
Loans and receivables:		
Trade and other receivables	1,000	681
Cash and cash equivalents	78,549	45,606
	79,549	46,287
Total financial assets	815,182	742,085
Liabilities		
Derivative financial instruments at fair value (designated as a hedge from inception)	299	2,029
Financial liabilities measured at amortised cost:		
Loans and payables:		
Amounts owed to subsidiary undertakings	53,597	62,089
Trade and other payables	1,385	1,755
Long term borrowings	74,516	74,499
	129,498	138,343
Total financial liabilities	129,797	140,372

Notes to the accounts continued

20 | Financial instruments continued

Derivative financial instruments

	2017 £000	2016 £000
Fair value of hedge instrument	299	2,029

The Corporation enters into currency swaps as designated hedging instruments. The Corporation entered into a \$50 million US dollar/sterling currency swap with HSBC Bank plc which matures on 26 March 2018. The currency swap is a Level 2 financial instrument as defined by IFRS 13 and the fair value of the financial liability at 31 December 2017 represents the sterling equivalent of the change in value of the notional amount since inception. The gross undiscounted cash flows of the swap are £36,960,000 outflow and £36,661,000 inflow.

The hedge was initially created in July 2013 and replaced by swaps since September 2015, to hedge the net investment in US operations. The hedges have been reviewed on an ongoing basis and have been effective at all times since inception. The gains or losses on the hedging instruments have been recognised in reserves and set off against gain or loss on the translation of the net investment in US operations.

The principal risks facing the group in respect of its financial instruments remain unchanged from 2016 and are:

Market risk

- **price risk**, arising from uncertainty in the future value of financial instruments. The board maintains strategy guidelines whereby risk is spread over a range of investments, the number of holdings normally being between 70 and 150. In addition, the stock selections and transactions are actively monitored throughout the year by the investment manager, who reports to the board on a regular basis to review past performance and develop future strategy. The investment portfolio is exposed to market price fluctuation: if the valuation at 31 December 2017 fell or rose by 10%, the impact on the group's total profit or loss for the year would have been £73.6 million (2016: £69.6 million). Corresponding 10% changes in the valuation of the investment portfolio on the Corporation's total profit or loss for the year would have been £73.6 million (2016: £69.6 million).
- **foreign currency risk**, arising from movements in currency rates applicable to the group's investment in equities and fixed interest securities and the net assets of the group's overseas subsidiaries denominated in currencies other than sterling. The group's financial assets denominated in currencies other than sterling were:

Group	2017			2016		
	Investments £m	Net monetary assets £m	Total currency exposure £m	Investments £m	Net monetary assets £m	Total currency exposure £m
US Dollar	69.9	3.6	73.5	84.2	6.9	91.1
Canadian Dollar	5.0	–	5.0	5.3	–	5.3
Euro	47.5	0.4	47.9	37.9	0.4	38.3
Danish Krone	3.8	–	3.8	2.4	–	2.4
Swedish Krona	–	–	–	1.6	–	1.6
Swiss Franc	9.8	–	9.8	13.3	–	13.3
Hong Kong Dollar	–	0.3	0.3	–	0.4	0.4
Japanese Yen	7.7	–	7.7	7.8	–	7.8
	143.7	4.3	148.0	152.5	7.7	160.2

The group US dollar net monetary assets is that held by the US operations of £39.3 million together with £1.3 million held by non-US operations less the US dollar/sterling currency swap notional amount of £37.0 million (\$50 million).

20 | Financial instruments continued

Corporation	2017			2016		
	Investments £m	Net monetary (liabilities) £m	Total currency exposure £m	Investments £m	Net monetary (liabilities) £m	Total currency exposure £m
US Dollar	69.9	(36.6)	33.3	84.2	(36.1)	48.1
Canadian Dollar	5.0	–	5.0	5.3	–	5.3
Euro	47.5	–	47.5	37.9	–	37.9
Danish Krone	3.8	–	3.8	2.4	–	2.4
Swedish Krona	–	–	–	1.6	–	1.6
Swiss Franc	9.8	–	9.8	13.3	–	13.3
Japanese Yen	7.7	–	7.7	7.8	–	7.8
	143.7	(36.6)	107.1	152.5	(36.1)	116.4

The Corporation US dollar net monetary liability of £36.6 million is the sterling equivalent of the \$50 million notional US dollar/sterling currency swap, net of cash held of £0.4 million.

The holdings in the Schroder Japan Growth Fund, Baillie Gifford Pacific and Stewart Investors Asia Pacific OEICs and Templeton Emerging Markets Investment Trust and Scottish Oriental Smaller Companies Trust are denominated in sterling but have underlying assets in foreign currencies equivalent to £59.2 million (2016: £50.8 million). Investments made in the UK and overseas have underlying assets and income streams in foreign currencies which cannot be determined and this has not been included in the sensitivity analysis. If the value of all other currencies at 31 December 2017 rose or fell by 10% against sterling, the impact on the group's total profit or loss for the year would have been £22.7 million and £18.5 million respectively (2016: £22.7 million and £18.4 million). Corresponding 10% changes in currency values on the Corporation's total profit or loss for the year would have been the same. The calculations are based on the investment portfolio at the respective year end dates and are not representative of the year as a whole.

- **interest rate risk**, arising from movements in interest rates on borrowing, deposits and short term investments. The board reviews the mix of fixed and floating rate exposures and ensures that gearing levels are appropriate to the current and anticipated market environment. The group's interest rate profile was:

	2017				2016	
	Group		Corporation		Corporation	
	Sterling £m	HK Dollars £m	US Dollars £m	Euro £m	Sterling £m	US Dollars £m
Floating rate assets	92.7	0.3	40.6	0.4	78.1	0.4

	2016				2015	
	Group		Corporation		Corporation	
	Sterling £m	HK Dollars £m	US Dollars £m	Euro £m	Sterling £m	US Dollars £m
Floating rate assets	50.7	0.4	43.3	0.4	45.3	0.3

The group holds cash and cash equivalents on short term bank deposits and money market funds. Interest rates tend to vary with bank base rates. The investment portfolio is not directly exposed to interest rate risk.

Notes to the accounts continued

20 | Financial instruments continued

	Group		Corporation	
	2017 Sterling £m	2016 Sterling £m	2017 Sterling £m	2016 Sterling £m
Fixed rate liabilities	114.1	114.0	74.5	74.5
Weighted average fixed rate for the year	4.589%	4.589%	3.770%	3.770%

If interest rates during the year were 1.0% higher the impact on the group's total profit or loss for the year would have been £924,000 credit (2016: £620,000 credit). It is assumed that interest rates are unlikely to fall below the current level.

The Corporation holds cash and cash equivalents on short term bank deposits and money market funds and has short term borrowings. Amounts owed to subsidiary undertakings include £40 million at a fixed rate. Interest rates on cash and cash equivalents and amounts due to subsidiary undertakings at floating rates tend to vary with bank base rates. A 1.0% increase in interest rates would have affected the Corporation's profit or loss for the year by £501,000 credit (2016: £253,000 credit). The calculations are based on the balances at the respective year end dates and are not representative of the year as a whole.

Liquidity risk

Arising from any difficulty in realising assets or raising funds to meet commitments associated with any of the above financial instruments. To minimise this risk, the board's strategy largely limits investments to equities and fixed interest securities quoted in major financial markets. In addition, cash balances are maintained commensurate with likely future settlements. The maturity of the group's existing borrowings is set out in note 21.

Credit risk

Arising from the failure of another party to perform according to the terms of their contract. The group minimises credit risk through policies which restrict deposits to highly rated financial institutions and restrict the maximum exposure to any individual financial institution. The group's maximum exposure to credit risk arising from financial assets is £140.4 million (2016: £101.5 million). The Corporation's maximum exposure to credit risk arising from financial assets is £79.5 million (2016: £46.3 million).

Trade and other receivables

Trade and other receivables not impaired but past due by the following:

	Group		Corporation	
	2017 £000	2016 £000	2017 £000	2016 £000
Between 31 and 60 days	657	1,713	–	–
Between 61 and 90 days	293	210	9	–
More than 91 days	1,047	577	–	30
Total	1,997	2,500	9	30

20 | Financial instruments continued

At 31 December 2017, trade and other receivables which were impaired and for which there was a bad debt provision totalled £956,000 (2016: £955,000) (Corporation: £nil (2016: £2,000)). All the impaired trade and other receivables were more than 91 days past due.

Trade and other payables

	Group		Corporation	
	2017 £000	2016 £000	2017 £000	2016 £000
Due in less than one month	11,353	12,851	1,385	1,755
Due in more than one month and less than three months	296	495	–	–
	11,649	13,346	1,385	1,755

Fair value

The directors are of the opinion that the fair value of financial assets and liabilities of the group are not materially different to their carrying values, with the exception of the long term borrowings (see note 21).

21 | Long term borrowings

	Group		Corporation	
	2017 £000	2016 £000	2017 £000	2016 £000
Long term borrowings				
Long term borrowings are repayable as follows:				
In more than five years				
Secured				
6.125% guaranteed secured bonds 2034	39,552	39,525	–	–
3.77% secured senior notes 2045	74,516	74,499	74,516	74,499
	114,068	114,024	74,516	74,499

The 6.125% bonds were issued by Law Debenture Finance p.l.c. and guaranteed by the Corporation. The £40 million nominal tranche, which produced proceeds of £39.1 million, is constituted by a Trust Deed dated 12 October 1999 and the Corporation's guarantee is secured by a floating charge on the undertaking and assets of the Corporation. The bonds are redeemable at nominal amount on 12 October 2034. Interest (see note 6) is payable semi-annually in equal instalments on 12 April and 12 October in each year.

The 3.77% notes were issued by the Corporation. The £75 million nominal tranche, which produced proceeds of £74.5 million, is constituted by a note purchase agreement and the notes are secured by a floating charge which ranked *pari passu* with the charge given as part of the 6.125% bond issue. The notes are redeemable at nominal amount on 25 September 2045. Interest (see note 6) is payable semi-annually in equal instalments on 25 March and 25 September in each year.

The long term borrowings are stated in the statement of financial position at book value. Including them at a fair value of £144.0 million at 31 December 2017 (2016: £143.1 million) would have the effect of decreasing the year end NAV by 25.32p (2016: 24.62p). The estimated fair value is based on the redemption yield of reference gilts plus a margin derived from the spread of A rated UK corporate bond yields over UK gilt yields (2016: A).

Notes to the accounts continued

22 | Contingent liabilities

The group is from time to time party to legal proceedings and claims, which arise in the ordinary course of the IPS business. The directors do not believe that the outcome of any of these proceedings and claims, either individually or in aggregate, will have a material adverse effect upon the group's financial position.

The Corporation has provided a guarantee to a subsidiary undertaking in respect of the ongoing liabilities of the group defined benefit pension scheme (see note 24). The Corporation has provided surety for the lease of the group's main property which is held by a subsidiary undertaking. The annual rental is currently £907,000 and its full term ends in 2020.

23 | Lease commitments

At the year end date, the group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2017 £000	2016 £000
Less than one year	1,077	1,114
Two to five years	1,658	2,642
More than five years	83	138
	2,818	3,894

Lease payments represent rentals payable by the group for its office properties. The lease for the main property was negotiated for a term of 20 years and rentals are fixed for an average of five years.

24 | Pension commitments

For some employees, the group operates a funded pension plan providing benefits for its employees based on final pensionable emoluments. The assets of the plan are held in a separate trustee administered fund. The plan closed to future accrual of benefits on 31 December 2016 and benefits now increase broadly in line with inflation.

Under the defined benefit pension plan, each member's pension at retirement is related to their pensionable service and final pensionable emoluments. The weighted average duration of the expected benefit payments from the plan is around 20 years. The defined benefit scheme is operated from a trust, which has assets which are held separately from the group and trustees who ensure the plan's rules are strictly followed.

These figures were prepared by an independent qualified actuary in accordance with IAS19 (revised), and are based on membership data as at 31 December 2017. The funding target is for the plan to hold assets equal in value to the accrued benefits based on projected pensionable emoluments. If there is a shortfall against this target, then the group and the Trustee will agree deficit contributions to meet this deficit over a period.

There is a risk to the group that adverse experience could lead to a requirement for the group to make additional contributions to reduce any deficit that arises.

Contributions are set based upon funding valuations carried out every three years; the next valuation is due to be carried out as at 31 December 2017. The estimated amount of total employer contributions expected to be paid to the plan during 2018 is £0.9 million (2017 actual: £0.9million).

Actuarial gains and losses are recognised immediately through other comprehensive income.

24 | Pension commitments continued

The major assumptions in the 31 December 2017 disclosure under IAS19 (revised) are shown below and are applied to membership data supplied at that date. This shows the net pension assets and liabilities.

	2017 %	2016 %	2015 %	2014 %	2013 %
Significant actuarial assumptions:					
Retail Price Inflation	3.2	3.2	3.0	3.0	3.3
Consumer Price Inflation	2.2	2.2	2.0	2.0	2.5
Discount rate	2.4	2.7	3.7	3.7	4.6
5% limited RPI pension increases in payment	3.1	3.1	2.9	2.9	3.2
General salary increases	n/a	n/a	4.5	4.5	4.8

	2017 Years	2016 Years
Life expectancy of male/female aged 65 in 2017	23.7/25.5	24.0/25.8
Life expectancy of male/female aged 65 in 2037	25.4/26.9	26.2/27.7

	2017 £000	2016 £000
The amounts recognised in profit or loss are as follows:		
Employer's part of current service cost	–	400
Interest cost	100	100
(Gain) on curtailment	–	(500)
Total expense recognised in profit or loss	100	–

The gain on curtailment arises from the closure of the previous scheme at 31 December 2016. The credit to revenue net of costs incurred was £391,000.

	2017		2016	
	Allocation %	£000	Allocation %	£000
The current allocation of plan assets is as follows:				
Equities	49	28,400	65	34,700
Bonds	10	5,500	9	4,700
Gilts	24	13,900	24	13,100
Pensioner annuities	1	800	1	800
Diversified growth funds	14	8,100	–	–
Other	2	900	1	400
Total	100	57,600	100	53,700

	2017 £000	2016 £000
Reconciliation of present value of defined benefit obligation		
At 1 January	56,000	45,200
Employer's part of current service cost	–	400
Interest on plan liabilities	1,500	1,700
Contributions by plan participants	–	200
Actuarial losses/(gains) due to:		
Experience on benefit obligations	–	(600)
Changes in financial assumptions	3,400	10,800
Changes in demographic assumptions	(1,300)	–
Benefits paid	(2,300)	(1,200)
Curtailments and settlements	–	(500)
At 31 December	57,300	56,000

Notes to the accounts continued

24 | Pension commitments continued

	2017 £000	2016 £000
Reconciliation of fair value of plan assets		
At 1 January	53,700	43,800
Interest on plan assets	1,400	1,600
Actual returns net of interest	3,900	8,000
Contributions by the employer	900	1,300
Contributions by plan participants	–	200
Benefits paid	(2,300)	(1,200)
At 31 December	57,600	53,700

	2017 £000	2016 £000
Movement in the net defined benefit obligations		
Deficit at 1 January	2,300	1,400
Expense charged to profit and loss	100	–
Amount recognised outside of profit and loss	(1,800)	2,200
Employer contributions	(900)	(1,300)
Closing net (assets)/liabilities at 31 December	(300)	2,300

	2017 £000	2016 £000	2015 £000	2014 £000	2013 £000	2012 £000
Plan assets and obligations						
Present value of defined benefit obligation	57,300	56,000	45,200	46,390	40,720	38,292
Fair value of plan assets	(57,600)	(53,700)	(43,800)	(43,140)	(39,631)	(36,065)
(Asset)/deficit	(300)	2,300	1,400	3,250	1,089	2,227

25 | Related party transactions

Group

Transactions between the Corporation and its subsidiaries, which are related parties, have been eliminated on consolidation.

Corporation

The related party transactions between the Corporation and its wholly owned subsidiary undertakings are summarised as follows:

	2017 £000	2016 £000
Dividends from subsidiaries	8,650	7,700
Interest on intercompany balances charged by subsidiaries	2,562	2,670
Management charges from subsidiaries	250	240
Interest on intercompany balances charged to subsidiaries	–	480

The key management personnel are the directors of the Corporation. Details of their compensation are included in note 5 to the accounts and in Part 3 of the remuneration report on pages 45 to 48. Key management personnel costs inclusive of employers national insurance are £797,647 (2016: £1,317,917).

Shareholder information

Investment trust status

The Corporation carries on business as an investment trust company as defined in Sections 1158-1159 of the Corporation Tax Act 2010. The directors will endeavour to conduct its affairs so as to enable it to maintain HMRC approval of the Corporation's status in this respect. So far as the directors are aware, the close company provisions of the Income and Corporation Taxes Act 1988 do not apply to the Corporation.

Company share information

Information about the Corporation can be found on its web site <http://www.lawdebenture.com>. The market price of its ordinary shares is also published daily in a number of newspapers.

Registrars

Our registrars, Computershare Investor Services PLC, operate a dedicated telephone service for Law Debenture shareholders – **0370 707 1129**. Shareholders can use this number to access holding balances, dividend payment details, share price data, or to request that a form be sent to their registered address.

Share dealing

Computershare Investor Services PLC offers shareholders a share dealing service via the internet or by telephone, details of which are as follows:

Internet – **www.computershare.com/trade**

Telephone – **0370 703 0084**

Commission for the internet service is 1% with a minimum charge of £30 and 1% for the telephone service, plus £35.

The service is available only to those shareholders who hold their shares on the register (i.e. it is not available to those who hold their shares via a nominee).

Shareholders using the internet service will need their Shareholder Reference Number ('SRN') and post code to complete their trade. The SRN can be found printed on your proxy card.

Computershare Brokerage Services are provided by The Share Centre Ltd, which is member of the London Stock Exchange and is authorised and regulated by the FCA. The Corporation is not responsible or liable for anything arising from a shareholder's decision to use the service. The Corporation is not acting as an introducer for the share dealing service and receives no financial benefit, either from making shareholders aware of the service or from any share deals conducted by shareholders who use the service.

Financial calendar

Dividend and interest payments

Ordinary shares:

Interim announced July	Paid September
Final announced February/March	Paid April
6.125% guaranteed secured notes	Paid April and October
3.77% senior secured notes	Paid March and September

Group results

Half year results	Announced in July
Full year results	Announced in February/March
Report and accounts	Published in March
Annual general meeting	Held in London in April
Factsheets	Published monthly on the Corporation's website

Payment methods for dividends

Dividends and interest can be paid to shareholders by means of BACS. Mandate forms for this purpose are available on request from the Corporation's registrars.

Notice of annual general meeting

NOTICE IS HEREBY GIVEN that the 128th annual general meeting of the Corporation will be held on 11 April 2018 at 11.00am at the Brewers' Hall, Aldermanbury Square, London EC2V 7HR for the following purposes:

Ordinary business

1. To receive the report of the directors, the strategic report and the audited accounts for the year ended 31 December 2017.
2. To receive and approve the directors' remuneration report for the year ended 31 December 2017.
3. To approve amendments to the Corporation's remuneration policy.
4. To declare a final dividend of 11.80p per share in respect of the year ended 31 December 2017.
5. To elect Denis Jackson as a director.
6. To elect Robert Hingley as a director.
7. To re-elect Robert Laing as a director.
8. To re-elect Mark Bridgeman as a director.
9. To re-elect Tim Bond as a director.
10. To re-appoint BDO LLP as auditors of the Corporation to hold office until the conclusion of the next general meeting at which accounts are laid and to authorise the audit committee to determine their remuneration.
11. General authority to allot shares.

THAT:

- (a) the directors be generally and unconditionally authorised pursuant to and in accordance with section 551 of the Companies Act 2006 (the 'Act') to exercise for the period ending on the date of the Corporation's next annual general meeting, all the powers of the Corporation to allot shares in the Corporation or to grant rights to subscribe for or to convert any security into shares in the Corporation up to an aggregate nominal amount (within the meaning of sections 551(3) and (6) of the Act) of £295,896;
- (b) the Corporation may during such period make offers or agreements which would or might require the making of allotments of equity securities or relevant securities as the case may be after the expiry of such period.

Special business

To consider and, if thought fit, to pass the following resolutions which will be proposed as special resolutions:

12. Disapplication of statutory pre-emption rights.

THAT:

- (a) in exercise of the authority given to the directors by resolution 11 above, the directors be empowered pursuant to section 570 of the Act to allot shares or grant rights to subscribe for or to convert any security into shares in the Corporation for the period ending on the date of the Corporation's next annual general meeting wholly for cash generally up to an aggregate nominal amount of £295,896 (i.e. 5% of the issued share capital) as if section 561 of the Act did not apply to such allotment, provided always that no more than 7.5% of the issued share capital shall be issued on a non pre-emptive basis within any three year period;
- (b) the Corporation may during such period make offers or agreements which would or might require the making of allotments of equity securities or relevant securities as the case may be after the expiry of such period.

13. General authority to buy back shares.

THAT: the Corporation be and is generally and unconditionally authorised in accordance with sections 693 and 701 of the Act to make market purchases (within the meaning of section 693(4) of the Act) of any of its issued ordinary shares of 5p each in the capital of the Corporation, in such manner and upon such terms as the directors of the Corporation may from time to time determine, PROVIDED ALWAYS THAT:

- (a) the maximum number hereby authorised to be purchased shall be limited to 17,741,900 shares, or if less, that number of shares which is equal to 14.99% of the Corporation's issued share capital as at the date of the passing of this resolution;
- (b) the minimum price which may be paid for a share shall be 5p;
- (c) the maximum price which may be paid for a share shall be an amount equal to 105% of the average of the middle market quotations (as derived from the London Stock Exchange Daily Official List) for the shares for the five business days immediately preceding the day on which the share is purchased;
- (d) unless previously revoked, renewed or varied, the authority hereby conferred shall expire on the date of the Corporation's next annual general meeting provided that a contract of purchase may be made before such expiry which will or may be executed wholly or partly thereafter, and a purchase of shares may be made in pursuance of any such contract.

14. Authority to convene a general meeting – notice.

THAT: a general meeting of the Corporation, other than an annual general meeting, may be called on not less than 14 clear days' notice.

By order of the board

Law Debenture Corporate Services Limited

Secretary

27 February 2018

Registered office:

Fifth Floor

100 Wood Street

London EC2V 7EX

Registered No. 30397

Notes to the notice of annual general meeting

1. A member who holds ordinary shares on the register of members and is entitled to attend and vote at this meeting is entitled to appoint one or more proxies to attend and, on a poll, to vote in his or her place (or in the case of a corporation, to appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member). A proxy need not be a member of the Corporation. Proxy rights do not apply to nominated persons although the nominated person may have a right under an agreement with the registered member to appoint a proxy. In addition to instructing a proxy to vote for or against a resolution, the form enables shareholders to instruct a 'vote withheld' if preferred. A vote withheld is not a vote in law and will not be counted in the calculation of votes. It may be used, for example, to convey a message of dissatisfaction on a particular issue, where the strength of feeling is not so great as to oppose the resolution, but supporting it is not appropriate either.
2. Shareholders who hold shares on the register of members (as opposed to holding them in a nominee) will find enclosed a form of proxy for use at the meeting. To be valid, forms of proxy must be lodged electronically by accessing www.investorcentre.co.uk/eproxy or by post at the office of the Corporation's registrar, Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZY. CREST members can register votes electronically by using the service provided by Euroclear. Proxies must be received not less than 48 hours before the time appointed for the holding of the meeting. This is also the voting record date by which a person must be entered on the register in order to have a right to attend and vote at the meeting. Lodgement of a form of proxy will not prevent a member from attending and voting in person.
3. The register of directors' interests will be available for inspection at the registered office of the Corporation during normal business hours and at the annual general meeting. No director has a service contract with the Corporation of more than one year's duration.
4. Subject to the dividend on the ordinary shares now recommended being approved at the annual general meeting, dividend payments will be made on 19 April 2018 to shareholders on the register on the record date on 16 March 2018.
5. **Resolution 2** is to receive and approve the directors' remuneration report for the year ended 31 December 2017. The remuneration report, which follows the format required by the relevant regulations, is set out at pages 45 to 48 of the annual report.
6. **Resolution 3** is to approve amendments to the Corporation's remuneration policy. The amendments are proposed for the reasons set out by the remuneration committee chairman on page 37.
7. **Resolution 5:** Denis Jackson offers himself for election. The board supports his election. Denis has demonstrated a good understanding of our IPS businesses and he has a clear vision of the way that he wants to deliver increased revenues. The board is confident that his strategy will be effective. His biography is included on page 49 of the annual report.
8. **Resolution 6:** Robert Hingley offers himself for election. The board supports his election. Robert is a corporate financier with a wealth of market experience and regulatory knowhow. He has already demonstrated that he understands the Corporation and our IPS businesses and he has all of the necessary attributes to be a skilful and effective Chairman. His biography is included on page 49 of the annual report.
9. **Resolution 7:** Robert Laing offers himself for re-election. The board supports his re-election. The board believes that its effectiveness is greatly enhanced by having a non-executive director with a legal background and experience of one or more of the professional services sectors where Law Debenture operates. Robert Laing matches this requirement. He is an effective director and chairman of the remuneration committee. His biography is included on page 49 of the annual report.
10. **Resolution 8:** Mark Bridgeman offers himself for re-election. The board supports his re-election. The board believes that it is essential to appoint a non-executive director with fund management experience and Mark fulfils that need. He is an effective director and chairman of the audit committee. His biography is included on page 49 of the annual report.

11. **Resolution 9:** Tim Bond offers himself for re-election. The board supports his re-election. The board believes that it is desirable to have input from someone with a global, strategic macroeconomic background. Both from his current and previous experience, Tim is able to contribute in this way and does so effectively. His biography is included on page 49.
12. **Resolution 10** is to re-appoint BDO LLP as the Corporation's auditors. BDO LLP were first appointed on 31 October 2008 and were the successful firm in the audit tender conducted in the autumn of 2017.
13. **Resolution 11** renews the authority given to directors at the last annual general meeting to allot unissued capital not exceeding 5,917,920 shares, being 5% of the issued share capital. This authority would be exercised only at times when it would be advantageous to the Corporation's shareholders to do so. Shares would not be issued under this authority at a price lower than market price or net asset value at the time of the issue. If approved, the authority will continue to operate until the next annual general meeting. N.B. In the ordinary course of business, the power given by this resolution will only be used to allot shares to participants in the HMRC approved Save As You Earn Sharesave scheme.
14. **Special resolution 12** is proposed because the directors consider that in order to allot shares in the circumstances described in resolution 11 it is in the best interests of the Corporation and its shareholders to permit the allotment of a maximum of 5,917,920 shares, being 5% of the issued share capital, other than on a pre-emptive basis. The board would not, however, issue more than 7.5% of the issued share capital on a non-pre-emptive basis within any three year period.
15. **Special resolution 13** renews the authority given to directors at the last annual general meeting to purchase ordinary shares in the market for cancellation. Such purchases at appropriate times and prices could be a suitable method of enhancing shareholder value and would be applied within guidelines set from time to time by the board. It should be noted that no such purchases would be undertaken if shares were trading at a premium to net asset value.
16. **Special resolution 14** seeks authority to convene a general meeting (but not the annual general meeting) by giving not less than 14 clear days' notice. While the directors have no current intention to call a general meeting in the year ahead, circumstances might arise when such a meeting might become necessary and the directors deem it in the best interests of shareholders that it be held as quickly as possible. Such circumstances might include, for example, a decision to make a significant amendment to the investment strategy (shareholder approval for such a change being a regulatory stipulation).
17. **Meeting notice requirements** – the Corporation is required under the Act to make a number of additional disclosures as follows. The Corporation's website – www.lawdebenture.com/investment-trust/investor-information – contains a copy of this notice, which includes the current total voting rights, as set out below. Should the required number of members requisition the Corporation to publish any statement about the audit or related matters that the relevant members propose to raise at the AGM (in accordance with section 527 of the Act), this would be published at the Corporation's expense on the website and forwarded to the auditor. Similarly, any shareholder statements, resolutions and matters of business connected with the meeting received after publication of this notice will be published on the website subject to compliance by the submitting party with the Act. At the AGM, the Corporation will cause to be answered any question relating to the business being dealt with at the meeting put by a shareholder in attendance.

Total voting rights and share information

The Corporation has an issued share capital at 27 February 2018 of 118,358,244 ordinary shares with voting rights and no restrictions and no special rights with regard to control of the Corporation. There are no other classes of share capital and none of the Corporation's issued shares are held in treasury. Therefore the total number of voting rights in The Law Debenture Corporation p.l.c. is 118,358,244.

Annual general meeting venue

Annual general meeting venue

Brewers' Hall
Aldermanbury Square
London EC2V 7HR

RAILWAY

Main line stations within one mile include:
Holborn Viaduct,
Blackfriars, Cannon Street,
London Bridge, Fenchurch Street, Farringdon and Liverpool Street.

Main line stations within two miles are:
Charing Cross, Waterloo, King's Cross, St Pancras

UNDERGROUND

Moorgate (Circle, Metropolitan, Hammersmith & City, and Thames Link)
Bank (Central, Northern, Waterloo & City)
St Pauls (Central)

BUSES

From Cheapside the 501 service connects London Bridge and Waterloo via Holborn, from Moorgate the 43 and 133 buses go to Liverpool Street, from London Wall the 172 goes to Blackfriars.

PARKING

There is limited meter parking in business hours near the hall. Underground parking is available beneath London Wall, entrance being by the corner of Coleman Street and on the north side of London Wall immediately before Bastion House. There is multi-storey parking in Aldersgate Street just north of the intersection with London Wall.

The Law Debenture Corporation p.l.c.
Fifth Floor, 100 Wood Street
London EC2V 7EX

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www.lawdebenture.com



The Law Debenture Corporation p.l.c.