

The Law Debenture Corporation p.l.c. and its subsidiaries
HALF YEARLY REPORT FOR THE SIX MONTHS TO 30 JUNE 2014 (unaudited)

The Directors recommend an interim dividend of 4.7p on the ordinary shares for the six months to 30 June 2014. The report including the unaudited results for the period was as follows:

Group summary

From its origins in 1889, Law Debenture has diversified to become a group with a unique range of activities in the financial and professional services 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, agency solutions, pension trusts, corporate services (including agent for service of process) whistle blowing services and 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

Fifth Floor
100 Wood Street
London EC2V 7EX

Telephone: 020 7606 5451
Facsimile: 020 7606 0643
Email: enquiries@lawdeb.com

(Registered in England No 30397)

Financial summary

	30 June 2014 Pence	30 June 2013 Pence	31 December 2013 Pence
Share price	518.50	481.50	529.00
NAV per share after proposed dividend	484.97	423.10	472.87
NAV per share after proposed dividend with debt at fair value	478.12	418.61	467.87
Net revenue return per share:			
- Investment trust	6.08	5.60	9.31
- Independent fiduciary services	3.23	3.24	6.96
Group net revenue return per share	9.31	8.84	16.27
Capital return per share	7.83	44.71	97.18
Dividends per share	4.70	4.50	15.00

	%
Ongoing charges	0.47
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 2014

	6 months	12 months
	%	%
Share price total return ¹	0.00	10.9
NAV total return ¹	3.40	18.0
FTSE All-Share Index total return	1.60	13.1

1. Source AIC, NAV used to calculate total return has been adjusted to reflect the fair value of the debenture. The adjustment reduced the NAV at 30 June 2014 by 6.85p (31 December 2013: 5.00p; 30 June 2013:4.49p).

Basis of preparation

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

The financial resources available are expected to meet the needs of the group for the foreseeable future. The financial statements have therefore been prepared on a going concern basis.

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

Half yearly management report

Performance

Our net asset value total return for the six months to 30 June 2014 was 3.4%, compared to a total return of 1.6% for the FTSE Actuaries All-Share Index. Net revenue per share was 9.31p, an increase of 5.3% over the corresponding period last year, as a result of a 8.6% increase in the investment trust and a 0.3% decrease in independent fiduciary services.

Dividend

The board has declared an interim dividend of 4.7p (2013: 4.5p). The dividend will be paid on 12 September 2014 to holders on the record date of 15 August 2014. The current expectation of the directors is that the final dividend will be maintained.

Investment trust

The equity portfolio rose in value by a small amount during the period. This comes after a few years of strong returns from equities. Corporate profits have risen but the appreciation of share prices has outstripped these rises as the valuations on equities have increased. We believe a period of consolidation is occurring in which earnings will grow and therefore justify the valuations. The outlook for earnings growth remains intact with the global economy growing and companies that are producing competitive products benefitting. Company costs remain well controlled with modest wage growth and a low rate of raw material price increase. The good operating margins that are being achieved are leading to substantial cash generation by some companies. This has resulted in corporate debt particularly in the UK falling to low levels. The resulting strong balance sheets and high dividend cover mean we are retaining the large exposure to UK quoted companies. After a period of poor performance in some emerging markets we are finding opportunities. For instance, a holding has been purchased in Embraer, the Brazilian based aerospace company. We do not expect there will be significant changes to the portfolio in coming months but we will remain alive to actions that may need to be taken. We will retain a relatively long list of stocks to mitigate risk.

Alternative Investment Fund Managers Directive

The Corporation has made its application to the Financial Conduct Authority to become its own Alternative Investment Fund Manager (AIFM), as it is permitted to do under the legislation. The Corporation has appointed a depositary, as required, which together with other costs of complying with the Directive will increase our ongoing charges.

Independent fiduciary services

Revenue, net of cost of sales, which represents legal costs recharged to clients, increased by 1.3% over the corresponding period last year. Administration costs increased by 1.6% leaving profit before interest marginally ahead. After taking account of the cost of the bank facility put in place in the second half of last year to provide capital in the US, profit before tax fell by 3.4%. We will continue to look for opportunities to improve revenues and control costs.

Group income statement

for the six months ended 30 June 2014 (unaudited)

	30 June 2014			30 June 2013		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
UK dividends	7,497	-	7,497	6,531	-	6,531
UK special dividends	631	-	631	778	-	778
Overseas dividends	1,508	-	1,508	1,401	-	1,401
Overseas special dividends	8	-	8	32	-	32
Interest from securities	103	-	103	295	-	295
	9,747	-	9,747	9,037	-	9,037
Interest income	34	-	34	30	-	30
Independent fiduciary services fees	15,345	-	15,345	14,751	-	14,751
Other income	49	-	49	21	-	21
Total income	25,175	-	25,175	23,839	-	23,839
Net gain on investments held at fair value through profit or loss	-	9,388	9,388	-	52,737	52,737
Gross income and capital gains	25,175	9,388	34,563	23,839	52,737	76,576
Cost of sales	(2,040)	-	(2,040)	(1,590)	-	(1,590)
Administrative expenses	(10,226)	(169)	(10,395)	(9,977)	(128)	(10,105)
Operating profit	12,909	9,219	22,128	12,272	52,609	64,881
Finance costs						
Interest payable	(1,434)	-	(1,434)	(1,225)	-	(1,225)
Profit before taxation	11,475	9,219	20,694	11,047	52,609	63,656
Taxation	(507)	-	(507)	(643)	-	(643)
Profit for period	10,968	9,219	20,187	10,404	52,609	63,013
Return per ordinary share (pence)	9.31	7.83	17.14	8.84	44.71	53.55
Diluted return per ordinary share (pence)	9.30	7.82	17.12	8.83	44.67	53.50

Statement of comprehensive income

for the six months ended 30 June 2014 (unaudited)

	30 June 2014			30 June 2013		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Profit for the period	10,968	9,219	20,187	10,404	52,609	63,013
Foreign exchange on translation of foreign operations	-	(106)	(106)	-	(254)	(254)
Total comprehensive income for the period	10,968	9,113	20,081	10,404	52,355	62,759

Group statement of financial position

	30 June 2014 (unaudited) £000	30 June 2013 (unaudited) £000	31 December 2013 (audited) £000
Assets			
Non current assets			
Goodwill	2,143	2,238	2,167
Property, plant and equipment	159	230	207
Other intangible assets	122	300	223
Investments held at fair value through profit or loss	601,266	533,083	595,173
Deferred tax assets	704	1,020	775
Total non current assets	604,394	536,871	598,545
Current assets			
Trade and other receivables	8,850	3,297	6,787
Other accrued income and prepaid expenses	5,329	5,638	4,963
Cash and cash equivalents	49,136	21,332	49,688
Total current assets	63,315	30,267	61,438
Total assets	667,709	567,138	659,983
Current liabilities			
Trade and other payables	14,385	11,464	12,071
Short term borrowing	25,248	-	26,793
Corporation tax payable	656	679	951
Other taxation including social security	636	617	655
Deferred income	4,270	4,175	4,059
Total current liabilities	45,195	16,935	44,529
Non current liabilities and deferred income			
Long term borrowings	39,458	39,431	39,445
Retirement benefit obligations	729	1,867	1,089
Deferred income	5,546	5,769	5,848
Total non current liabilities	45,733	47,067	46,382
Total net assets	576,781	503,136	569,072
Equity			
Called up share capital	5,908	5,905	5,908
Share premium	8,296	8,125	8,283
Capital redemption	8	8	8
Own shares	(1,712)	(1,797)	(1,695)
Capital reserves	528,921	457,943	519,702
Retained earnings	35,278	32,897	36,678
Translation reserve	82	55	188
Total equity	576,781	503,136	569,072

Group statement of cash flows

For the six months ended 30 June 2014

	30 June 2014 (unaudited) £000	30 June 2013 (unaudited) £000	31 December 2013 (audited) £000
Operating activities			
Operating profit before interest payable and taxation	22,128	64,881	137,933
(Gains) on investments	(9,219)	(52,069)	(114,368)
Foreign exchange	24	(62)	15
Depreciation of property, plant and equipment	61	72	154
Amortisation of intangible assets	101	101	199
(Increase)/decrease in receivables	(2,429)	1,289	1,526
Increase in payables	2,217	681	1,303
Transfer (from)/to capital reserves	(14)	223	150
Normal pension contributions in excess of cost	(360)	(360)	(706)
Cash generated from operating activities	12,509	14,216	23,154
Taxation	(731)	(863)	(1,482)
Interest paid	(1,434)	(1,225)	(2,736)
Operating cash flow	10,344	12,128	18,936
Investing activities			
Acquisition of property, plant and equipment	(13)	(43)	(109)
Expenditure on intangible assets	-	(37)	(57)
Purchase of investments	(28,665)	(49,489)	(101,534)
Sale of investments	31,864	48,305	100,222
Cash flow from investing activities	3,186	(1,264)	(1,478)
Financing activities			
Dividends paid	(12,368)	(11,471)	(16,768)
Proceeds of increase in share capital	13	3	164
Purchase of own shares	(17)	(19)	83
Net cash flow from financing activities	(12,372)	(11,487)	(16,521)
Net increase/(decrease) in cash and cash equivalents	1,158	(623)	937
Cash and cash equivalents at beginning of period	22,895	22,201	22,201
Foreign exchange (losses) on cash and cash equivalents	(165)	(246)	(243)
Cash and cash equivalents at end of period	23,888	21,332	22,895
Cash and cash equivalents comprise			
Cash and cash equivalents	49,136	21,332	49,688
Short term borrowings	(25,248)	-	(26,793)
	23,888	21,332	22,895

Group 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 2014	5,908	8,283	(1,695)	8	188	519,702	36,678	569,072
Net profit	-	-	-	-	-	9,219	10,968	20,187
Other comprehensive income:								
Foreign exchange	-	-	-	-	(106)	-	-	(106)
Total comprehensive income for the period	-	-	-	-	(106)	9,219	10,968	20,081
Issue of shares	-	13	-	-	-	-	-	13
Movement in own shares	-	-	(17)	-	-	-	-	(17)
Dividend relating to 2013	-	-	-	-	-	-	(12,368)	(12,368)
Total equity at 30 June 2014	5,908	8,296	(1,712)	8	82	528,921	35,278	576,781

Group segmental analysis

	Investment trust			Independent fiduciary services			Total		
	30 June 2014 £000	30 June 2013 £000	31 Dec 2013 £000	30 June 2014 £000	30 June 2013 £000	31 Dec 2013 £000	30 June 2014 £000	30 June 2013 £000	31 Dec 2013 £000
Revenue									
Income	9,781	9,037	15,785	15,345	14,751	31,819	24,126	23,788	47,604
Other income	-	-	71	49	21	112	49	21	183
Cost of sales	-	-	-	(2,040)	(1,590)	(4,744)	(2,040)	(1,590)	(4,744)
Administration costs	(1,329)	(1,218)	(2,412)	(8,897)	(8,759)	(17,127)	(10,226)	(9,977)	(19,539)
	8,452	7,819	13,444	4,457	4,423	10,060	12,909	12,242	23,504
Interest (net)	(1,286)	(1,232)	(2,481)	(148)	37	(194)	(1,434)	(1,195)	(2,675)
Return, including profit on ordinary activities before taxation	7,166	6,587	10,963	4,309	4,460	9,866	11,475	11,047	20,829
Taxation	-	-	-	(507)	(643)	(1,679)	(507)	(643)	(1,679)
Return, including profit attributable to shareholders	7,166	6,587	10,963	3,802	3,817	8,187	10,968	10,404	19,150
Revenue return per ordinary share (pence)	6.08	5.60	9.31	3.23	3.24	6.96	9.31	8.84	16.27
Assets	610,444	545,371	605,761	57,265	21,767	54,222	667,709	567,138	659,983
Liabilities	(52,961)	(58,480)	(53,320)	(37,967)	(5,522)	(37,591)	(90,928)	(64,002)	(90,911)
Total net assets	557,483	486,891	552,441	19,298	16,245	16,631	576,781	503,136	569,072

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

Analysis of the investment portfolio

By geographical location

	Valuation 31 December 2013 £000	Purchases £000	Costs of acquisition £000	Sales proceeds £000	Appreciation/ (depreciation) £000	Valuation 30 June 2014 £000	%
United Kingdom	455,812	18,717	(81)	(29,048)	3,602	449,002	74.7
North America	49,223	1,195	(2)	(197)	4,972	55,191	9.2
Europe	39,996	1,608	(2)	(2,619)	(309)	38,674	6.4
Japan	16,955	-	-	-	(654)	16,301	2.7
Other Pacific	33,187	775	(4)	-	1,751	35,709	5.9
Other	-	6,370	(21)	-	40	6,389	1.1
	595,173	28,665	(110)	(31,864)	9,402	601,266	100.0

By Sector (excluding cash)

	As at 30 June 2014 %	As at 31 December 2013 %
Oil & gas	11.2	10.4
Basic materials	8.0	6.3
Industrials	24.6	25.1
Consumer goods	10.8	10.7
Health care	8.6	8.8
Consumer services	8.2	9.3
Telecommunications	0.5	0.6
Utilities	2.1	3.3
Financials	12.6	12.9
Technology	2.4	2.2
Pooled equity investments	11.0	10.4
	100.0	100.0

Investment portfolio valuation

as at 30 June 2014

UK unless otherwise stated.

Holdings in italics were acquired since 31 December 2013

	£'000	%
Oil & gas		
Oil & gas producers		
BP	18,022	3.00
Royal Dutch Shell	15,255	2.54
Premier Oil	2,504	0.42
Providence Resources	2,346	0.39
Indus Gas	1,844	0.31
Total (Fra)	1,751	0.29
<i>Tullow Oil</i>	1,706	0.28
Xcite Energy	1,335	0.22
	<hr/> 44,763	<hr/> 7.45
Oil equipment & services		
Cape	7,356	1.22
Gibson Energy (Can)	5,887	0.98
Schlumberger (USA)	5,518	0.92
National Oilwell Varco (USA)	2,408	0.40
AMEC	1,214	0.20
<i>Now (USA)</i>	265	0.04
	<hr/> 22,648	<hr/> 3.76
Basic materials		
Chemicals		
Velocys	10,852	1.80
Croda	3,852	0.64
Elementis	2,258	0.38
Brenntag (Ger)	1,279	0.21
Linde (Ger)	1,241	0.21
	<hr/> 19,482	<hr/> 3.24
Forestry & paper		
Mondi	4,248	0.71
	<hr/> 4,248	<hr/> 0.71
Mining		
Rio Tinto	13,211	2.20
BHP Billiton	7,558	1.26
<i>Glencore</i>	3,255	0.54
	<hr/> 24,024	<hr/> 4.00
Industrials		
Construction & materials		
Accsys Technologies	4,546	0.76
Balfour Beatty	3,653	0.61
Marshalls	1,084	0.18
	<hr/> 9,283	<hr/> 1.55

	£'000	%
Aerospace & defence		
Senior	16,292	2.71
BAE Systems	7,789	1.30
Rolls Royce	5,345	0.89
Meggitt	5,060	0.83
Lockheed Martin (USA)	4,229	0.69
<i>Embraer (Bra)</i>	3,586	0.60
	42,301	7.02
General industrials		
Smith (DS)	7,647	1.27
	7,647	1.27
Electronic & electrical equipment		
Applied Materials (USA)	6,594	1.10
Morgan Advanced Materials	6,486	1.08
Spectris	5,545	0.92
TT Electronics	2,994	0.50
XP Power	1,751	0.29
Legrand (Fra)	1,167	0.19
Philips Electronics (Net)	1,153	0.19
	25,690	4.27
Industrial engineering		
Weir Group	7,857	1.31
Hill & Smith	7,538	1.25
Cummins (USA)	6,314	1.05
Deere (USA)	5,244	0.87
Renold	2,775	0.46
Caterpillar (USA)	2,542	0.42
IMI	1,300	0.22
Severfield-Rowen	463	0.08
	34,033	5.66
Industrial transportation		
AP Moller-Maersk (Den)	1,815	0.30
Wincanton	653	0.11
Goldenport	277	0.05
	2,745	0.46
Support services		
Interserve	6,654	1.11
Carillion	4,131	0.69
Babcock	4,022	0.67
Johnson Service	3,459	0.58
Deutsche Post (Ger)	2,654	0.44
SGS (Swi)	1,821	0.30
Sodexo (Fra)	1,536	0.26
Adecco (Swi)	1,459	0.24
Augean	458	0.08
	26,194	4.37

	£'000	%
Consumer goods		
Automobiles & parts		
GKN	16,413	2.73
Toyota Motor (Jap)	2,404	0.40
	18,817	3.13
Beverages		
Diageo	7,089	1.18
Pernod-Ricard (Fra)	1,317	0.22
	8,406	1.40
Food producers		
Associated British Foods	6,858	1.14
Unilever	4,637	0.77
Nestlé (Swi)	3,611	0.60
	15,106	2.51
Household goods & home construction		
Bellway	7,038	1.17
Redrow	6,037	1.00
L'Oreal (Fra)	1,567	0.26
	14,642	2.43
Tobacco		
Imperial Tobacco	5,258	0.87
<i>British American Tobacco</i>	<i>1,739</i>	<i>0.29</i>
Swedish Match (Swe)	1,230	0.20
	8,227	1.36
Health care		
Health care equipment & services		
Becton Dickinson (USA)	5,187	0.86
Smith & Nephew	4,879	0.81
Fresenius (Ger)	3,578	0.60
Fresenius Medical Care (Ger)	1,527	0.25
	15,171	2.52
Pharmaceuticals & biotechnology		
GlaxoSmithKline	11,726	1.95
BTG	7,590	1.26
AstraZeneca	6,510	1.08
Novartis (Swi)	2,884	0.48
Pfizer (USA)	2,603	0.43
Shire	2,285	0.38
Roche (Swi)	2,268	0.38
<i>Novo-Nordisk (Den)</i>	<i>915</i>	<i>0.15</i>
	36,781	6.11

	£'000	%
Consumer services		
Food & drug retailers		
Tesco	3,552	0.59
	<hr/> 3,552	<hr/> 0.59
General retailers		
Dunelm	7,089	1.18
Findel	2,143	0.36
Inditex (Spa)	1,025	0.17
Topps Tiles	797	0.13
	<hr/> 11,054	<hr/> 1.84
Media		
Reed Elsevier	7,050	1.17
British Sky Broadcasting	4,972	0.83
Pearson	3,171	0.53
Daily Mail & General Trust	2,204	0.37
	<hr/> 17,397	<hr/> 2.90
Travel & leisure		
Greene King	5,314	0.88
Carnival	4,416	0.73
International Consolidated Airlines	3,057	0.51
Marstons	2,966	0.49
Betfair	1,827	0.30
	<hr/> 17,580	<hr/> 2.91
Telecommunications		
Mobile telecommunications		
Inmarsat	2,712	0.45
	<hr/> 2,712	<hr/> 0.45
Utilities		
Electricity		
SSE	4,701	0.78
	<hr/> 4,701	<hr/> 0.78
Gas water & multiutilities		
National Grid	5,124	0.85
Severn Trent	1,932	0.32
Centrica	1,094	0.18
	<hr/> 8,150	<hr/> 1.35

	£'000	%
Financials		
Banks		
HSBC	10,969	1.82
	10,969	1.82
Nonlife insurance		
Amlin	11,464	1.91
Hiscox	7,560	1.26
	19,024	3.17
Life insurance / assurance		
Prudential	4,023	0.67
Aviva	4,003	0.67
Chesnara	3,180	0.53
Permanent TSB (Ire)	25	-
	11,231	1.87
Real estate investments & services		
St Modwen Properties	4,841	0.81
	4,841	0.81
Real estate investment trusts		
Mucklow (A&J) Group	3,612	0.60
Land Securities	3,335	0.55
	6,947	1.15
Financial services		
IP Group	8,030	1.34
International Personal Finance	7,038	1.17
Provident Financial	6,278	1.04
Deutsche Börse (Ger)	1,190	0.20
	22,536	3.75
Equity investment instruments		
Henderson Japan Capital Growth	13,897	2.31
Henderson Asia Pacific Capital Growth	12,609	2.10
Baillie Gifford Pacific	12,009	2.00
First State Asia Pacific	10,269	1.71
Herald Investment Trust	5,525	0.92
Better Capital (2012)	5,000	0.83
Foresight Solar	3,008	0.50
<i>Templeton Emerging Markets Investment Trust</i>	2,803	0.47
<i>Scottish Oriental Smaller Company Trust</i>	822	0.14
	65,942	10.98

	£'000	%
Technology		
Software & computer services		
Microsoft (USA)	7,316	1.22
Sage	2,191	0.36
Amadeus IT (Spa)	1,618	0.27

	11,125	1.85
--	--------	------

Technology hardware & equipment		
Imagination Technologies	1,898	0.32
<i>Atmel (USA)</i>	<i>1,084</i>	<i>0.18</i>

	2,982	0.50
--	-------	------

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 for the year ended 31 December 2013. 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
29 July 2014

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 2013 have been filed with the Registrar of Companies. The independent auditors' report on the annual report and financial statements for 2013 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 117,788,551 (30 June 2013: 117,664,360) (31 December 2013: 117,731,109).

Income: average shares during the period 117,781,948 (30 June 2013: 117,657,023) (31 December 2013: 117,681,186).