

# ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2011 (AUDITED)

This is the Annual Financial Report of The Law Debenture Corporation p.l.c. as required to be published under DTR 4 of the UKLA Listing Rules.

The directors recommend a final dividend of 9.0p per share making a total for the year of 13.5p. Subject to the approval of shareholders, the final dividend will be paid on 27 April 2012 to holders on the register on the record date of 30 March 2012. The annual financial report has been prepared in accordance with International Financial Reporting Standards.

## Group income statement

for the year ended 31 December

	2011			2010		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
UK dividends	11,643	-	11,643	10,180	-	10,180
UK special dividends	140	-	140	-	-	-
Overseas dividends	1,755	-	1,755	1,640	-	1,640
Overseas special dividends	64	-	64	76	-	76
Interest from securities	524	-	524	553	-	553
	<b>14,126</b>	<b>-</b>	<b>14,126</b>	<b>12,449</b>	<b>-</b>	<b>12,449</b>
Interest income	446	-	446	296	-	296
Independent fiduciary services fees	30,948	-	30,948	30,381	-	30,381
Other income	94	-	94	118	-	118
<b>Total income</b>	<b>45,614</b>	<b>-</b>	<b>45,614</b>	<b>43,244</b>	<b>-</b>	<b>43,244</b>
Net (loss)/gain on investments held at fair value through profit or loss	-	(22,175)	(22,175)	-	68,476	68,476
<b>Gross income and capital (losses)/gains</b>	<b>45,614</b>	<b>(22,175)</b>	<b>23,439</b>	<b>43,244</b>	<b>68,476</b>	<b>111,720</b>
Cost of sales	(4,313)	-	(4,313)	(6,184)	-	(6,184)
Administrative expenses	(18,643)	(223)	(18,866)	(17,368)	(146)	(17,514)
<b>Operating profit</b>	<b>22,658</b>	<b>(22,398)</b>	<b>260</b>	<b>19,692</b>	<b>68,330</b>	<b>88,022</b>
<b>Finance costs</b>						
Interest payable	(2,450)	-	(2,450)	(2,452)	-	(2,452)
<b>(Loss)/profit before taxation</b>	<b>20,208</b>	<b>(22,398)</b>	<b>(2,190)</b>	<b>17,240</b>	<b>68,330</b>	<b>85,570</b>
Taxation	(1,977)	-	(1,977)	(1,679)	-	(1,679)
<b>(Loss)/profit for year</b>	<b>18,231</b>	<b>(22,398)</b>	<b>(4,167)</b>	<b>15,561</b>	<b>68,330</b>	<b>83,891</b>
(Loss)/return per ordinary share (pence)	15.52	(19.07)	(3.55)	13.26	58.22	71.48
Diluted (loss)/return per ordinary share (pence)	15.52	(19.07)	(3.55)	13.25	58.17	71.42

# Statement of comprehensive income

for the year ended 31 December

	<b>Revenue 2011 £000</b>	<b>Capital 2011 £000</b>	<b>Total 2011 £000</b>	Revenue 2010 £000	Capital 2010 £000	Total 2010 £000
<b>Group</b>						
<b>(Loss)/profit for the year</b>	<b>18,231</b>	<b>(22,398)</b>	<b>(4,167)</b>	15,561	68,330	83,891
<b>Foreign exchange on translation of foreign operations</b>	-	<b>(9)</b>	<b>(9)</b>	-	102	102
<b>Pension actuarial (losses)/gains</b>	<b>(3,145)</b>	-	<b>(3,145)</b>	283	-	283
<b>Taxation on pension</b>	<b>800</b>	-	<b>800</b>	(79)	-	(79)
<b>Total comprehensive (loss)/income for the year</b>	<b>15,886</b>	<b>(22,407)</b>	<b>(6,521)</b>	15,765	68,432	84,197

# Financial summary

## Highlights

	<b>31 December 2011 pence</b>	31 December 2010 pence
Share price	<b>333.50</b>	356.60
NAV per share after proposed final dividend	<b>323.75</b>	342.92
Revenue return per share		
- Investment trust	<b>8.27</b>	7.07
- Independent fiduciary services	<b>7.25</b>	6.19
Group revenue return per share	<b>15.52</b>	13.26
Capital (loss)/return per share	<b>(19.07)</b>	58.22
Dividends per share	<b>13.50</b>	12.70

## Performance

	<b>2011 %</b>	2010 %
Share price total return <sup>1</sup>	<b>(2.9)</b>	30.5
NAV total return <sup>1</sup>	<b>(1.6)</b>	24.8
FTSE Actuaries All-Share Index total return	<b>(3.5)</b>	14.5

<sup>1</sup> Source AIC, including reinvestment of dividends.

# Chairman's statement and review of 2011

## Performance

Our net asset value total return for the year to 31 December 2011 was -1.6%, compared to a total return of -3.5% for the FTSE Actuaries All-Share Index. Net revenue return per share was 15.52p, an increase of 17.0% over the previous year, as a result of a 17.0% increase in the investment trust and a 17.1% increase in independent fiduciary services.

## Dividend

The board is recommending a final dividend of 9.0p per ordinary share (2010:8.5p), which together with the interim dividend of 4.5p (2010:4.2p) gives a total dividend of 13.5p (2010:12.7p).

The final dividend will be paid, subject to shareholder approval, on 27 April 2012 to holders on the register on the record date of 30 March 2012.

The Corporation's policy continues to be to seek growth in both capital and income. 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 our expenses, including interest costs, are charged fully to the revenue account.

## Investment trust

Equity markets were impacted by a year of uncertainty resulting from debt problems, especially in the eurozone, political unrest and natural disasters. We responded by taking gearing out of the investment portfolio and investing the cash raised in short dated UK gilts.

Corporate performance during 2011 was good, resulting in improvement in dividends, which led to our improved earnings. The high exposure to industrial companies has been maintained, whilst consumer related stocks were reduced. For a discussion of the portfolio please see the investment manager's review.

The prospects for dividend growth are encouraging; however uncertainty in the world economy is still a significant issue for future prospects.

## Independent fiduciary services

New appointments in financial wholesale markets remain below historic levels with no sign of any improvement in the corporate bond and securitisation markets. Special fees from pre-existing appointments have been at a high level and we have also benefited from an improvement in the number of corporate transactions in global markets. The outlook remains uncertain, but we continue to look for new opportunities and control costs.

For a discussion on the independent fiduciary services business please see the managing director's report.

## Board

Armel Cates is not seeking re-election to the board at the annual general meeting and I thank him for his valued contribution to the Corporation during the last 11 years. Robert Laing, a partner in the law firm Maclay Murray & Spens LLP, joins the board. His legal background and investment trust experience should be valuable to the Corporation and we look forward to working with him.

In difficult markets we have grown our revenue return and dividends to shareholders. I should like to thank James Henderson and Caroline Banzky and her team for their performances in challenging conditions.

The annual general meeting will be held at the Brewers Hall, Aldermanbury Square, London EC2V 7HR on 24 April 2012, and I look forward to seeing as many as possible of you there.

## Douglas McDougall

# Investment manager's review

## Review

The global economy expanded as the emerging economies continued to outperform the more developed ones. However, global trade was disrupted by natural disasters such as the Japanese tsunami and by political events in the Middle East and North Africa.

The price of oil and other commodities fell during 2011, suggesting that the sharp rises in inflation that were reported during the year will subside, although any continued political instability in the Middle East might lead to oil price increases. Problems in Western countries – where indebtedness of both governments and consumers will take a long time to resolve – led to further strain and even some concern about the possible break-up of the euro. The uncertainty created by these worries led to the falls in the equity market experienced during the summer and early autumn.

This was frustrating for the observers of individual stocks because companies' operating performances have generally been better than expected. Corporate debt has been dramatically reduced by substantial cash generation flowing from improved profitability and strict cost control. Good dividend growth has been achieved and historically high levels of dividend cover are being recorded. It is a pity therefore that the macroeconomic concerns have meant that so far this has not led to improved valuations for equities.

## Portfolio activity

Growing concern about the viability of the euro and the general financial background led to a decision to remove the gearing in early September. This was done by reducing holdings in a large number of individual equities and some £35 million of sales were carried out, with the proceeds being placed in short dated UK government gilts. The object during the selling was to maintain the balance and diversity of the portfolio and retain the bias towards capital goods companies. This area is seen as being a beneficiary of the growing global economy, and companies held in the portfolio should thrive if they are producing excellent products. Aerospace businesses such as Rolls Royce and Senior are examples of companies achieving this objective, with sales and profit performance that show no sign of being impacted by recessionary concerns. On the other hand, consumer-related stocks were reduced and in some cases, such as Carnival Corporation, sold altogether. This reflects my view that the consumer area in both the US and Europe will remain difficult while debt is being paid down and wage growth remains muted.

The overseas holdings bring to the portfolio the type of companies we cannot find in the UK market and which we believe are good value. An example of this approach was the purchase during the year of Microsoft.

The holdings in collective funds were left untouched. These holdings allow us to access different areas of investment expertise. For instance, the holding in Herald Investment Trust gives the portfolio exposure to a diversified range of smaller technology and media stocks that we could not replicate by direct investment.

The overall shape of the portfolio has not altered and currently no change is envisaged. We continue to have very limited exposure to banks as their earnings outlook remains murky – they are attempting fundamental change, but the return on capital that their new business models will achieve remains uncertain. Our financial sector exposure therefore comes mainly through life assurance companies and general non-life insurers, which have shown their strength over the last year as they have dealt with high levels of natural disasters and yet have held or increased their dividend payments.

## **Outlook**

There is a tension among investors between those who believe that the global economy is in a fragile state and therefore advocate a very cautious investment approach and those who believe that the worries are overstated. I am of the latter belief. Companies are generally in good health, but I see no sign of complacency from management. The global economy overall is likely to show some growth, so the potential remains for substantial corporate cash generation and improving operating margins. The biases in the portfolio, particularly the weighting in manufacturing industry, should mean it is well placed to benefit from any upturn.

**James Henderson**  
**Henderson Global Investors Limited**

# Management review – independent fiduciary services

## Results

Independent fiduciary services profit before tax increased by 17.2% from £8.95 million to £10.49 million. Revenue return per share increased by 17.1% from 6.19p to 7.25p.

## Independent fiduciary services businesses

Law Debenture is a leading provider of independent third party fiduciary services, including corporate and pension trusts, service of process, treasury and agency solutions, corporate services, board effectiveness and whistle blowing. The businesses are monitored and overseen by a board comprising the heads of the relevant business areas, chaired by a non-executive independent director, currently Christopher Smith.

## Review of 2011

The independent fiduciary businesses performed better than we had anticipated. Although the markets where we operate did not return to pre-recession levels, activity levels were up on 2010. Some markets, particularly for service of process appointments, were very lively as corporate activity overseas increased following recovery in certain regions. We maintained market share across all of the businesses and activity levels in pre-existing transactions remained high, with a number of cases generating significant additional fees.

Some notable highlights of the year are set out below.

### Corporate trusts

Corporate trusts had a good year despite low levels of activity in the bond market caused by the eurozone crisis and continuing nervousness in the banking sector.

Existing clients such as Akzo Nobel, Aviva, Marks & Spencer, National Grid, Next, Northern Ireland Electricity and The Housing Finance Corporation appointed us to act as trustee of their bond issues. A number of investment trusts also selected us, including City Natural Resources High Yield Trust, Edinburgh Dragon Trust and Standard Life UK Smaller Companies Trust.

Beyond the bond market, we are doing an increasing amount of work as escrow agent where we are asked to hold cash or shares as an independent third party and we have been selected to act as security trustee on a number of non-bond related financing transactions.

We have also been busy on post issuance work on existing trusts. This has included work on restructuring and in dealing with transaction implications arising from ratings downgrades of transaction parties.

### Pension trusts

Our pension scheme trusteeship service continued to be busy and demanding, reflecting the challenges which pension schemes face. We were appointed to a number of new schemes, including the BT Pension Scheme, which is the UK's largest private sector scheme. The Right Honourable Michael Portillo chaired a very successful 2011 annual debate and has agreed to chair our 2012 debate, where the proposal that pension schemes should be regulated in the same way as insurance companies will be keenly contested.

### Corporate services

Our long established and highly regarded service of process business saw a continued increase in new appointments arising from increased corporate activity overseas as some regions prospered.

The corporate services business (provision of corporate directors, company secretary, accounting and administration of special purpose vehicles) had a good year. Despite continuing low activity levels in the structured finance markets, we were appointed to new transactions originated by Apollo European Principal Finance and the City of Kiev. We also continued to win business from other markets. This included a

number of new company secretarial roles and some specialised roles supporting companies set up for specific purposes in the light of the 2007/2008 recession.

### **Treasury and agency solutions**

The team continued to grow and develop its business further during the year. We have a strong cash escrow business and through the creation of enhanced reporting systems we are well placed to capitalise on opportunities to increase the existing agency business, as customers look for high-end service and customised solutions.

### **Safecall**

It has been a good year for our external whistleblowing service with a 45% increase in the customer base. The introduction of the Bribery Act 2010 has resulted in a number of organisations reviewing their policies and procedures and deciding to contract with Safecall. Notable appointments include Kazakhmys, Guardian Media Group, Worldpay, Brit Insurance and Simmons & Simmons.

### **Governance Services**

Our new governance service business was launched in February 2011. It has been warmly received for its independence and has been featured in the specialist business press. While many listed businesses have delayed formal board evaluations to 2012 or later, there has been a lot of interest from non-listed sectors. We have developed additional products and services for operating boards and committees that focus particularly on decision making and managing risk, and these products and services will give us a useful additional offering to clients in the coming years.

### **Overseas**

#### *United States*

The business in the United States continues to generate favourable earnings and increased visibility. Law Debenture Trust Company of New York obtained a number of trust, administration, paying agent and escrow appointments, while the corporate services business, including Delaware Corporate Services, continues to generate good returns.

#### *Hong Kong*

The Far East market was strong for much of the year and overall 2011 was a good year for our business in Hong Kong. Service of process appointments reached a record high, employee share trusts continued to be a major growth area and escrow appointments associated with Chinese cross-border transactions increased on the back of our exclusive co-operation arrangements with Jiangsu International Trust Corporation in mainland China. China continues to be a potential growth area for both foreign direct investment as well as overseas direct investment by Chinese entities in other markets where Law Debenture already provides a full range of services.

#### *Channel Islands*

There was an increase in income from restructuring activity, although this was offset by the termination of two voting trust transactions.

### **Summary and outlook**

Overall, our independent fiduciary business had a better than expected 2011, which reflects great credit on the dedication and hard work of our staff. The markets in which we operate remain sluggish, even fractured in some cases, so the prospects for 2012 are difficult to predict. The danger of a double dip recession in the eurozone, combined with continuing caution in the banking sector, make for significant challenges. However, our businesses are well established and robust and we will continue to seek to turn challenges into opportunities.

### **Caroline Banzky**



# Statement of financial position

as at 31 December

	2011	2010
	£000	£000
<b>Assets</b>		
<b>Non current assets</b>		
Goodwill	2,218	2,211
Property, plant and equipment	320	190
Other intangible assets	199	118
Investments held at fair value through profit or loss	423,044	441,337
Deferred tax assets	1,416	871
<b>Total non current assets</b>	<b>427,197</b>	<b>444,727</b>
<b>Current assets</b>		
Trade and other receivables	4,940	6,731
Other accrued income and prepaid expenses	6,246	3,797
Cash and cash equivalents	18,063	20,030
<b>Total current assets</b>	<b>29,249</b>	<b>30,558</b>
<b>Total assets</b>	<b>456,446</b>	<b>475,285</b>
<b>Current liabilities</b>		
Trade and other payables	11,674	11,446
Short term borrowings	-	77
Corporation tax payable	1,293	1,119
Other taxation including social security	559	846
Deferred income	3,902	3,714
<b>Total current liabilities</b>	<b>17,428</b>	<b>17,202</b>
<b>Non current liabilities and deferred income</b>		
Long term borrowings	39,391	39,364
Retirement benefit obligations	3,138	876
Deferred income	5,563	5,277
<b>Total non current liabilities</b>	<b>48,092</b>	<b>45,517</b>
<b>Total net assets</b>	<b>390,926</b>	<b>412,566</b>
<b>Equity</b>		
Called up share capital	5,905	5,904
Share premium	8,106	8,066
Capital redemption	8	8
Shared based payments	201	201
Own shares	(1,684)	(1,794)
Capital reserves	346,268	368,666
Retained earnings	31,609	30,993
Translation reserve	513	522
<b>Total equity</b>	<b>390,926</b>	<b>412,566</b>

# Statement of cash flows

for the year ended 31 December

<b>Operating activities</b>	<b>2011</b>	2010
	<b>£000</b>	£000
Operating profit before interest payable and taxation	<b>260</b>	88,022
Losses/(gains) on investments	<b>22,398</b>	(68,330)
Foreign exchange	<b>(12)</b>	(24)
Depreciation of property, plant and equipment	<b>164</b>	122
Amortisation of intangible assets	<b>76</b>	95
(Increase) in receivables	<b>(658)</b>	(2,334)
Increase in payables	<b>442</b>	2,352
Transfer to/(from) capital reserves	<b>126</b>	(347)
Normal pension contributions in excess of cost	<b>(883)</b>	(769)
<b>Cash generated from operating activities</b>	<b>21,913</b>	18,787
Taxation	<b>(1,548)</b>	(1,325)
Interest paid	<b>(2,450)</b>	(2,452)
<b>Operating cash flow</b>	<b>17,915</b>	15,010
<b>Investing activities</b>		
Acquisition of property, plant and equipment	<b>(289)</b>	(58)
Expenditure on intangible assets	<b>(157)</b>	(86)
Purchase of investments	<b>(96,508)</b>	(36,262)
Sale of investments	<b>92,275</b>	36,676
<b>Cash flow from investing activities</b>	<b>(4,679)</b>	270
<b>Financing activities</b>		
Dividends paid	<b>(15,270)</b>	(14,308)
Proceeds of increase in share capital	<b>41</b>	29
Purchase of own shares	<b>110</b>	246
<b>Net cash flow from financing activities</b>	<b>(15,119)</b>	(14,033)
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(1,883)</b>	1,247
Cash and cash equivalents at beginning of period	<b>19,953</b>	18,612
Foreign exchange (losses)/gains on cash and cash equivalents	<b>(7)</b>	94
<b>Cash and cash equivalents at end of period</b>	<b>18,063</b>	19,953
<b>Cash and cash equivalents comprise</b>		
Cash and cash equivalents	<b>18,063</b>	20,030
Bank overdrafts	<b>-</b>	(77)
	<b>18,063</b>	19,953

## Statement of changes in equity

	Share capital £000	Share premium £000	Own shares £000	Capital redemption £000	Share based payment £000	Translation reserve £000	Capital reserves £000	Retained earnings £000	Total £000
Equity at 1 January 2011	5,904	8,066	(1,794)	8	201	522	368,666	30,993	412,566
Net (loss)	-	-	-	-	-	-	(22,398)	18,231	(4,167)
Foreign exchange	-	-	-	-	-	(9)	-	-	(9)
Actuarial (loss) on pension scheme (net of tax)	-	-	-	-	-	-	-	(2,345)	(2,345)
Total comprehensive (loss)	-	-	-	-	-	(9)	(22,398)	15,886	(6,521)
Issue of shares	1	40	-	-	-	-	-	-	41
Dividend relating to 2010	-	-	-	-	-	-	-	(9,984)	(9,984)
Dividend relating to 2011	-	-	-	-	-	-	-	(5,286)	(5,286)
Movement in own shares	-	-	110	-	-	-	-	-	110
Total equity at 31 December 2011	5,905	8,106	(1,684)	8	201	513	346,268	31,609	390,926
Equity at 1 January 2010	5,903	8,038	(2,040)	8	201	420	300,336	29,536	342,402
Net profit	-	-	-	-	-	-	68,330	15,561	83,891
Foreign exchange	-	-	-	-	-	102	-	-	102
Actuarial gain on pension scheme (net of tax)	-	-	-	-	-	-	-	204	204
Total comprehensive income	-	-	-	-	-	102	68,330	15,765	84,197
Issue of shares	1	28	-	-	-	-	-	-	29
Dividend relating to 2009	-	-	-	-	-	-	-	(9,378)	(9,378)
Dividend relating to 2010	-	-	-	-	-	-	-	(4,930)	(4,930)
Movement in own shares	-	-	246	-	-	-	-	-	246
Total equity at 31 December 2010	5,904	8,066	(1,794)	8	201	522	368,666	30,993	412,566

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

## Segmental analysis

	Investment trust		Independent fiduciary services		Total	
	2011	2010	2011	2010	2011	2010
	£000	£000	£000	£000	£000	£000
<b>Revenue</b>						
Segment income	14,126	12,449	30,948	30,381	45,074	42,830
Other income	76	87	18	31	94	118
Cost of sales	-	-	(4,313)	(6,184)	(4,313)	(6,184)
Administration costs	(1,915)	(1,679)	(16,728)	(15,689)	(18,643)	(17,368)
	<b>12,287</b>	10,857	<b>9,925</b>	8,539	<b>22,212</b>	19,396
Interest (net)	(2,566)	(2,565)	562	409	(2,004)	(2,156)
Return, including profit on ordinary activities before taxation	9,721	8,292	10,487	8,948	20,208	17,240
Taxation	-	-	(1,977)	(1,679)	(1,977)	(1,679)
Return, including profit attributable to shareholders	9,721	8,292	8,510	7,269	18,231	15,561
Revenue return per ordinary share	8.27	7.07	7.25	6.19	15.52	13.26
Assets	434,325	450,287	22,121	24,998	456,446	475,285
Liabilities	(57,233)	(51,665)	(8,287)	(11,054)	(65,520)	(62,719)
Total net assets	377,092	398,622	13,834	13,944	390,926	412,566

The capital element of the income statement is wholly attributable to the investment trust.

## Portfolio changes in geographical distribution

	Valuation 31 December 2010 £000	Purchases £000	Costs of acquisition £000	Sales proceeds £000	(Depreciation) £000	Valuation 31 December 2011 £000
United Kingdom	<b>313,388</b>	37,385	(207)	(66,356)	(9,505)	<b>274,705</b>
North America	<b>30,250</b>	11,309	(13)	(10,251)	(3,436)	<b>27,859</b>
Europe	<b>41,450</b>	3,048	(5)	(10,877)	(2,353)	<b>31,263</b>
Japan	<b>18,928</b>	-	-	(4,791)	(1,384)	<b>12,753</b>
Other Pacific	<b>37,321</b>	-	-	-	(5,348)	<b>31,973</b>
UK Gilts	-	44,766	-	-	(275)	<b>44,491</b>
	<b>441,337</b>	96,508	(225)	(92,275)	(22,301)	<b>423,044</b>

The financial information set out above does not constitute the Corporation's statutory accounts for 2010 or 2011. Statutory accounts for the years ended 31 December 2010 and 31 December 2011 have been reported on by the Independent Auditor. The Independent Auditor's Reports on the Annual Report and Financial Statements for 2010 and 2011 were unqualified, did not draw attention to any matters by way of emphasis, and did not contain a statement under 498(2) or 498(3) of the Companies Act 2006.

Statutory accounts for the year ended 31 December 2010 have been filed with the Registrar of Companies. The statutory accounts for the year ended 31 December 2011 will be delivered to the Registrar in due course.

The financial information in this Annual Financial Report has been prepared using the recognition and measurement principles of International Accounting Standards, International Financial Reporting Standards and Interpretations adopted for use in the European Union (collectively Adopted IFRSs). The accounting policies adopted in this Annual Financial Report have been consistently applied to all the years presented and are consistent with the policies used in the preparation of the statutory accounts for the year ended 31 December 2011. The principal accounting policies adopted are unchanged from those used in the preparation of the statutory accounts for the year ended 31 December 2010.

## Group summary

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 sector. The group divides into two distinct complementary areas of business.

### The investment trust and its management

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

The Corporation carries on its business as a global growth investment trust. Its objective is set out in the chairman's review. 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.

Henderson Global Investors Limited (Henderson) is responsible for the management of the investment portfolio. Henderson is fully aware of the Corporation's investment policy and provides a cost competitive service. Consequently the directors believe that the continuing appointment of Henderson is in the best interests of shareholders. The agreement does not cover custody or the preparation of data associated with investment performance, which are outsourced, or record keeping, which is maintained by the Corporation. Fees paid to Henderson in the year amounted to £1,150,000 (2010: £965,000). For the period to 31 March 2011, fees were based on 0.25% per annum of the average portfolio value, excluding cash. From 1 April 2011, the fee basis changed to be expressed as 0.30% of the value of the net assets of the group (excluding the net assets of the independent fiduciary services business), calculated on the basis adopted in the audited financial statements. This represents an increase in the overall amount payable to Henderson (the first increase in the rate of fee since 1999) but means that the Corporation continues to maintain one of the most competitive fee structures in the investment trust sector. The underlying management fee of 1% on the Corporation's holdings in the Henderson Japanese and Pacific OEICs continues to be rebated. From 1 April 2011, the notice period under the agreement was reduced from 12 months to 6 months.

### The investment trust - investment strategy and implementation

The Corporation's investment strategy is as follows:

Investments are selected on the basis of what appears most attractive in the conditions of the time. This approach means that there is no obligation to hold shares in any particular type of company, industry or geographical location. The independent fiduciary services businesses do not form part of the investment portfolio and are outwith this strategy.

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

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 deviate from the comparator indices.

Because the Corporation's assets are invested internationally and without regard to the composition of indices, there are no restrictions on maximum or minimum stakes in particular regions or industry sectors. However, such stakes are monitored in detail by the board at each board meeting in order to ensure that sufficient diversification is maintained.

Liquidity and long-term borrowings are managed with the aim of improving returns to shareholders. The policy on gearing is to assume only that level of gearing which 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, 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 capital and income account, subject again to prior authorisation of the board. Stock lending, trading in suspended shares and short positions are not permitted.

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 OEICs and in Scottish Oriental Smaller Companies Trust and UK gilts, to more than 40% of the Corporation's portfolio, including 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.
- The Corporation applies a ceiling on effective gearing of 150%. While effective gearing will be employed in a typical range of 90% to 120%, the board retains the ability to reduce equity exposure to below 90% if deemed appropriate.
- The Corporation may not make investments in respect of which there is unlimited liability.
- Board approval must be sought for any proposed direct investments in certain jurisdictions.
- The Corporation has a policy not to invest more than 15% of gross assets in other UK listed investment companies.

### Investment strategy – implementation

During the year, the assets of the Corporation were invested in accordance with the investment strategy.

At 31 December 2011 the top 20 holdings (excluding the Henderson OEICs) comprised 33% of the total portfolio (2010: 35%).

The extent to which the Corporation's objective has been achieved, and how the investment strategy was implemented, are described in the chairman's statement and the investment manager's review.

The most recently published high level portfolio information at 29 February 2012 is:

### Top 10 Holdings

Rank	Name of Holding	% of portfolio (excl. cash)
1.	UK Treasury 4.5% 07/03/13	4.35
2.	Senior	3.37
3.	UK Treasury 2.25% 07/03/14	3.22
4.	BP	2.80
5.	Henderson Japan Capital Growth	2.56
6.	Henderson Asia Pacific Capital Growth	2.53
7.	Royal Dutch Shell	2.50
8.	GlaxoSmithKline	2.23
9.	GKN	2.17
10.	Baillie Gifford Pacific	2.04

### Geographical Split

Region	% of portfolio
UK	65
Europe	7
North America	8
Japan	3
Other Pacific	8
Other	-
Cash and Fixed Interest	9
TOTAL	<u>100</u>

## Independent fiduciary services

We are a leading provider of independent fiduciary services. Our activities are corporate trusts, treasury and agency solutions, pension trusts, corporate services (including agent for service of process), whistle blowing services and board effectiveness services. We have offices in London, Sunderland, 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.

## Principal risks and uncertainties

The principal risks of the Corporation relate to its investment activities and include market price risk, foreign currency risk, liquidity risk, interest rate risk and credit risk:

- **market 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, as described above. 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 2011 fell or rose by 10%, the impact on the group's total profit or loss for the year would have been £42.3 million (2010: £44.1 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:

	Investments £m	Net monetary assets £m	2011 Total currency exposure £m	Investments £m	Net monetary assets £m	2010 Total currency exposure £m
<b>Group</b>						
US Dollar	24.1	3.3	27.4	28.5	3.8	32.3
Canadian Dollar	3.8	-	3.8	1.7	-	1.7
Euro	18.4	0.4	18.8	26.2	3.9	30.1
Danish Krone	-	-	-	0.8	-	0.8
Swedish Krona	1.8	-	1.8	1.1	-	1.1
Swiss Franc	11.0	-	11.0	13.3	-	13.3
Hong Kong Dollar	-	0.4	0.4	-	0.4	0.4
Japanese Yen	1.5	-	1.5	6.6	-	6.6
<b>Total</b>	<b>60.6</b>	<b>4.1</b>	<b>64.7</b>	<b>78.2</b>	<b>8.1</b>	<b>86.3</b>

The holdings in the Henderson Japan Capital Growth, Henderson Pacific Capital Growth, Baillie Gifford Pacific and First Asia Pacific, OEICs and Scottish Oriental Smaller Companies Trust are denominated in sterling but have underlying assets in foreign currencies equivalent to £43.3 million (2010: £49.7 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 2011 rose or fell by 10% against sterling, the impact on the group's total profit or loss for the year would have been £10.4 million (2010: £12.8 million). The calculations are based on the investment portfolio 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 guidelines only permit investment in equities and fixed interest securities quoted in major financial markets. In addition, cash balances and overdraft facilities are maintained commensurate with likely future settlements.



- **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 at 31 December 2011 was:

	Group			
	Sterling £m	HK Dollars £m	US Dollars £m	Euro £m
Fixed rate assets	-	-	-	-
Floating rate assets	13.9	0.4	3.3	0.4
Fixed rate liabilities*	39.4	-	-	-
Weighted average fixed rate	6.125%			

\*Fixed until 2034.

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.

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 £140,000 (2010: £144,000). It is assumed that interest rates are unlikely to fall below the current level.

- **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 £23.0 million (2010: £26.8 million).

The principal risks of the independent fiduciary services business arise during the course of defaults, potential defaults and restructurings where we have been appointed to provide services. 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 at all other stages whether or not there is a danger of default.

## Capital management

As an investment trust the Corporation is not allowed to distribute capital profits, even if realised. 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 and distributions will not be made if they inhibit the investment strategy.

The investment strategy of the Corporation includes a ceiling on effective gearing of 150%, with a typical range of 90% to 120%.

## Related party transactions

There have been no related party transactions during the period which have materially affected the financial position or performance of the group. During the period transactions between the Corporation and its subsidiaries have been eliminated on consolidation.

## Acquisition of own shares

A subsidiary of the Corporation made one purchase of shares in 2011 in connection with the Deferred Share Plan for senior staff. On 2 March 2011, 181,117 shares were purchased in the market at 351.7 pence per share. These shares will be held in trust by the subsidiary and released to eligible staff if and when the release conditions (as prescribed under the Plan rules) are met in 2014.

## Total voting rights

The Corporation has an issued share capital at 13 March 2012 of 118,094,577 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 currently 118,094,577.

## Directors' responsibility statement pursuant to DTR4

The directors confirm that to the best of their knowledge:

- The group financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (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;
- 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.

Copies of this Annual Financial Report are available on [www.lawdeb.com/investment-trust/financial-statements/](http://www.lawdeb.com/investment-trust/financial-statements/)

Copies of the annual report will be available from the Corporation's registered office or on the above website link once published on 21 March 2012.

By order of the board

Law Debenture Corporate Services Limited  
Secretary  
13 March 2012