

Law Debenture

Half Yearly Report 2013



The Law Debenture Corporation p.l.c.

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 complementary areas of business.

Investment trust

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

Our portfolio of investments is managed by Henderson Global Investors Limited 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 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 corporate governance 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.

Registered office

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(Registered in England – No. 30397)

Financial summary

	30 June 2013 pence	30 June 2012 pence	31 December 2012 pence
Share price	481.50	376.00	425.00
NAV per share after proposed dividend	423.10	348.31	374.55
NAV per share after proposed dividend with debt at fair value	418.61	348.31	367.86
Net revenue return per share:			
- Investment trust	5.60	4.78	8.47
- Independent fiduciary services	3.24	3.45	6.67
Group net revenue return per share	8.84	8.23	15.14
Capital return per share	44.71	21.22	50.24
Dividends per share	4.50	4.50	14.25
	%		
On going charges	0.45		
Gearing	5		

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

Performance to 30 June 2013

	6 months %	12 months %
Share price total return ¹	15.70	32.20
NAV total return ¹	12.70	24.10
FTSE Actuaries All-Share Index total return	8.50	17.90

¹Source AIC. NAV used to calculate total return has been adjusted to reflect the fair value of the debenture. The adjustment reduced NAV at 30 June 2013 by 4.49p (31 December 2012: 6.69p; 30 June 2012: nil).

Basis of preparation

The results for the period have been prepared in accordance with International Financial Reporting Standards (IAS 34 – Interim financial reporting).

There have been no changes to the group's accounting policies during the period.

Performance

Our net asset value total return for the six months to 30 June 2013 was 12.7%, compared to a total return of 8.5% for the FTSE Actuaries All-Share Index. Net revenue per share was 8.84p, an increase of 7.4% over the corresponding period last year, as a result of a 17.2% increase in the investment trust and a 6.1% decrease in independent fiduciary services.

Dividend

The board has declared an interim dividend of 4.5p (2012: 4.5p). The dividend will be paid on 12 September 2013 to holders on the record date of 16 August 2013. The current expectation of the directors is that the final dividend will be maintained.

Investment trust

Equity markets rose and good corporate performance led to increased dividends. Towards the end of the period, markets fell on profit taking inspired by concerns that quantitative easing would end and that the Chinese economy was slowing.

Our exposure to industrial companies remains high and the three best relative contributors to the portfolio in the first six months of the year were Senior, GKN and GlaxoSmithKline. Corporate profits continue to increase as costs are well controlled and sales improve, resulting in higher margins. The growing profitability is leading to falling corporate debt and increased dividends, including special dividends. We continue to be fully invested in equities in the investment portfolio.

Independent fiduciary services

Revenues, net of cost of sales, which represent legal costs recharged to clients were flat whilst administration costs increased by 5.3% resulting in a decrease in profit before taxation of 9.7%. Our markets remain difficult although some sectors, such as service of process, found ways to improve revenues. Since 2002 and following the commencement of the US trust business, a US \$50 million guarantee has been provided to Law Debenture Trust Company of New York (LDTCNY) to meet contractual requirements under certain trust indentures where LDTCNY acts as trustee. With the advice of legal, tax and accounting advisers, it has now been deemed necessary to replace the guarantee with an uncommitted borrowing facility of approximately US \$45 million at an interest rate of 1.5% over LIBOR. The proceeds of this facility have been contributed as capital to LDTCNY and will be held by LDTCNY in US \$ denominated money market funds.

	30 June 2013			30 June 2012		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
UK dividends	6,531	–	6,531	6,104	–	6,104
UK special dividends	778	–	778	181	–	181
Overseas dividends	1,401	–	1,401	1,221	–	1,221
Overseas special dividends	32	–	32	48	–	48
Interest from securities	295	–	295	334	–	334
	9,037	–	9,037	7,888	–	7,888
Interest income	30	–	30	42	–	42
Independent fiduciary services fees	14,751	–	14,751	14,904	–	14,904
Other income	21	–	21	58	–	58
Total income	23,839	–	23,839	22,892	–	22,892
Net gain on investments held at fair value through profit or loss	–	52,737	52,737	–	25,031	25,031
Gross income and capital gains	23,839	52,737	76,576	22,892	25,031	47,923
Cost of sales	(1,590)	–	(1,590)	(1,800)	–	(1,800)
Administrative expenses	(9,977)	(128)	(10,105)	(9,314)	(83)	(9,397)
Operating profit	12,272	52,609	64,881	11,778	24,948	36,726
Finance costs						
Interest payable	(1,225)	–	(1,225)	(1,225)	–	(1,225)
Profit before taxation	11,047	52,609	63,656	10,553	24,948	35,501
Taxation	(643)	–	(643)	(876)	–	(876)
Profit for period	10,404	52,609	63,013	9,677	24,948	34,625
Return per ordinary share (pence)	8.84	44.71	53.55	8.23	21.22	29.45
Diluted return per ordinary share (pence)	8.83	44.67	53.50	8.23	21.21	29.44

Statement of comprehensive income

for the six months ended 30 June 2013 (unaudited)

	30 June 2013			30 June 2012		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Profit for the period	10,404	52,609	63,013	9,677	24,948	34,625
Foreign exchange	–	(254)	(254)	–	(29)	(29)
Total comprehensive income for the period	10,404	52,355	62,759	9,677	24,919	34,596

4 Group statement of financial position

	30 June 2013 (unaudited) £000	30 June 2012 (unaudited) £000	31 December 2012 (audited) £000
Assets			
Non current assets			
Goodwill	2,238	2,210	2,182
Property, plant and equipment	230	300	254
Other intangible assets	300	429	363
Investments held at fair value through profit or loss	533,083	446,857	479,521
Deferred tax assets	1,020	1,223	1,126
Total non current assets	536,871	451,019	483,446
Current assets			
Trade and other receivables	3,297	5,113	4,244
Other accrued income and prepaid expenses	5,638	6,473	5,980
Cash and cash equivalents	21,332	16,381	22,201
Total current assets	30,267	27,967	32,425
Total assets	567,138	478,986	515,871
Current liabilities			
Trade and other payables	11,464	10,585	10,745
Corporation tax payable	679	783	1,005
Other taxation including social security	617	623	629
Deferred income	4,175	4,184	3,948
Total current liabilities	16,935	16,175	16,327
Non current liabilities and deferred income			
Long term borrowings	39,431	39,404	39,418
Retirement benefit obligations	1,867	2,823	2,227
Deferred income	5,769	5,765	6,035
Total non current liabilities	47,067	47,992	47,680
Total net assets	503,136	414,819	451,864
Equity			
Called up share capital	5,905	5,905	5,905
Share premium	8,125	8,106	8,122
Capital redemption	8	8	8
Share based payments	–	201	–
Own shares	(1,797)	(1,805)	(1,778)
Capital reserves	457,943	371,216	405,334
Retained earnings	32,897	30,704	33,964
Translation reserve	55	484	309
Total equity	503,136	414,819	451,864

	30 June 2013 (unaudited) £000	30 June 2012 (unaudited) £000	31 December 2012 (audited) £000
Operating activities			
Operating profit before interest payable and taxation	64,881	36,726	81,064
(Gains) on investments	(52,609)	(24,948)	(59,066)
Foreign exchange	(62)	8	39
Depreciation of property, plant and equipment	72	56	149
Amortisation of intangible assets	101	109	214
Decrease/(increase) in receivables	1,289	(400)	962
Increase/(decrease) in payables	681	(528)	(314)
Transfer to capital reserves	223	529	772
Normal pension contributions in excess of cost	(360)	(315)	(575)
Cash generated from operating activities	14,216	11,237	23,245
Taxation	(863)	(1,193)	(1,855)
Interest paid	(1,225)	(1,225)	(2,450)
Operating cash flow	12,128	8,819	18,940
Investing activities			
Acquisition of property, plant and equipment	(43)	(36)	(89)
Expenditure on intangible assets	(37)	(339)	(375)
Purchase of investments	(49,489)	(20,504)	(48,376)
Sale of investments	48,305	21,120	50,193
Cash flow from investing activities	(1,264)	241	1,353
Financing activities			
Dividends paid	(11,471)	(10,582)	(15,873)
Proceeds of increase in share capital	3	–	16
Purchase of own shares	(19)	(121)	(94)
Net cash flow from financing activities	(11,487)	(10,703)	(15,951)
Net (decrease)/increase in cash and cash equivalents	(623)	(1,643)	4,342
Cash and cash equivalents at beginning of period	22,201	18,063	18,063
Foreign exchange (losses) on cash and cash equivalents	(246)	(39)	(204)
Cash and cash equivalents at end of period	21,332	16,381	22,201
Cash and cash equivalents comprise			
Cash and cash equivalents	21,332	16,381	22,201

Group statement of changes in equity

	Share capital £000	Share premium £000
Equity at 1 January 2013	5,905	8,122
Net profit	–	–
Other comprehensive income:		
Foreign exchange	–	–
Total comprehensive income for the period	–	–
Issue of shares	–	3
Movement in own shares	–	–
Dividend relating to 2012	–	–
Total equity at 30 June 2013	5,905	8,125

Group segmental analysis

	Investment trust		
	30 June 2013 £000	30 June 2012 £000	31 December 2012 £000
Revenue			
Segment income	9,037	7,888	14,392
Other income	–	–	12
Cost of sales	–	–	–
Administration costs	(1,218)	(993)	(1,917)
	7,819	6,895	12,487
Interest (net)	(1,232)	(1,279)	(2,534)
Return, including profit on ordinary activities before taxation	6,587	5,616	9,953
Taxation	–	–	–
Return, including profit attributable to shareholders	6,587	5,616	9,953
Revenue return per ordinary share (pence)	5.60	4.78	8.47
Assets	545,371	454,766	491,643
Liabilities	(58,480)	(55,424)	(54,915)
Total net assets	486,891	399,342	436,728

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

Own shares £000	Capital redemption £000	Translation reserve £000	Capital reserves £000	Retained earnings £000	Total £000
(1,778)	8	309	405,334	33,964	451,864
–	–	–	52,609	10,404	63,013
–	–	(254)	–	–	(254)
–	–	(254)	52,609	10,404	62,759
–	–	–	–	–	3
(19)	–	–	–	–	(19)
–	–	–	–	(11,471)	(11,471)
(1,797)	8	55	457,943	32,897	503,136

Independent fiduciary services			Total		
30 June 2013 £000	30 June 2012 £000	31 December 2012 £000	30 June 2013 £000	30 June 2012 £000	31 December 2012 £000
14,751	14,904	29,760	23,788	22,792	44,152
21	58	93	21	58	105
(1,590)	(1,800)	(3,761)	(1,590)	(1,800)	(3,761)
(8,759)	(8,321)	(16,721)	(9,977)	(9,314)	(18,638)
4,423	4,841	9,371	12,242	11,736	21,858
37	96	224	(1,195)	(1,183)	(2,310)
4,460	4,937	9,595	11,047	10,553	19,548
(643)	(876)	(1,753)	(643)	(876)	(1,753)
3,817	4,061	7,842	10,404	9,677	17,795
3.24	3.45	6.67	8.84	8.23	15.14
21,767	24,220	24,228	567,138	478,986	515,871
(5,522)	(8,743)	(9,092)	(64,002)	(64,167)	(64,007)
16,245	15,477	15,136	503,136	414,819	451,864

8 Analysis of the investment portfolio

By geographical location

	Valuation 31 December 2012 £000	Purchases £000	Costs of acquisition £000	Sales proceeds £000	Appreciation/ (depreciation) £000	Valuation 30 June 2013 £000	%
United Kingdom	330,297	24,135	(128)	(24,009)	37,808	368,103	69.0
North America	31,440	3,092	(4)	–	6,114	40,642	7.6
Europe	38,203	2,878	(4)	(4,796)	4,517	40,798	7.7
Japan	13,174	–	–	–	3,917	17,091	3.2
Other Pacific	31,937	–	–	–	568	32,505	6.1
UK Gilts	34,470	19,384	–	(19,500)	(410)	33,944	6.4
	479,521	49,489	(136)	(48,305)	52,514	533,083	100.0

By sector (excluding cash)

	As at 30 June 2013 %	As at 31 December 2012 %
Oil & gas	9.5	9.6
Basic materials	4.7	4.9
Industrials	23.8	22.8
Consumer goods	10.4	9.9
Health care	8.5	7.5
Consumer services	7.9	6.6
Telecommunications	0.6	1.8
Utilities	3.4	4.3
Financials	12.2	13.1
Technology	2.9	2.4
Pooled equity investments	9.7	9.9
UK Gilts	6.4	7.2
	100.0	100.0

UK unless otherwise stated

Holdings in italics were acquired since 31 December 2012

	£000	%
Oil & gas		
Oil & gas producers		
BP	13,202	2.48
Royal Dutch Shell	10,878	2.04
Premier Oil	2,497	0.47
Indus Gas	2,473	0.46
<i>Xcite Energy</i>	1,470	0.28
<i>Providence Resources</i>	1,337	0.25
Total (Fra)	1,332	0.25
	33,189	6.23
Oil equipment & services		
Cape	5,445	1.02
Gibson Energy (Can)	4,803	0.90
Schlumberger (USA)	3,777	0.71
National Oilwell Varco (USA)	2,271	0.43
AMEC	1,005	0.19
	17,301	3.25
Basic materials		
Chemicals		
Oxford Catalysts	5,835	1.09
Croda	4,329	0.81
Brenntag (Ger)	1,224	0.23
<i>Linde (Ger)</i>	1,223	0.23
<i>Elementis</i>	735	0.14
	13,346	2.50
Forestry & paper		
Mondi	3,266	0.61
	3,266	0.61
Mining		
Rio Tinto	6,037	1.13
BHP Billiton	2,522	0.47
	8,559	1.60
Industrials		
Construction & materials		
Balfour Beatty	3,491	0.65
Accsys Technologies	1,999	0.37
Marshalls	833	0.16
	6,323	1.18

	£000	%
Aerospace & defence		
Senior	17,757	3.33
Meggitt	7,245	1.36
BAE Systems	6,894	1.29
Rolls Royce	6,798	1.28
<i>Lockheed Martin (USA)</i>	3,216	0.60
	41,910	7.86
General industrials		
Smith (DS)	8,814	1.65
	8,814	1.65
Electronic & electrical equipment		
Morgan Advanced Materials	5,196	0.97
Applied Materials (USA)	4,912	0.92
Spectris	4,775	0.90
TT Electronics	2,197	0.41
XP Power	1,438	0.27
<i>Philips Electronics (Net)</i>	1,115	0.21
Legrand (Fra)	996	0.19
	20,629	3.87
Industrial engineering		
Hill & Smith	6,686	1.25
Weir Group	6,453	1.21
Cummins (USA)	5,006	0.94
Caterpillar (USA)	2,176	0.42
IMI	1,239	0.23
Renold	1,110	0.21
Severfield-Rowen	392	0.07
	23,062	4.33
Industrial transportation		
AP Moller-Maersk (Den)	1,179	0.22
Wincanton	302	0.06
Goldenport	235	0.04
	1,716	0.32

	£000	%
Support services		
Interserve	8,114	1.52
Carillion	3,445	0.65
Babcock	2,755	0.52
Johnson Service	2,731	0.51
Deutsche Post (Ger)	2,379	0.45
SGS (Swi)	1,838	0.34
Sodexo (Fra)	1,613	0.30
Adecco (Swi)	1,137	0.21
Augean	336	0.06
	24,348	4.56

Consumer goods

Automobiles & parts

GKN	13,932	2.61
Toyota Motor (Jap)	2,713	0.51
	16,645	3.12

Beverages

Diageo	7,142	1.34
Pernod-Ricard (Fra)	1,370	0.26
	8,512	1.60

Food producers

Unilever	4,657	0.87
Associated British Foods	3,904	0.73
Nestlé (Swi)	3,440	0.65
	12,001	2.25

Household goods & home construction

Bellway	5,711	1.07
Redrow	4,822	0.90
L'Oreal (Fra)	1,731	0.32
Essilor (Fra)	1,571	0.29
	13,835	2.58

Tobacco

Imperial Tobacco	3,420	0.64
Swedish Match (Swe)	1,410	0.26
	4,830	0.90

	£000	%
Health care		
Health care equipment & services		
Becton Dickinson (USA)	4,881	0.92
Smith & Nephew	3,454	0.65
Fresenius (Ger)	3,326	0.63
Fresenius Medical Care (Ger)	1,812	0.34
	13,473	2.54

Pharmaceuticals & biotechnology

GlaxoSmithKline	12,360	2.32
BTG	7,376	1.38
Pfizer (USA)	2,770	0.52
Novartis (Swi)	2,546	0.48
AstraZeneca	2,335	0.44
Roche (Swi)	2,127	0.40
Shire	2,085	0.39
	31,599	5.93

Consumer services

Food & drug retailers

Tesco	2,485	0.47
	2,485	0.47

General retailers

Dunelm	8,028	1.51
Findel	1,470	0.28
Inditex (Spa)	1,160	0.22
Topps Tiles	519	0.10
	11,177	2.11

Media

Reed Elsevier	5,603	1.05
Pearson	3,220	0.60
Daily Mail & General Trust	2,299	0.43
British Sky Broadcasting	1,980	0.37
Hibu	4	–
	13,106	2.45

	£000	%
Travel & leisure		
Greene King	4,879	0.92
Carnival	4,580	0.86
Marstons	2,872	0.54
International Consolidated Airlines	2,176	0.41
Betfair	853	0.16
	15,360	2.89

Telecommunications

Mobile telecommunications

Inmarsat	2,443	0.46
Ericsson (Swe)	853	0.16
	3,296	0.62

Utilities

Electricity

SSE	4,569	0.86
SSE 5.75% 05/02/14	2,402	0.45
	6,971	1.31

Gas, water & multiutilities

National Grid 6.125% 15/04/14	5,546	1.04
National Grid	4,548	0.85
Centrica	1,260	0.24
	11,354	2.13

Financials

Banks

HSBC	10,229	1.92
Barclays	4,176	0.79
	14,405	2.71

Nonlife insurance

Amlin	9,619	1.80
Hiscox	6,825	1.28
	16,444	3.08

Life insurance/assurance

Prudential	3,222	0.60
Aviva	2,666	0.50
Chesnara	2,492	0.47
Permanent TSB (Ire)	9	–
	8,389	1.57

	£000	%
Real estate investments & services		
St Modwen Properties	3,619	0.68
	3,619	0.68

Real estate investment trusts

Mucklow (A&J) Group	3,103	0.58
Land Securities	2,845	0.53
	5,948	1.11

Financial services

International Personal Finance	5,988	1.12
IP Group	4,645	0.88
Provident Financial	4,086	0.77
Deutsche Börse (Ger)	1,430	0.27
	16,149	3.04

Equity investment instruments

Henderson Japan Capital Growth	14,378	2.70
Henderson Asia Pacific Capital Growth	12,052	2.26
Baillie Gifford Pacific	10,692	2.01
First State Asia Pacific	9,761	1.83
Herald Investment Trust	4,641	0.87
	51,524	9.67

Technology

Software & computer services

Microsoft (USA)	6,830	1.28
Amadeus IT (Spa)	2,137	0.40
Sage	1,940	0.36
SAP (Ger)	1,797	0.34
	12,704	2.38

Technology hardware & equipment

Imagination Technologies	2,585	0.48
	2,585	0.48

UK Gilts

UK Treasury 2.25% 07/03/14	33,944	6.37
	33,944	6.37

Principal risks and uncertainties

The principal risks of the Corporation relate to the investment activities and include market price risk, foreign currency risk, liquidity risk, interest rate risk and credit risk. These are explained in the notes to the annual accounts. In the view of the board these risks are as applicable to the remaining six months of the financial year as they were to the period under review.

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.

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. Details of related party transactions are given in the notes to the annual accounts.

Directors' responsibility statement

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU;
- the half yearly report includes a fair review of the information required by:
 - (a) DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and
 - (b) DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period.

On behalf of the board

Christopher Smith

Chairman

25 July 2013

Notes

1. The financial information presented herein does not amount to full statutory accounts within the meaning of Section 435 of the Companies Act 2006 and has neither been audited nor reviewed pursuant to guidance issued by the Auditing Practices Board. The annual report and financial statements for 2012 have been filed with the Registrar of Companies. The independent auditors' report on the annual report and financial statements for 2012 was unqualified, did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying the report, and did not contain a statement under section 498(2) or (3) of the Companies Act 2006.
2. The calculations of NAV and earnings per share are based on:

NAV: shares at end of the period 117,664,360 (30 June 2012: 117,575,226) (31 December 2012: 117,583,308).

Income: average shares during the period 117,657,023 (30 June 2012: 117,565,430) (31 December 2012: 117,568,771).

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