ANNUAL FINANCIAL REPORT
YEAR ENDED 31 DECEMBER 2017 (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 11.80p per share making a total for the year of 17.30p. Subject to the approval of shareholders, the final dividend will be paid on 19 April 2018 to holders on the register on the record date of 16 March 2018. The annual financial report has been prepared in accordance with International Financial Reporting Standards (IFRS).

The financial information set out in this Annual Financial Report does not constitute the Corporation's statutory accounts for 2016 or 2017. Statutory accounts for the years ended 31 December 2016 and 31 December 2017 have been reported on by the Independent Auditor. The Independent Auditor's Reports on the Annual Report and Financial Statements for 2016 and 2017 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 2016 have been filed with the Registrar of Companies. The statutory accounts for the year ended 31 December 2017 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 2017. The principal accounting policies adopted are unchanged from those used in the preparation of the statutory accounts for the year ended 31 December 2016.

Group income statement

for the year ended 31 December

	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	**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	**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	**(20,842)**	**(407)**	**(21,249)**	(20,776)	(9)	(20,785)
Provision for onerous contracts	**245**	**-**	**245**	(3,031)	-	(3,031)
Operating profit	**31,770**	**79,267**	**111,037**	24,368	105,428	129,796
Finance costs						
Interest payable	**(4,785)**	**-**	**(4,785)**	(5,542)	-	(5,542)
Profit before taxation	**26,985**	**79,267**	**106,252**	18,826	105,428	124,254
Taxation	**(1,391)**	**-**	**(1,391)**	17	-	17
Profit for the year	**25,594**	**79,267**	**104,861**	18,843	105,428	124,271
Return per ordinary share (pence)	**21.66**	**67.10**	**88.76**	15.96	89.30	105.26
Diluted return per ordinary share (pence)	**21.66**	**67.09**	**88.75**	15.96	89.30	105.26

Statement of comprehensive income

for the year ended 31 December

	Revenue 2017 £000	**Capital 2017 £000**	**Total 2017 £000**	Revenue 2016 £000	Capital 2016 £000	Total 2016 £000
Profit for the year	**25,594**	**79,267**	**104,861**	18,843	105,428	105,428
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

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/(loss) per share	67.10	89.30
Dividends per share	17.30	16.70

	2017 %	2016 %
Ongoing charges[3]	**0.43**	0.45
Gearing[3]	**1**	8

1 Calculated in accordance with AIC methodology based on NAV including fair value of IPS businesses and long term borrowings.
2 See segmental analysis.
3 Source AIC.

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

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

By year	**2017 %**	2016 %	2015 %	2014 %	2013 %
Share price total return[1]	**22.2**	10.1	(3.0)	3.1	28.3
NAV total return[2]	**16.6**	16.9	(0.3)	2.8	29.4
FTSE Actuaries All-Share Index total return	**13.1**	16.8	1.0	1.2	20.8

[1] Source AIC.

[2] Calculated in accordance with AIC methodology based on NAV including fair value of IPS businesses and 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

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. 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, performance and 10 year performance.

The IPS is represented by the wholly owned subsidiaries of the Corporation, with the exception of Law Debenture Finance p.l.c. 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 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

Long term borrowings

The methodology of fair valuing all long term borrowings is to benchmark the group debt against A rated UK corporate bond yields.

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), 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 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 £3.275m, 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 £2m 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 £2m 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 honorable 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

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. The UK provides the highest dividend yield of major world markets. 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.

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 global manufacturing economy 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.
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.

Biggest rises by value

		Value appreciation
1.	Marshalls	£4.5m
2.	Watkin Jones	£4.0m
3.	Hiscox	£4.0m
4.	Senior	£3.8m
5.	Rolls Royce	£3.8m
6.	Caterpillar	£3.5m
7.	International Consolidated Airlines	£3.3m
8.	Applied Materials	£3.0m
9.	Rio Tinto	£3.0m
10.	Cape	£2.9m

Biggest falls by value

		Value depreciation
1.	Interserve	£6.6m
2.	Carillion	£6.1m
3.	Provident Financial	£4.2m
4.	GlaxoSmithKline	£2.3m
5.	I P Group	£2.0m
6.	Schlumberger	£1.5m
7.	Spire Healthcare	£1.4m
8.	Babcock	£1.4m
9.	Daily Mail & General Trust	£1.0m
10.	Inmarsat	£0.9m

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 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')

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, 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;

• 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.

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

Statement of financial position

as at 31 December

	2017	2016
	£000	£000
Assets		
Non current assets		
Goodwill	**1,920**	1,968
Property, plant and equipment	**129**	161
Other intangible assets	**161**	70
Investments held at fair value through profit or loss	**735,872**	696,080
Retirement benefit asset	**300**	-
Deferred tax assets	**614**	1,312
Total non current assets	**738,996**	699,591
Current assets		
Trade and other receivables	**6,417**	6,680
Other accrued income and prepaid expenses	**5,003**	4,603
Cash and cash equivalents	**134,011**	94,804
Total current assets	**145,431**	106,087
Total assets	**884,427**	805,678
Current liabilities		
Trade and other payables	**11,649**	13,346
Other taxation including social security	**570**	444
Deferred income	**3,942**	3,826
Derivative financial instruments	**299**	2,029
Total current liabilities	**16,460**	19,645
Non current liabilities and deferred income		
Long term borrowings	**114,068**	114,024
Retirement benefit obligations	**-**	2,300
Deferred income	**3,974**	4,318
Provision for onerous contracts	**1,667**	3,106
Total non current liabilities	**119,709**	123,748
Total net assets	**748,258**	662,285
Equity		
Called up share capital	**5,918**	5,917
Share premium	**8,787**	8,722
Own shares	**(1,033)**	(1,197)
Capital redemption	**8**	8
Translation reserve	**1,661**	2,156
Capital reserves	**688,344**	609,077
Retained earnings	**44,573**	37,602
Total equity	**748,258**	662,285

Statement of cash flows

for the year ended 31 December

Operating activities

	2017	2016
	£000	£000
Operating profit before interest payable and taxation	**111,037**	129,796
(Gains) on investments	**(79,267)**	(105,428)
(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
Decrease in receivables	**(137)**	678
Increase in payables	**(2,000)**	1,763
Transfer (from) capital reserves	**(142)**	(157)
Normal pension contributions in excess of cost	**(800)**	(1,300)
Cash generated from operating activities	**25,565**	25,834
Taxation	**(1,035)**	(560)
Operating cash flow	**24,530**	25,274
Investing activities		
Acquisition of property, plant and equipment	**(74)**	(53)
Expenditure on intangible assets	**(149)**	(75)
Purchase of investments	**(80,356)**	(91,494)
Sale of investments	**120,089**	122,248
Sale of unlisted investment	**3,318**	-
Cash flow from investing activities	**42,828**	30,626
Financing activities		
Derivative financial instrument	**1,698**	(4,775)
Interest paid	**(5,916)**	(5,542)
Dividends paid	**(20,081)**	(19,122)
Proceeds of increase in share capital	**66**	56
Purchase of own shares	**164**	296
Net cash flow from financing activities	**(24,069)**	(29,087)
Net increase in cash and cash equivalents	**43,289**	26,813
Cash and cash equivalents at beginning of period	**94,804**	60,301
Foreign exchange (losses)/gains on cash and cash equivalents	**(4,082)**	7,690
Cash and cash equivalents at end of period	**134,011**	94,804

Statement of changes in equity

	Share capital £000	Share premium £000	Own shares £000	Capital redemption £000	Translation reserve £000	Capital reserves £000	Retained earnings £000	Total £000
Equity at 1 January 2016	5,916	8,667	(1,493)	8	909	503,649	39,664	557,320
Profit	-	-	-	-	-	105,428	18,843	124,271
Foreign exchange	-	-	-	-	1,247	-	-	1,247
Actuarial (loss) on pension scheme (net of tax)	-	-	-	-	-	-	(1,783)	(1,783)
Total comprehensive income	-	-	-	-	1,247	105,428	17,060	123,735
Issue of shares	1	55	-	-	-	-	-	56
Dividend relating to 2015	-	-	-	-	-	-	(12,983)	(12,983)
Dividend relating to 2016	-	-	-	-	-	-	(6,139)	(6,139)
Movement in own shares	-	-	296	-	-	-	-	296
Total equity at 31 December 2016	5,917	8,722	(1,197)	8	2,156	609,077	37,602	662,285
Equity at 1 January 2017	5,917	8,722	(1,197)	8	2,156	609,077	37,602	662,287
Profit	-	-	-	-	-	79,267	25,594	104,861
Foreign exchange	-	-	-	-	(495)	-	-	(495)
Actuarial gain on pension scheme (net of tax)	-	-	-	-	-	-	1,458	1,458
Total comprehensive income	-	-	-	-	(495)	79,267	27,052	105,824
Issue of shares	1	65	-	-	-	-	-	66
Dividend relating to 2016	-	-	-	-	-	-	(13,582)	(13,582)
Dividend relating to 2017	-	-	-	-	-	-	(6,499)	(6,499)
Movement in own shares	-	-	164	-	-	-	-	164
Total equity at 31 December 2017	5,918	8,787	(1,033)	8	1,661	688,344	44,573	748,258

Segmental analysis

	Investment trust		Independent professional services		Group charges			Total
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
	£000	£000	**£000**	£000	**£000**	£000	**£000**	£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)	**(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.

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	-	(437)
Release/(provision) for onerous contracts	245	(3,031)
	245	(3,468)
Impairment of goodwill in Delaware Corporate Services Inc.	-	(418)
Past service credit on closure of defined benefit pension scheme net of costs of closure	-	391
	245	(3,495)

Provision for onerous contracts

Group	**2017 £000**	2016 £000
At 1 January	3,106	-
(Release)/provision made in 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).

Portfolio 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**

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.

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, ongoing charges and investment management agreement

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 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. 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 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 in the annual report. 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.

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 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.

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.

Top 20 equity holdings by value

Rank	Company	2017 Value £000	2017 % of portfolio	2016 % of portfolio	2016 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		

Other significant holdings by value

	Company	2017 Value £000	2017 % of portfolio	2016 % 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.

Portfolio by sector 2017

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

Portfolio by sector 2016

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

Geographical distribution of portfolio 2017

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

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

Acquisition of own 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.

On 6 March 2017, a subsidiary acquired 76,037 of the Corporation's shares on the open market at 571.67 pence per share in anticipation of fulfilling awards made under the Deferred Share Plan.

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.

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.

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.

Long term borrowings

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

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 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 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).

Related party transactions

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

	2017	2016
	£000	£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

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.

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%.

Further disclosures about risk are as follows:

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:

	2017	2017	2017	2016	2016	2016
Group	Investments	Net monetary assets	Total currency exposure	Investments	Net monetary assets	Total currency exposure
	£m	£m	£m	£m	£m	£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).

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

		Sterling	HK Dollars	US Dollars	Euro
		£m	£m	£m	£m
Floating rate assets		92.7	0.3	40.6	0.4

2016

	Sterling	HK Dollars	US Dollars	Euro
	£m	£m	£m	£m
Floating rate assets	50.7	0.4	43.3	0.4

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.

	2017 Sterling	2016 Sterling
	£m	£m
Fixed rate liabilities	114.1	114.0
Weighted average fixed rate	4.589%	5.320%

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.

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 above.

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).

Trade and other receivables

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

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

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

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

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.

Principal risks and uncertainties – IPS businesses

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.

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.

Copies of the annual report will be available from the Corporation's registered office or on its website once published on 8 March 2018.

By order of the board

Law Debenture Corporate Services Limited

Secretary

28 February 2018