Lowland Investment Company plc

FT ADVISER 100 Club Awards 2017
Winner
UK Equity Income Fund of the Year

Annual Report 2017

MANAGED BY
Janus Henderson
INVESTORS

Contents

Investment Objective

The Company aims to give shareholders a higher than average return with growth of both capital and income over the medium to long-term by investing in a broad spread of predominantly UK companies. The Company measures its performance against the FTSE All-Share Index Total Return.

Strategic Report: Key Data

Net Asset Value Total Return[1]
17.0%

Benchmark Total Return[2]
11.9%

Growth in Dividend
8.9%

Dividend for the Year[3]
49.0p

	Year ended 30 September 2017	Year ended 30 September 2016
NAV per share at year end	**1,628p**	1,432p
Share Price at year end[4]	**1,504p**	1,337p
Market Capitalisation	**£406m**	£361m
Dividend per share	**49.0p[3]**	45.0p
Ongoing Charge including the Performance Fee	**0.68%**	0.63%
Ongoing Charge excluding the Performance Fee	**0.58%**	0.63%
Dividend Yield[5]	**3.3%**	3.4%
Gearing at year end	**6.3%**	6.2%
Discount at year end[6]	**7.6%**	6.6%

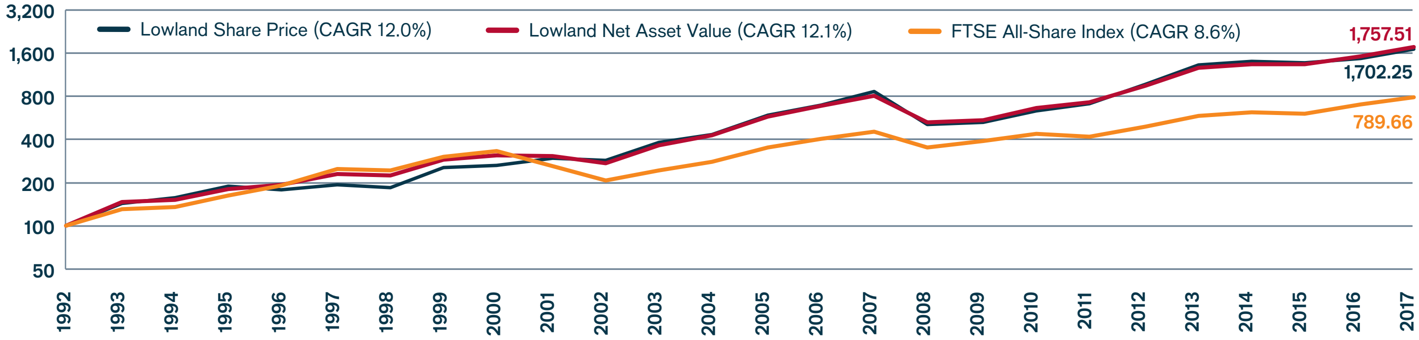
1 Net asset value per share total return (including dividends reinvested) in the prior year was 12.2%
2 FTSE All-Share Index. The amount includes dividends reinvested
3 Includes the final dividend of 13.0p per ordinary share for the year ended 30 September 2017 that will be put to shareholders for approval at the Annual General Meeting on Monday 29 January 2018
4 Mid-market closing price
5 Based on dividends paid in respect of the previous twelve months and the share price at year end
6 Calculated using year end audited NAVs including current year revenue

Sources: Morningstar for the AIC, Janus Henderson, Datastream

A glossary of terms is included on pages 63 and 64

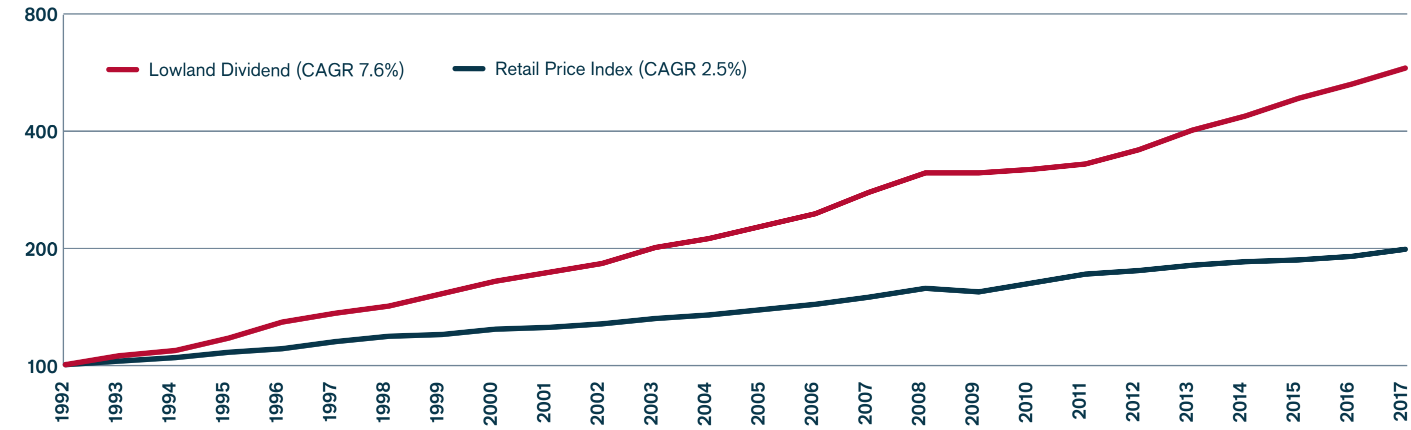
Strategic Report: Historical Performance

Lowland's Share Price and Net Asset Value have outperformed the FTSE All-Share Index over the past 25 years



Total Return basis and shown on a logarithmic scale (30 September 1992 = 100)
CAGR – Compound Annual Growth Rate
Source: Thomson Financial, Datastream

Lowland's Dividend Growth over the past 25 years as compared to the Retail Price Index



Total Return basis and shown on a logarithmic scale (30 September 1992 = 100)
Source: Janus Henderson

Historical Performance

Year ended 30 September	Dividend per ordinary share in pence	Total return/ (loss) per ordinary share in pence	Net revenue return per ordinary share in pence	Total net assets in £'000	Net asset value per ordinary share in pence
2007	23.5	138.7	27.9	275,868	1,044.3
2008	26.5	(344.4)	33.0	178,411	675.4
2009	26.5	8.4	22.7	173,633	657.3
2010	27.0	139.5	22.5	203,484	770.3
2011	28.0	68.3	28.8	214,251	811.0
2012	30.5	229.9	31.1	266,401	1,008.4
2013	34.0	330.1	36.7	347,202	1,306.9
2014	37.0	73.3	39.4	361,856	1,345.6
2015	41.0	11.8	46.4	354,563	1,318.4
2016	45.0	156.4	47.7	386,910	1,432.0
2017	**49.0**[1]	**243.2**	**49.1**	**439,896**	**1,628.1**

1 Includes the final dividend of 13.0p per ordinary share for the year ended 30 September 2017 that will be put to shareholders for approval at the Annual General Meeting on Monday 29 January 2018

Strategic Report: Chairman's Statement

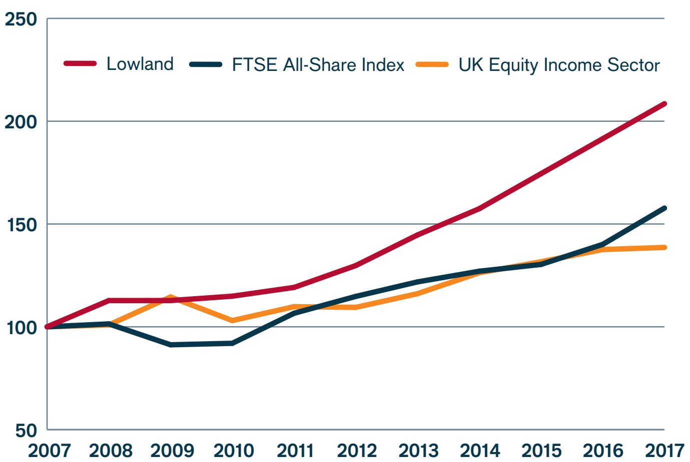
Performance

The year was satisfactory in furthering your Company's objective of giving shareholders above average returns in terms of capital and income. Our Net Asset Value ('NAV') total return was 17.0%, compared with the Benchmark FTSE All-Share Index return of 11.9%. Our perspective is long-term, and the long-term trend for small and medium-sized companies to outperform demonstrated itself again, rewarding our overweight positions in these areas. This was reflected in the FTSE Small-Cap Index increasing by 17.8% against the FTSE 100 Index increase of 11.2%.

Dividends

Revenue earnings per share excluding special dividends increased by 10.3% to 46.7p. Special dividends were lower than in recent years; the increase in total revenue earnings per share was 2.9% to 49.1p. Three interim dividends of 12.0p have been paid and a final dividend of 13.0p is proposed. Subject to shareholders' approval of the final, total dividends for the year will amount to 49.0p, an increase of 8.9%. It is pleasing that Lowland has succeeded in providing a steady and growing income stream to shareholders, the dividend having grown at a compound rate of 10% over the past five years. This is clearly well in excess of the rate of inflation, and, as the chart below shows, the rate of increase over the last ten years substantially exceeds that of both the Company's benchmark and its peer group, represented by the AIC UK Equity Income sector.

Dividend Growth (rebased to 100)



Investment Review and Gearing

Lowland's performance was achieved in favourable equity markets and low interest rates. The decline in the value of sterling has helped dividend growth as companies in which we are invested have substantial overseas sales and earnings. It is however contributing to real pressure on both wages and the margins of domestically focussed companies in the UK. Retailers, for example, struggle to pass on higher input costs to their customers.

Overall equity valuations do not look excessive; however there is polarity between lowly-valued out-of-favour stocks and those perceived to be high quality whose valuations look increasingly stretched. The Fund Managers act on a bottom-up basis and have been reducing positions where valuations look high. This has resulted in the gearing declining from 12.6% at the half year to 6.3% at the year end. Since then the gearing has risen to around 11% as the Fund Managers selectively buy lower-valued stocks which, although currently out-of-favour, they believe are sound long-term businesses.

Lowland took out £30m twenty year senior unsecured loan notes in January 2017, at a coupon of 3.15% taking the view that locking in rates at this stage of the cycle would be a good hedge against inflation. The fair value of the senior unsecured note is calculated using a discount rate which reflects the yield on a UK Gilt of similar maturity plus a suitable credit spread. It is calculated on a monthly basis, based on its estimated market value. At the year end the fair value was £31m resulting in a reduction in NAV at fair value of 4.6p per ordinary share.This is supplemented by revolving credit facilities of up to £60m. We believe these facilities are appropriate to provide access to gearing which will be beneficial to long-term performance, within prudent limits.

Shareholders will be aware of MiFID II, a fundamental review of regulation of financial services in Europe. Inter alia, this requires investment managers to pay directly for investment research, rather than its costs being included in dealing charges. I am happy to report that Janus Henderson have agreed to bear the costs of external research and are committed to continuing to use it to complement their own internal research activity.

Ongoing Charge

The Ongoing Charge was 0.58% excluding the performance fee and 0.68% including it. The performance fee was £416,000.

As previously announced the Investment Management Agreement was amended to the effect that, from 1 July 2017, the management fee on net chargeable assets in excess of £375m will be 0.4% compared with 0.5% below that level. The performance fee is capped at 0.25% of net chargeable assets. The Company began to benefit from the reduced rate in the last quarter of the financial year and will continue to do so at current valuations. The Board and Janus Henderson are keenly aware of the need for a competitive cost base, as witnessed by this arrangement and Janus Henderson's agreement to bear external research costs directly.

Strategic Report: Chairman's Statement (continued)

Annual General Meeting

The AGM of the Company will be held at the offices of Janus Henderson on Monday 29 January 2018 at 12.30 pm. Full details of the business to be conducted at the meeting are set out in the Notice of Meeting which has been sent to shareholders with this report.

As usual our Fund Managers will be making a presentation. This is an important opportunity for shareholders to meet the Board and Fund Managers, and to ask them questions. We would encourage as many shareholders as possible to attend; we welcome your questions and observations. The Meeting will be broadcast live on the internet, so if you are unable to attend the AGM in person you will be able to log on to watch the Meeting as it happens, by visiting **www.janushenderson.com/trustslive**.

Outlook

The Fund Managers look at company opportunities on the basis of their individual merits, rather than being guided by macro-economic factors. Recently they have, as stated in their report, found that the merits of some high quality companies have been fully valued in share prices. Consequently we look to a cautious approach, concentrating on companies which are prepared for more difficult times, and are not overvalued. The Company's investment approach has served shareholders well over the long-term, and we believe it will continue to do so.

Robert Robertson
Chairman
14 December 2017

Strategic Report: Fund Managers' Report

Investment Approach

The notable features of the Company's investment approach are:

1. The portfolio is always a blend of large, medium and small companies. The medium and small companies have often produced better investment returns given their greater capacity for sales and earnings growth. Small- and medium-sized companies also have the advantage of being covered by fewer analysts and therefore offer greater potential to find opportunities that have been overlooked or misunderstood by the market. The large companies reduce the volatility and aid consistency of performance.

2. The Company is invested 'predominantly' in UK equities. Given the focus on the UK, the Company aims to invest in areas where the UK has globally competitive, world-leading companies. These companies will tend to have high barriers to entry as their products tend to be specialist and so have been fine-tuned over many years. This allows them to generate reasonable operating margins, meaning they are well placed to generate cash that can be returned to shareholders over time.

3. A focus on recovery situations, but only where a clear path can be seen to returning to sales and earnings growth. In practice this often means investing at the point of capitulation where companies look internally at what they can change, whether this is a period of sustained cost-cutting, changing the management team and/or cutting the dividend. While this is a mildly contrarian approach, the Company seeks to invest in companies that do not have long-term structural problems, in order to avoid value traps. In our experience value traps often arise where a company may appear cheap on valuation multiples, but operates in an industry with low barriers to entry and/or is in structural decline.

4. We prefer capital and income growth rather than absolute dividend yield. This has resulted in a high historic level of dividend growth. In the Company's view it is crucial for long-term performance to focus on companies with the capacity to grow sales and earnings, and therefore dividends, rather than companies paying a high absolute yield (with a high pay-out ratio) but with little potential for earnings growth. Companies rarely 'stand still' and a company that is forecast to stay static in terms of sales and earnings will often decline faster than analysts are anticipating. In order to avoid 'value traps' the focus should be on the potential for earnings growth which should ultimately drive capital and income growth for shareholders.

5. A long list of holdings, historically 80-120. Position sizes start small, new holdings tend to be initiated at approximately 30bps and increased as confidence is gained in the management team and the potential for earnings growth. The reason for the long list is two-fold. Firstly it provides diversification so that the Company is not overly exposed to any one cycle. For example the overweight position in industrials which follow the economic cycle – is offset by the overweight position in insurers which follow the underwriting cycle. Secondly the Company invests in recovery situations where the potential returns are high but so are the risks. Therefore it is sensible to invest in a spread of different situations. The Company also sells slowly when shares approach fair value, which naturally lends itself to a relatively long list of holdings.

6. The Company has a low turnover rate and long holding period (typically 20% turnover rate p.a. resulting in an approximately 5 year holding period). Historically the best returns have often derived from recovery situations that have taken a number of years to reach fruition (for example it may take time for a company to reduce gearing in a situation of balance sheet stress). Therefore given the Company's investment style a long holding period is necessary for the merits of a company's investment case to become fully appreciated by the market.

Strategic Report: Fund Managers' Report (continued)

Investment Background

It has been a good year for relative and absolute performance. The economy has continued to grow albeit slowly. This has helped domestic smaller companies which had been weak during the summer of 2016 on concerns around Brexit. Inflation has picked up but this can be explained as a result of currency depreciation and it is expected to fall back as that works its way through. Therefore for investment markets it has been more of the same. The perceived better companies have gone onto higher ratings, while those that disappoint or show limited progress remain friendless despite low valuations.

The level of dividends paid by the UK Index (FTSE All-Share) has continued to grow with the fall of sterling helping the value of overseas income in sterling terms, and the return of the miners to the dividend list after a strong recovery. However, it is predicted that income from special dividends is likely to fall and for us special dividend income for the year fell from £1.46m to £0.63m. This is in spite of earnings growth and muted capital spend. The reason is that corporates are keen to pay down debt despite very low interest rates. This prudence from corporates might seem frustrating for those that want to see stronger GDP growth but for individual companies it makes sense. There is a general caution about the future strength of the UK economy. Certain parts of it, such as motor and furniture retailing, are already experiencing recessionary conditions. Some are blaming the uncertainty over Brexit but this may be being over-played. In motor retailing the concerns over diesel cars and the strength of new car sales in recent years could suggest that a slowdown was inevitable. However, the prospect of ending the free movement of people and tariffs, is a negative for growth prospects. This is being factored into valuations, with the UK underperforming other major global markets.

Source: Datastream. Total return rebased to 100, £

Performance Attribution

Performance during the year was not driven by any individual theme or sector. The top five active contributors to performance operate across different industries and geographies. What links them is a strong management team and uniqueness of product (or service). We are pleased to see this variety among the top performers as we are not managing the portfolio on the basis of any top down allocation but rather picking a long, diverse list of stocks which have good capacity to grow earnings (and therefore dividends) over time.

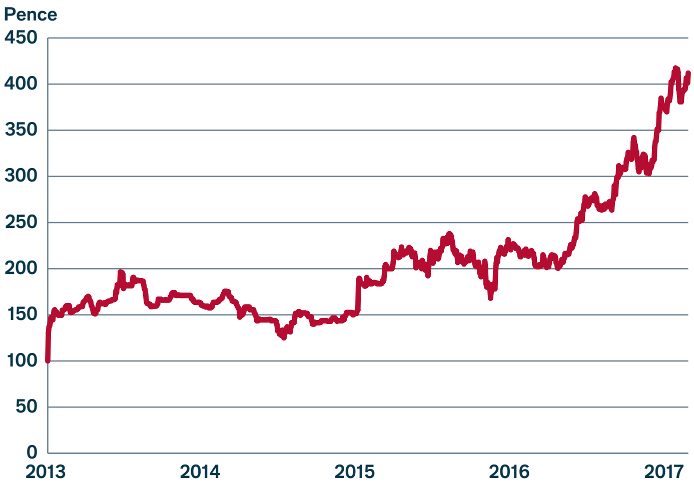
The top five active contributors to performance (relative to the benchmark), that we own, were:

1. Conviviality (described below)
2. Scapa (specialist healthcare and industrial tape)
3. Stobart (conglomerate which owns Southend airport, logistics and biomass facilities)
4. Irish Continental Group (ferries, predominantly between Holyhead and Dublin)
5. Marshalls (paving products)

The largest positive active contributor to performance was **Conviviality**, an alcohol distributor and off-licence operator ('Bargain Booze'). This was originally purchased at IPO in 2013. At the time it was solely an off-licence operator and came to the market with an attractive valuation and high dividend yield.

The reason for the original purchase was that we were impressed with the management team, who were dramatically improving standards among store franchises. This management team have gone on to lead the company through two distributor acquisitions, both of which have materially changed the scale of the company, such that they are now the second biggest wine buyer in the UK (after Tesco). As a result of successfully integrating the acquisitions, the shares have re-rated and we have now (reluctantly) begun reducing the holding on valuation grounds.

Conviviality Chart



Source: Datastream

Strategic Report: Fund Managers' Report (continued)

The top five active detractors from performance (relative to the benchmark), that we own, were:

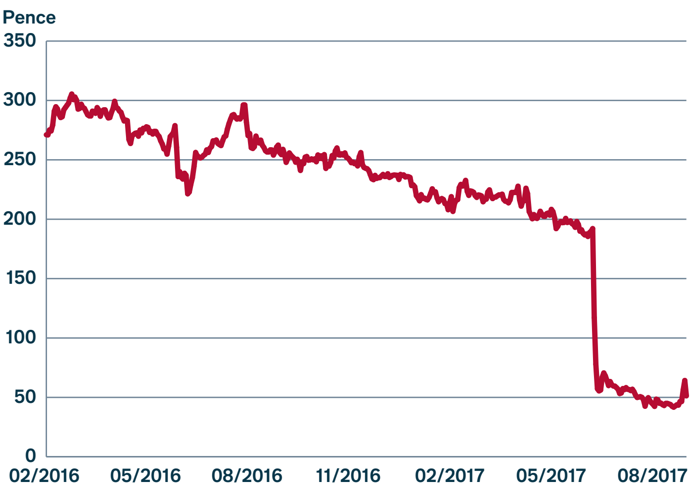
1. Carillion (described below)
2. Interserve (support services provider and contractor)
3. 4D Pharma (early stage pharmaceutical company)
4. Provident Financial (door-to-door lender and credit card provider)
5. Quarto (book publisher)

The largest active detractor from performance was **Carillion**, a contractor (building infrastructure projects, hospitals, schools etc) and support services provider. This was a relatively recent purchase for Lowland (2016) as it had been our view that the strengths of the support services business were being overlooked.

The purchase was a mistake. The management team, in order to grow the top line, were not doing enough due diligence on construction projects. This resulted in several loss-making contracts for which they have had to take a material provision. They were also running the business with too much debt.

Having met the interim management team we have maintained the (small) remaining position. The holding has been a reminder to us to be wary of contractors who are targeting growing sales (rather than maintaining discipline in writing contracts) and that the appropriate debt level for construction companies is low, given their tendency to have one-off hits from contracts.

Carillion Share Price

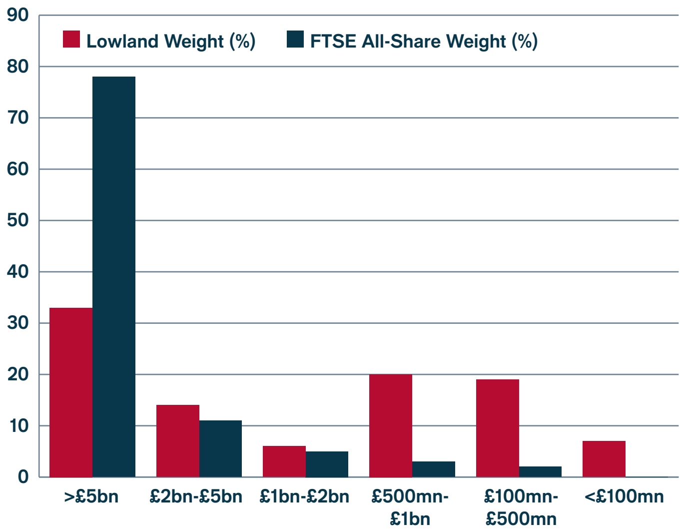


Source: Datastream

Portfolio Positioning

The portfolio continues to hold a sizeable weighting in small- and medium-sized companies relative to the benchmark. A number of the best performers in the portfolio have come from those with less than £100m market cap. These are often illiquid but our closed-end structure allows illiquid positions to be held.

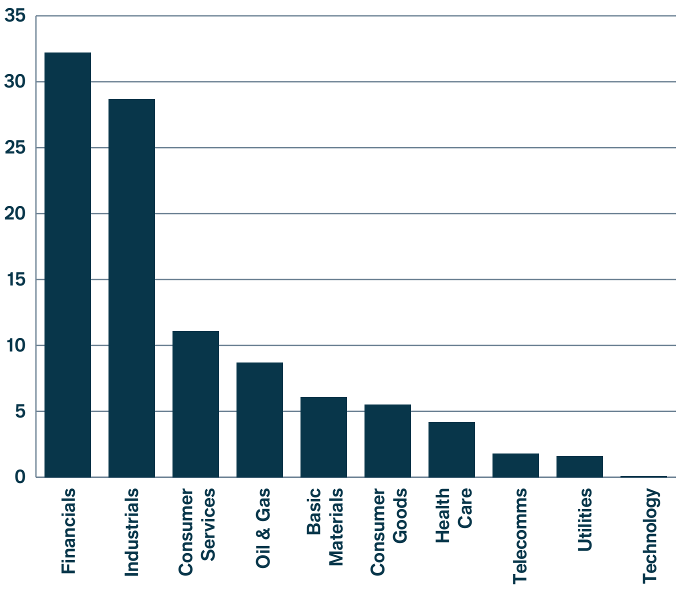
Market Cap Split Portfolio



Source: Janus Henderson Investors

At the sector level, the two largest sector weightings are financials (largely insurance rather than banks) and industrials. These two sectors provide good diversification against each other as they follow very different cycles – broadly the industrials follow the economic cycle (although they will each have their own distinct end markets) while the insurers follow the underwriting cycle.

Sector Breakdown



Source: Janus Henderson Investors

Investment Activity

While smaller and medium sized companies often garner the majority of attention in the portfolio, the FTSE 100 currently makes up 36% of net assets, and is both a good source of income and an area we strive to add value in. The FTSE 100 is well researched, so stocks within it can hardly be described as 'unknown'. Sentiment does, however, often swing in quite an extreme (and sometimes unjustified) manner. This presents opportunities for those with a long time horizon who are willing to invest when a company is temporarily out of favour.

Strategic Report: Fund Managers' Report (continued)

New larger company purchases during the year included **Royal Mail** and **AstraZeneca**. We sold Royal Mail shortly after the EU referendum vote as a result of concerns about the level of exposure it has to the domestic UK market, in a business with high fixed costs and therefore the potential for large swings in earnings. Following poor share price performance, however, we bought the position back in January 2017. By this point the shares had materially de-rated and we felt that the positives of the business (excellent management team, market leader in parcels, good scope for margin improvements over the long-term) were not being appreciated. In the case of **AstraZeneca** we had an existing (small) position to which we added on the day of a trial failure that caused the shares to fall approximately 15%. This share price movement was too extreme given the breadth of their portfolio.

Where new smaller company holdings were added during the year it was often to take advantage of attractive income opportunities. New positions included **Randall & Quilter** (which buys closed books of non-life insurance), **Redde** (services for motor insurers) and **Ten Entertainment** (bowling alleys). All of these new holdings yield over 5% and have good scope to grow the dividend over time. This yield would be difficult to replicate from large cap income stocks that in a low yield environment are increasingly trawled over. A yield of over 5% in a FTSE 100 company often signals that there are questions regarding the sustainability of the dividend, whereas this is not the case in small cap.

Ten Entertainment Share Price

Source: Datastream

Last year we wrote about **Standard Chartered**, as the new CEO Bill Winters was doing a good job of returning the business to growth. During the course of this year, Standard Chartered re-rated to nearer book level and therefore we reduced the position for portfolio balance reasons. We also reduced another of our larger recovery buys from the previous year, owner of British Airways, **IAG**. This had strong earnings upgrades as ticket pricing held up better than expected (particularly in the transatlantic route which is important for BA), and as a result the shares performed well. Given the lack of visibility surrounding airline earnings we took the opportunity to reduce the position.

Additional sales during the year were primarily in good quality companies that had re-rated and in our view were approaching fair value. An example of this would be **Scapa**. During the financial year Scapa's share price moved ahead of earnings growth and by the time of the final sale, Scapa was approaching a price/earnings multiple of 30x. While Scapa has an excellent management team and scope to grow margins, we were surprised to see it approach this rating and thought it prudent to sell the position. Other examples of companies reduced on valuation grounds (but where we still like the business fundamentals) include **Hill & Smith**, **Elementis** and **Hiscox**.

There were two takeover approaches during the year, one for energy services provider **Cape**, and one for insurer **Novae**. In both cases they received cash offers at material premiums from international buyers.

Outlook

The tightening of global monetary conditions has begun, led by the US. It is likely that interest rates in the UK will rise in the short term and the very accommodating monetary policy in Europe will slowly be tightened. The question for investors to struggle with is how far and fast rates will be increased. The UK has above target inflation but the consensus view is that this is very much a product of sterling deprecation and it is certainly less of a problem in strong currency countries. However, the full effect of sterling's fall will take time to be fully reflected. Increased costs of imported items are being partly absorbed by companies and slowly fed through in order not to lose market share. At the same time wages will not grow at a lower rate than inflation indefinitely, despite the low level of unemployment. These factors may result in inflation staying higher for longer than currently forecast and result in interest rates rising further than expected. This is one of the reasons Lowland took out £30m twenty year senior unsecured loan notes last year at a low rate by historical standards of 3.15%.

Lowland is an equity fund and its focus is on holding stock in companies that have an excellence in their product or service which will allow management to take the business through a more difficult economic environment. Companies held have been preparing themselves for a more challenging time. The balance of the portfolio has been marginally altered in preparation. The gearing has been reduced and domestically orientated companies without defensive qualities have been sold. We need to be open to new investment opportunities that may emerge but after eight years of economic growth and share price appreciation it is important to remember to stick with investment disciplines.

James Henderson and Laura Foll
Fund Managers
14 December 2017

Strategic Report: Portfolio Analysis

Sector		United Kingdom %	Overseas %	Total 30 September 2017 %	FTSE All-Share Index 2017 %	Total 30 September 2016 %
Oil & Gas	Oil & Gas Producers	7.7	0.6	8.3	11.9	7.9
	Oil Equipment Services & Distribution	–	–	–	0.3	0.9
	Alternative Energy	0.4	–	0.4	–	0.5
		8.1	**0.6**	**8.7**	**12.2**	**9.3**
Basic Materials	Chemicals	4.1	–	4.1	0.7	6.9
	Forestry & Paper	1.1	–	1.1	0.3	1.0
	Industrial Metals & Mining	–	–	–	0.1	–
	Mining	0.9	–	0.9	6.1	2.7
		6.1	**–**	**6.1**	**7.2**	**10.6**
Industrials	Aerospace & Defence	6.7	–	6.7	2.0	6.7
	Construction & Materials	5.1	1.2	6.3	1.5	6.2
	Electronic & Electrical Equipment	1.7	–	1.7	0.5	1.3
	General Industrials	1.4	–	1.4	1.0	1.4
	Industrial Engineering	5.2	–	5.2	0.8	6.3
	Industrial Transportation	3.6	–	3.6	0.4	1.7
	Support Services	3.8	–	3.8	5.2	3.4
		27.5	**1.2**	**28.7**	**11.4**	**27.0**
Consumer Goods	Automobiles & Parts	1.9	–	1.9	0.2	2.0
	Beverages	–	–	–	2.9	–
	Food Producers	0.3	0.6	0.9	0.8	1.2
	Household Goods & Home Construction	2.3	–	2.3	3.4	2.6
	Leisure Goods	0.1	–	0.1	–	0.1
	Personal Goods	0.3	–	0.3	2.6	0.3
	Tobacco	–	–	–	5.8	–
		4.9	**0.6**	**5.5**	**15.7**	**6.2**
Health Care	Health Care Equipment & Services	0.9	–	0.9	1.0	1.0
	Pharmaceuticals & Biotechnology	3.3	–	3.3	7.5	3.4
		4.2	**–**	**4.2**	**8.5**	**4.4**
Consumer Services	Food & Drug Retailers	2.1	–	2.1	1.3	1.8
	General Retailers	1.8	–	1.8	1.9	1.8
	Media	2.9	–	2.9	3.3	3.6
	Travel & Leisure	2.2	2.1	4.3	4.5	3.5
		9.0	**2.1**	**11.1**	**11.0**	**10.7**
Telecommunications	Fixed Line Telecommunications	0.3	–	0.3	1.1	0.4
	Mobile Telecommunications	1.5	–	1.5	2.5	1.8
		1.8	**–**	**1.8**	**3.5**	**2.2**
Utilities	Electricity	–	–	–	0.6	–
	Gas Water & Multiutilities	1.6	–	1.6	2.4	1.8
		1.6	**–**	**1.6**	**3.0**	**1.8**
Financials	Banks	5.8	–	5.8	11.3	6.3
	Equity Investment Instruments	1.9	–	1.9	4.4	0.9
	Financial Services	5.8	–	5.8	2.9	5.5
	Life Insurance	9.9	–	9.9	4.3	7.1
	Non-Life Insurance	5.6	0.8	6.4	1.1	6.0
	Real Estate	2.4	–	2.4	2.5	2.0
		31.4	**0.8**	**32.2**	**26.5**	**27.8**
Technology	Software & Computer Services	0.1	–	0.1	1.1	–
		0.1	**–**	**0.1**	**1.1**	**–**
	Investments	94.7	5.3	100.0	–	100.0
	Total at 30 September 2017	**94.7**	**5.3**	**100.0**	**100.0**	**–**
	Total at 30 September 2016	**94.1**	**5.9**	**–**	**–**	**100.0**

Strategic Report: Twenty Largest Holdings

Twenty Largest Holdings at 30 September 2017

The stocks in the portfolio are a diverse mix of businesses operating in a wide range of end markets.

Rank 2017 (2016)	Company	% of portfolio	Approximate Market Capitalisation	Valuation 2016 £'000	Purchases £'000	Sales £'000	Appreciation/ (depreciation) £'000	Valuation 2017 £'000
1 (1)	**Royal Dutch Shell** The company explores, produces and refines oil; it produces fuels, chemicals and lubricants as well as operating filling stations worldwide. They have attacked their cost base and have very high class assets which positions them well for the future.	5.5	£200bn	20,137	2,109	–	3,337	**25,583**
2 (2)	**HSBC** The global bank provides international banking and financial services. The diversity of the countries it operates in as well as its exposure to faster growing economies make it well placed.	3.4	£150bn	12,471	–	–	3,413	**15,884**
3 (5)	**Phoenix** The company operates primarily in the UK and specialises in taking over and managing closed life and pension funds.	3.0	£3bn	10,537	3,550	–	254	**14,341**
4 (3)	**Hiscox** The international insurance company manages underwriting syndicates and underwrites a range of personal and commercial insurance. They are very disciplined and have over the long-term achieved a high return on capital.	3.0	£4bn	12,414	–	(1,336)	2,892	**13,970**
5 (4)	**Senior** The company manufactures specialist engineering products for the automotive and aerospace sectors. Having come under margin pressure in recent years, we think they are well positioned to grow margins as end markets recover and new aerospace programs ramp up production.	3.0	£1.2bn	11,455	–	–	2,340	**13,795**
6 (8)	**Prudential** The company provides an assortment of insurance and investment products around the world. The business in the Far East has grown impressively in recent years.	2.5	£50bn	8,882	–	–	2,730	**11,612**
7 (12)	**Irish Continental**[1] The group markets holiday packages and provides passenger transport, roll-on and roll-off freight transport and container services between Ireland, the United Kingdom and Continental Europe. It is a very cash generative well-run company.	2.1	£940m	7,526	–	–	2,485	**10,011**
8 (6)	**Standard Chartered** The international banking group operates principally in Asia, Africa and the Middle East. The new management team has focused the bank back to areas of relative strength in its growing markets.	1.9	£25bn	9,920	–	(2,688)	1,881	**9,113**

* Not in the top 20 largest investments last year
1 Overseas listed stocks (Ireland)
2 AIM stocks

Strategic Report: Twenty Largest Holdings (continued)

Rank 2017 (2016)	Company	% of portfolio	Approximate Market Capitalisation	Valuation 2016 £'000	Purchases £'000	Sales £'000	Appreciation/ (depreciation) £'000	Valuation 2017 £'000
9 (9)	**GKN** The manufacturer produces automotive components and aerospace parts. Similar to Senior, operating margins have come under pressure recently but we think they have good scope to grow in future.	1.9	£5.5bn	8,136	–	–	652	**8,788**
10 *	**Aviva** This company provides a wide range of insurance and financial services. The management team have done a good job of simplifying the business, exiting peripheral and low return areas. They pay an attractive yield that has good scope to grow.	1.7	£21bn	3,524	3,767	–	684	**7,975**
11 *	**Low & Bonar** A specialist polymer producer across a wide range of markets (products include carpet tiles, truck tarpaulins, roofing products). Shares have been weak recently as they have struggled to fully pass onto customers higher raw material costs. The new management team have, however, simplified the business and we think they have good scope to grow margins over time.	1.7	£220m	5,568	714	–	1,627	**7,909**
12 *	**Standard Life Aberdeen** Following the acquisition of Aberdeen, the company is predominantly an asset manager. The acquisition diversifies Standard Life away from what were primarily absolute return products.	1.7	£13bn	2,814	3,602	–	1,466	**7,882**
13 (16)	**Johnson Service**[2] A textile rental company that provides linens for use across workwear, hotels and restaurants. In recent years the management team have successfully de-geared the balance sheet and grown operating margins.	1.6	£540m	6,533	–	(1,128)	2,035	**7,440**
14 (15)	**Relx** The company publishes information for the scientific, medical, legal and business sectors serving customers worldwide. It is a consistent, high quality growth business.	1.6	£36bn	6,583	–	–	783	**7,366**
15 (19)	**Rolls-Royce** The company designs and manufactures engines as well as providing aftermarket services for use across aerospace and industry. They have successfully won market share across many of the large new civil aerospace programmes and under a new management team have a renewed focus on removing duplicate costs.	1.6	£18bn	5,940	–	–	1,378	**7,318**
16 *	**Direct Line** A UK provider of car and home insurance. Their well-known brands allow them to grow policies well, while maintaining underwriting discipline. A strong balance sheet allows them to pay an attractive dividend yield to shareholders.	1.5	£5bn	3,648	3,519	–	105	**7,272**

* Not in the top 20 largest investments last year
1 Overseas listed stocks (Ireland)
2 AIM stocks

Strategic Report: Twenty Largest Holdings (continued)

Rank 2017 (2016)	Company	% of portfolio	Approximate Market Capitalisation	Valuation 2016 £'000	Purchases £'000	Sales £'000	Appreciation/ (depreciation) £'000	Valuation 2017 £'000
17 (17)	**BP** A producer and refiner of oil. Following the fall in the oil price they have successfully focused on cost reduction.	1.5	£100bn	6,525	–	–	396	**6,921**
18 *	**DS Smith** A cardboard packaging manufacturer. Management have done an excellent job in recent years of successfully integrating acquisitions and growing operating margins.	1.4	£5.5bn	5,764	–	(711)	1,601	**6,654**
19 *	**International Personal Finance** The company provides unsecured, cash loans in markets such as Mexico and Poland. Potential changes to regulation in Poland (one of their largest markets) has meant the shares have been weak. While regulation is uncertain, the geographies they operate in should mean there is good potential for growth and it is a high returning business.	1.4	£450m	4,976	2,299	–	(631)	**6,644**
20 (13)	**Headlam** The company distributes floor tiles and carpeting. They are increasing the price of their products and their national coverage positions them well to continue growing.	1.4	£500m	7,039	–	(1,749)	1,348	**6,638**
		43.4		**160,392**	**19,560**	**(7,612)**	**30,776**	**203,116**

At 30 September 2017 these investments totalled £203,116,000 or 43.4% of portfolio.

* Not in the top 20 largest investments last year
1 Overseas listed stocks (Ireland)
2 AIM stocks

Strategic Report: Investment Portfolio

30 September 2017 Position	Investments	Sector	Market Value £'000	% of Portfolio
1	Royal Dutch Shell	Oil & Gas Producers	25,583	5.5
2	HSBC	Banks	15,884	3.4
3	Phoenix	Life Insurance	14,341	3.0
4	Hiscox	Non-Life Insurance	13,970	3.0
5	Senior	Aerospace & Defence	13,795	3.0
6	Prudential	Life Insurance	11,612	2.5
7	Irish Continental[2]	Travel & Leisure	10,011	2.1
8	Standard Chartered	Banks	9,113	1.9
9	GKN	Automobiles & Parts	8,788	1.9
10	Aviva	Life Insurance	7,975	1.7
10 largest			**131,072**	**28.0**
11	Low & Bonar	Construction & Materials	7,909	1.7
12	Standard Life Aberdeen	Life Insurance	7,882	1.7
13	Johnson Service[1]	Support Services	7,440	1.6
14	Relx	Media	7,366	1.6
15	Rolls-Royce	Aerospace & Defence	7,318	1.6
16	Direct Line	Non-Life Insurance	7,272	1.5
17	BP	Oil & Gas Producers	6,921	1.5
18	DS Smith	General Industrials	6,654	1.4
19	International Personal Finance	Financial Services	6,644	1.4
20	Headlam	Household Goods & Home Construction	6,638	1.4
20 largest			**203,116**	**43.4**
21	Croda	Chemicals	6,566	1.4
22	Conviviality Retail[1]	Food & Drug Retailers	6,521	1.4
23	Stobart	Industrial Transportation	6,079	1.3
24	CRH[2]	Construction & Materials	5,674	1.2
25	GlaxoSmithKline	Pharmaceuticals & Biotechnology	5,582	1.2
26	Clarkson	Industrial Transportation	5,331	1.2
27	Elementis	Chemicals	5,283	1.1
28	Renold	Industrial Engineering	5,238	1.1
29	Randall & Quilter[1]	Non-Life Insurance	5,168	1.1
30	BAE Systems	Aerospace & Defence	5,052	1.1
30 largest			**259,610**	**55.5**
31	Mondi	Forestry & Paper	5,012	1.1
32	Castings	Industrial Engineering	4,985	1.1
33	Marshalls	Construction & Materials	4,927	1.0
34	Carclo	Chemicals	4,908	1.0
35	Henderson Opportunities Trust	Equity Investment Instruments	4,786	1.0
36	Park[1]	Financial Services	4,628	1.0
37	Chesnara	Life Insurance	4,463	1.0
38	St Modwen Properties	Real Estate	4,454	1.0
39	Avon Rubber	Aerospace & Defence	4,453	1.0
40	Herald Investment Trust	Equity Investment Instruments	4,396	0.9
40 largest			**306,622**	**65.6**

1 AIM stocks
2 Overseas listed stocks (Canada, France, Ireland and USA)

Strategic Report: Investment Portfolio (continued)

30 September 2017 Position	Investments	Sector	Market Value £'000	% of Portfolio
41	Churchill China[1]	Household Goods & Home Construction	4,368	0.9
42	Rio Tinto	Mining	4,341	0.9
43	Vodafone	Mobile Telecommunications	4,318	0.9
44	Consort Medical	Health Care Equipment & Services	4,246	0.9
45	Royal Mail	Industrial Transportation	4,226	0.9
46	AstraZeneca	Pharmaceuticals & Biotechnology	4,162	0.9
47	International Consolidated Airline	Travel & Leisure	4,154	0.9
48	Hill & Smith	Industrial Engineering	4,127	0.9
49	IMI	Industrial Engineering	4,084	0.9
50	H&T Group[1]	Financial Services	3,912	0.9
50 largest			**348,560**	**74.6**
51	Renewi	Support Services	3,816	0.8
52	Balfour Beatty	Construction & Materials	3,788	0.8
53	Redde[1]	Financial Services	3,780	0.8
54	Morgan Advanced Materials	Electronic & Electrical Equipment	3,733	0.8
55	FBD[2]	Non-Life Insurance	3,635	0.8
56	Numis[1]	Financial Services	3,509	0.8
57	TT Electronics	Electronic & Electrical Equipment	3,420	0.7
58	National Grid	Gas Water & Multiutilities	3,390	0.7
59	McColl's Retail	Food & Drug Retailers	3,386	0.7
60	Epwin [1]	Construction & Materials	3,297	0.7
60 largest			**384,314**	**82.2**
61	IP group	Financial Services	3,231	0.7
62	Shoe Zone[1]	General Retailers	3,165	0.7
63	Daily Mail & General Trust	Media	3,082	0.6
64	Marstons	Travel & Leisure	2,994	0.6
65	Ibstock	Construction & Materials	2,910	0.6
66	Mucklow	Real Estate	2,874	0.6
67	4D Pharma[1]	Pharmaceuticals & Biotechnology	2,778	0.6
68	Greencore[2]	Food Producers	2,742	0.6
69	Ten Entertainment	Travel & Leisure	2,713	0.6
70	Somero Enterprises[1]	Industrial Engineering	2,700	0.6
70 largest			**413,503**	**88.4**
71	Gibson Energy[2]	Oil & Gas Producers	2,579	0.6
72	Inmarsat	Mobile Telecommunications	2,574	0.6
73	Virgin Money Holding 8.75%	Banks	2,105	0.5
74	Gordon Dadds[1]	Support Services	2,014	0.4
75	Pennon	Gas Water & Multiutilities	1,992	0.4
76	Weir	Industrial Engineering	1,965	0.4
77	Findel	General Retailers	1,937	0.4
78	K3 Capital[1]	Support Services	1,908	0.4
79	Palace Capital[1]	Real Estate	1,906	0.4
80	Centrica	Gas Water & Multiutilities	1,870	0.4
80 largest			**434,353**	**92.9**

1 AIM stocks
2 Overseas listed stocks (Canada, France, Ireland and USA)

Strategic Report: Investment Portfolio (continued)

30 September 2017 Position	Investments	Sector	Market Value £'000	% of Portfolio
81	PRS	Real Estate	1,796	0.4
82	Indus Gas[1]	Oil & Gas Producers	1,711	0.4
83	Pearson	Media	1,683	0.4
84	Velocys [1]	Chemicals	1,628	0.4
85	Horizon Discovery[1]	Pharmaceuticals & Biotechnology	1,623	0.3
86	Manx Telecom [1]	Fixed Line Telecommunications	1,585	0.3
87	Carr's Group	Food Producers	1,512	0.3
88	Airea[1]	Personal Goods	1,485	0.3
89	Eleco[1]	Construction & Materials	1,482	0.3
90	Oxford Sciences Innovation[3]	Pharmaceuticals & Biotechnology	1,451	0.3
90 largest			**450,309**	**96.3**
91	Atlantis Resources[1]	Alternative Energy	1,335	0.3
92	Moss Bros	General Retailers	1,328	0.3
93	Quarto	Media	1,200	0.3
94	Interserve	Support Services	1,123	0.3
95	Itaconix [1]	Chemicals	1,109	0.2
96	Mercantile Ports & Logistics[1]	Industrial Transportation	1,063	0.2
97	Provident Financial	Financial Services	1,038	0.2
98	Carillion	Support Services	1,025	0.2
99	Strix[1]	Electronic & Electrical Equipment	1,008	0.2
100	Marshall Motors[1]	General Retailers	852	0.2
100 largest			**461,390**	**98.7**
101	Premier Oil	Oil & Gas Producers	838	0.2
102	Topps Tiles	General Retailers	755	0.1
103	Chamberlin & Hill[1]	Industrial Engineering	696	0.1
104	Wadworth – Ordinary shares[3]	Travel & Leisure	641	0.1
105	Modern Water[1]	Gas Water & Multiutilities	619	0.1
106	Ilika[1]	Alternative Energy	468	0.1
107	DFS Furniture	General Retailers	415	0.1
108	Severfield	Industrial Engineering	315	0.1
109	Parity[1]	Software & Computer Services	296	0.1
110	Hornby[1]	Leisure Goods	192	0.1
110 largest			**466,625**	**99.8**
111	Providence Resources[1]	Oil & Gas Producers	175	0.1
112	Augean[1]	Support Services	166	0.1
113	Infrastructure India[1]	Equity Investment Instruments	166	–
114	ACHP[1]	Non-Life Insurance	128	–
115	Wadworth – Preference shares[3]	Travel & Leisure	126	–
116	Endeavour Mining[2]	Mining	102	–
117	Acertec	Industrial Metals & Mining	–	–
118	CDU	Personal Goods	–	–
119	Circle Oil	Oil & Gas Producers	–	–
120	Encor Power	Electricity Generation & Distribution	–	–
120 largest			**467,488**	**100.0**
121	Goldenport	Industrial Transportation	–	–
122	Xcite Energy	Oil & Gas Producers	–	–
Total Investments			**467,488**	**100.0**

1 AIM stocks
2 Overseas listed stocks (Canada, France, Ireland and USA)
3 Unlisted investments

Strategic Report: Historical Record

Historical Record

Year to 30 September	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Gross Revenue (£'000)	9,726	12,326	8,135	8,410	9,888	10,774	12,457	13,668	15,647	16,052	**16,921**
Per ordinary share (pence):											
Net Revenue	27.9	33.0	22.7	22.5	28.8	31.1	36.7	39.4	46.4	47.7	**49.1**
Dividend Paid (net)[1]	23.5	26.5	26.5	27.0	28.0	30.5	34.0	37.0	41.0	45.0	**49.0**[2]
Net Assets Attributable to ordinary shares (£'m)	275.9	178.4	173.6	203.5	214.3	266.4	347.2	361.9	354.6	386.9	**439.9**
Net Asset Value per ordinary share (pence)	1,044.3	675.4	657.3	770.3	811.0	1,008.4	1,306.9	1,345.6	1,318.4	1,432.0	**1,628.1**
Share Price (pence)	1,091.0	625.0	610.0	699.5	762.5	991.5	1,325.0	1,355.0	1,287.0	1,336.5	**1,504.0**

1 Represents the total amount paid in respect of each financial year

2 Includes the final dividend of 13.0p per ordinary share that will be put to shareholders for approval at the Annual General Meeting on Monday 29 January 2018

Indices 2007 =100	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Net Asset Value (capital return)	**100.00**	63.98	62.23	73.15	77.05	97.15	126.03	129.70	126.96	137.89	**155.65**
Ordinary Share Price (capital return)	**100.00**	57.29	55.91	64.12	69.89	90.88	121.45	124.20	117.97	122.50	**137.86**
Net Dividend	**100.00**	112.77	112.77	114.89	119.15	129.79	144.68	157.45	174.47	191.49	**208.51**
FTSE All-Share Index (capital return)	**100.00**	74.88	79.44	86.45	80.03	90.41	103.83	106.54	100.57	113.22	**122.10**
Retail Price Index	**100.00**	105.00	103.58	108.23	113.82	116.47	119.62	121.88	122.66	124.70	**128.55**

Source: Thomson Financial, Datastream and Janus Henderson, capital returns only

Strategic Report: Business Model

Background

Lowland is a Company listed on the London Stock Exchange. It was created in 1960 and began trading on the London Stock Exchange in 1963. Since inception it has been managed by a representative of Janus Henderson. The Board is independent of the appointed Manager and is responsible for reviewing the ongoing management of the Company.

Investment Objective

The Company aims to give shareholders a higher than average return with growth of both capital and income over the medium to long-term by investing in a broad spread of predominantly UK companies. The Company measures its performance against the FTSE All-Share Index Total Return.

Investment Policy

Asset Allocation

The Company will invest in a combination of large, medium and smaller companies listed in the UK. We are not constrained by the weightings of any index; we focus instead on controlling absolute risk by diversifying on the basis of underlying company characteristics such as size, industry, economic sensitivity, clients and management. In normal circumstances up to half the portfolio will be invested in FTSE 100 companies; the remainder will be divided between small and medium-sized companies. On occasions the Manager will buy shares listed overseas. The Manager may also invest a maximum of 15% in other listed trusts.

Dividend

The Company aims to provide shareholders with better-than-average dividend growth.

Gearing

The Board believes that debt in a closed-end fund is a valuable source of long-term outperformance, therefore the Company will usually be geared. At the point of drawing down debt gearing will never exceed 29.99% of the portfolio valuation. Borrowing will be a mixture of short and long-dated debt, depending on relative attractiveness of rates.

Management

The Company qualifies as an Alternative Investment Fund ('AIF') in accordance with the Alternative Investment Fund Managers Directive ('AIFMD').

The Company has appointed Henderson Investment Funds Limited ('HIFL') to act as its Alternative Investment Fund Manager ('AIFM') in accordance with an agreement which was effective from 22 July 2014 and is terminable on six months' notice. HIFL delegates investment management services to Henderson Global Investors Limited. Both entities are authorised and regulated by the Financial Conduct Authority ('FCA'). References to Janus Henderson within this report refer to the services provided by both entities.

The fund management team is James Henderson and Laura Foll. James Henderson has been in place since 1990.

Janus Henderson and its subsidiaries provide accounting, company secretarial and general administrative services. Some of the administration and accounting services are carried out, on behalf of Janus Henderson, by BNP Paribas Securities Services. Hannah Gibson ACIS acts as Company Secretary on behalf of the Corporate Secretary, Henderson Secretarial Services Limited.

Management and Performance Fee Arrangements

Until 30 June 2017 the management fee was calculated at the rate of 0.5% of the average of the aggregate net chargeable assets on the last day of the relevant quarter and the last day of the corresponding quarter in the preceding year. Net chargeable assets are defined as total assets less current liabilities and without limitation any borrowings for investment purposes but excluding the value of any investment in any funds managed by Janus Henderson and any investment in Janus Henderson Group plc.

The performance fee is 15% of any outperformance on a total return basis of Lowland's benchmark (currently the FTSE All-Share Index Total Return) by more than 10% (the 'hurdle rate') over the average of the last three years. The performance fee, plus the management fee of 0.5% of net chargeable assets described above, were capped in any year at a total of 0.75% of average net chargeable assets for the year. Any performance fee paid is charged to the capital return column of the Income Statement whereas the management fee is charged to the revenue return column.

No performance fee will be payable if the net asset value per share on the last day of the relevant calculation period is lower than the net asset value per share on the first day of that calculation period.

With effect from 1 July 2017 the management fee arrangement above continued to apply to the first £375m of net chargeable assets. A reduced management fee of 0.4% per annum on net chargeable assets above £375m, will apply.

The cap on total fees, base management fee plus performance fee, of 0.75% per annum was replaced by a cap on the performance fee at its existing level of 0.25% per annum of average net chargeable assets in any one year.

The amendments also clarified that net chargeable assets for the purpose of the fee arrangements should reflect the senior unsecured loan notes at fair value.

Strategic Report: Biographies

From left to right Laura Foll, Karl Sternberg, Gaynor Coley, Robert Robertson, Kevin Carter, Duncan Budge and James Henderson.

Directors

Robert Robertson

Position: Chairman of the Board and of the Nominations and Management Engagement Committees (Chairman 24 January 2017)

Date of appointment: 1 May 2011

Robert is a director of BlackRock Smaller Companies Trust Plc and a number of private companies. He was previously chairman of West China Cement Limited, a director of Buro Happold Engineers Limited, Metallon Corporation plc and Mondi Europe and chief executive of Tarmac Group Limited and Anglo American's Industrial Minerals division. His early career was in finance, working in London, Paris, Johannesburg, New York and Rio de Janeiro. He brings forty years' involvement in companies of all sizes, many sectors and geographies, and in executive and non-executive capacities as well as investment experience.

Duncan Budge

Position: Director

Date of appointment: 14 July 2014

Duncan has extensive experience within the investment trust sector. He is Chairman of Dunedin Enterprise Investment Trust PLC and Artemis Alpha Trust plc. He is a non-executive Director of Lazard World Trust Fund, Menhaden Capital plc, Biopharma Credit plc and Asset Value Investors Ltd. He was formerly a Director and Chief Operating Officer at RIT Capital Partners plc, and a Director of J. Rothschild Capital Management Limited (RIT's management company). Prior to this he spent six years at Lazard Brothers & Co Limited.

Peter Troughton, CBE retired as a Director on 24 January 2017.

All Directors are independent of Janus Henderson and are members of the Audit (except the Chairman), Nominations, Management Engagement and Insider Committees.

Strategic Report: Biographies (continued)

Kevin Carter

Position: Director

Date of appointment: 1 October 2009

Kevin is Chairman of Murray International Trust plc and JPMorgan American Investment Trust plc. He is a trustee Director and Investment Committee chairman at the Universities Superannuation Scheme Limited and the BBC Pension Scheme, and a director of Aspect Capital Limited. He was formerly the Head of the European Investment Practice of Watson Wyatt Limited and Chief Executive Officer of Old Mutual Asset Managers. He brings a wide international experience of investment management to the Board, both as a fund manager and manager of investment businesses. Experience also includes management of large scale pension funds involving ongoing assessment and monitoring of investment manager policies and processes.

(Susan) Gaynor Coley

Position: Director and Chairman of the Audit Committee (Audit Chairman 24 January 2017)

Date of appointment: 1 November 2016

Gaynor is a director of SQN Secured Investment Fund plc and a number of private companies. She was previously the Director of Public Programmes at the Royal Botanic Gardens Kew, Managing Director of the Eden Project, and Director of Finance at Plymouth University. A qualified chartered accountant she has over 30 years of experience in private and public sector finance and Chairs the Corporate Responsibility Advisory Group of The Institute of Chartered Accountants in England and Wales. She is also a non-executive director on the Board of Ignite Investment Fund for Social Enterprise which is part of Centrica PLC.

Karl Sternberg

Position: Director

Date of appointment: 1 January 2009

Karl is a Director of Jupiter Fund Management PLC, JPMorgan Elect plc, Monks Investment Trust PLC, Herald Investment Trust plc, Alliance Trust plc and Railpen. He is also a Fellow of St Catherine's College, Oxford. He was formerly Chief Investment Officer for Deutsche Asset Management (Europe and Asia Pacific) and Chief Executive of Oxford Investment Partners Limited. He is also used to managing investment teams in a large fund management organisation. His varied non-executive directorships give him a good understanding of contributing to the supervision of an investment trust portfolio; his involvement in operating companies also allows him to share insights with the managers on the issues businesses in the financial sector face.

Fund Managers

James Henderson

James Henderson is Director of UK Investment Trusts and a Fund Manager at Janus Henderson Investors, a position he has held as part of the Henderson team since 2003. He joined Janus Henderson in 1983 as a trainee fund manager and, during his tenure with the firm, has been successfully managing a number of investment trusts, and Lowland since 1990. Prior to joining Janus Henderson he was an accountant trainee at Binder Hamlyn. James graduated with an MA (Hons) in economics from Cambridge University and has 35 years of financial industry experience.

Laura Foll

Laura Foll is a Fund Manager at Janus Henderson Investors, a position she has held as part of the Janus Henderson team since 2014. Laura joined Janus Henderson in 2009 as part of the graduate scheme. She was subsequently named a global analyst on the value and income team and later an assistant fund manager for the global equity income team. Laura graduated from the London School of Economics with an honours degree in economic history with economics. She holds the Chartered Financial Analyst designation and has 8 years of financial industry experience.

Strategic Report: Corporate Information

Registered Office

201 Bishopsgate
London EC2M 3AE

Service Providers

Alternative Investment Fund Manager

Henderson Investment Funds Limited
201 Bishopsgate
London EC2M 3AE

Corporate Secretary

Henderson Secretarial Services Limited
201 Bishopsgate
London EC2M 3AE
Telephone: 020 7818 1818
Email: support@janushenderson.com

Depositary and Custodian

HSBC Bank plc
8 Canada Square
London E14 5HQ

Stockbrokers

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

Registrar

Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol BS99 6ZZ
Telephone: 0370 707 1057

Independent Auditor

Ernst & Young LLP
25 Churchill Place
London E14 5EY

Financial Calendar

Annual results	announced December 2017
Ex dividend date	4 January 2018
Dividend record date	5 January 2018
Annual General Meeting[1]	29 January 2018
Final dividend payable on	31 January 2018
Half year results	announced June 2018

1 At the Company's registered office at 12.30 p.m.

Information Sources

For more information about Lowland Investment Company plc, visit the website at **www.lowlandinvestment.com**

HGi

HGi is a content platform provided by Janus Henderson that offers online personalisation where you can 'follow' investment experts, topics and the trusts that are of interest to you. By creating your HGi profile you will be updated regularly on the topics that interest you most, bringing you closer to Janus Henderson's investment expertise.

Scan the QR code or use this short URL to register for HGi: http://HGi.co/rb

Follow Janus Henderson Investment Trusts on Twitter, YouTube and Facebook

For alternative access to Janus Henderson's insight you can now follow on Twitter, YouTube and Facebook.

Investing

Shares can be purchased in the market via a stockbroker or through share dealing platforms. They can also be held through share plans, ISAs or pensions and links to various providers are included on the website. Individuals holding shares through Halifax Share Dealing Limited can write to them at Lovell Park Road, Leeds LS1 1NS or contact them via telephone 03457 225525, email **customercare.HSDL@halifax.co.uk** or visit their website **www.halifax.co.uk/sharedealing**.

Potential investors are reminded that the value of investments and the income from them may go down as well as up and investors may not receive back the full amount invested. Tax benefits may vary as a result of statutory changes and their value will depend on individual circumstances.

Nominee Share Code

Where notification has been provided in advance, the Company will arrange for copies of shareholder communications to be provided to the operators of nominee accounts. Nominee investors may attend General Meetings and speak at them when invited to do so by the Chairman.

Investors in Halifax Share Dealing receive all shareholder communications. A voting instruction form is provided to facilitate voting at General Meetings of the Company.

Strategic Report: Corporate Information (continued)

Status

The Company is registered as a public limited company and is an investment trust as defined under section 833 of the Companies Act 2006 (the 'Act'). It has been approved as an investment company under sections 1158/1159 of the Corporation Tax Act 2010 ('Section 1158'), as amended, and is a member of the Association of Investment Companies ('AIC').

The Directors are of the opinion that the Company continues to conduct its affairs as an Approved Investment Trust under the Investment Trust (Approved Company) (Tax) Regulations 2011. The Company maintains a primary listing on the London Stock Exchange and is subject to the Listing, Prospectus and Disclosure Guidance and Transparency Rules published by the UKLA. The Company is governed by its Articles of Association, amendments to which must be approved by shareholders by way of a special resolution.

Principal Risks and Uncertainties

The Board, with the assistance of the Manager, has carried out a robust assessment of the principal risks, and uncertainties, facing the Company that would threaten its business model, future performance, solvency and liquidity. A matrix of these risks has been drawn up and steps taken to mitigate these. The principal risks and mitigating actions are as follows:

Investment Activity and Strategy Risk

An inappropriate investment strategy or poor execution, for example, in terms of asset allocation or level of gearing, may result in underperformance against the Company's benchmark index and the companies in its peer group, and also in the Company's shares trading on a wider discount to the net asset value per share.

The Board manages these risks by ensuring a diversification of investments and a regular review of the extent of borrowings. Janus Henderson operates in accordance with investment limits and restrictions and policy determined by the Board, which includes limits on the extent to which borrowings may be employed.

The Board reviews the investment limits and restrictions on a regular basis and the Manager confirms adherence to them every month. Janus Henderson provides the Board with management information, including performance data and reports and shareholder analyses.

The Board monitor the implementation and results of the investment process with the Fund Managers at each Board meeting and monitor risk factors in respect of the portfolio.

Investment strategy is reviewed at each meeting.

Portfolio and Market Price Risk

Market risk arises from uncertainty about the future prices of the Company's investments. Although the Company invests almost entirely in securities that are listed on recognised markets, share prices may move rapidly. The companies in which investments are made may operate unsuccessfully, or fail entirely.

The Fund Managers seek to maintain a diversified portfolio to mitigate against this risk. The Board regularly reviews the portfolio, activities and performance. An analysis of the Company's portfolio is shown on pages 15 to 17, see note 14.1.1 on pages 53 and 54 also.

Financial Risk

The financial risks faced by the Company include market price risk, interest rate risk, liquidity risk, currency risk and credit and counterparty risk.

The Company minimises the risk of a counterparty failing to deliver securities or cash by dealing through organisations that have undergone rigorous due diligence by Janus Henderson. The Company holds its liquid funds almost entirely in interest bearing bank accounts in the UK or on short-term deposit. This, together with a diversified portfolio which comprises mainly investments in large and medium-sized companies mitigates the Company's exposure to liquidity risk. Currency risk is mitigated by the low exposure to overseas stocks.

Gearing Risk

At the point of drawing down debt gearing will never exceed 29.99% of the portfolio valuation. In the event of a significant or prolonged fall in equity markets gearing would exacerbate the effect of the falling market on the Company's NAV per share and, consequently its share price.

The Company minimises the risk by the regular monitoring of the levels of the Company's borrowings in accordance with the agreed limits. The Company confirms adherence to the covenants of the loan facilities on a monthly basis.

Operational Risk

Disruption to, or the failure of, Janus Henderson's accounting, dealing or payment systems or the custodian's records could prevent the accurate reporting or monitoring of the Company's financial position.

Janus Henderson contracts some of the operational functions (principally those relating to trade processing, investment administration and accounting), to BNP Paribas Securities Services.

Details of how the Board monitors the services provided by Janus Henderson and its other suppliers, including cyber risk, and the key elements designed to provide effective internal control, are explained further in the Internal Controls section of the Annual Report.

Accounting, Legal and Regulatory Risk

In order to qualify as an investment trust, the Company must comply with Section 1158. A breach of Section 1158 could result in the Company losing investment trust status and, as a consequence, capital gains realised within the Company's portfolio would be subject to Corporation Tax.

Compliance with the requirements of Section 1158 is monitored by Janus Henderson and the results are reported at each Board meeting. The Company must comply with the provisions of the Companies Act 2006 and, since its shares are listed on the London Stock Exchange, the UKLA's Listing and Disclosure Guidance and Transparency Rules and the Prospectus Rules ('UKLA Rules').

Strategic Report: Corporate Information (continued)

A breach of the Companies Act 2006 could result in the Company and/or the Directors being fined or the subject of criminal proceedings. A breach of the Listing Rules could result in the suspension of the Company's shares; which in turn would breach Section 1158.

The Board relies on its Company Secretary and its professional advisers to ensure compliance with the Companies Act 2006 and Listing Rules.

The Board receives internal control reports produced by Janus Henderson on a quarterly basis, which confirm regulatory compliance.

The Board considers these risks to have remained unchanged throughout the year under review.

Viability Statement

The Company is a long-term investor; the Board believes it is appropriate to assess the Company's viability over a five year period in recognition of our long-term horizon and what we believe to be investors' horizons, taking account of the Company's current position and the potential impact of the principal risks and uncertainties as documented above in this Strategic Report.

The assessment has considered the impact of the likelihood of the principal risks and uncertainties facing the Company, in particular investment strategy and performance against benchmark, whether from asset allocation or the level of gearing, and market risk, materialising in severe but plausible scenarios, and the effectiveness of any mitigating controls in place.

The Board has taken into account the liquidity of the portfolio and the gearing in place when considering the viability of the Company over the next five years and its ability to meet liabilities as they fall due. This included consideration of the duration of the Company's loan facilities and how a breach of the loan facility covenants could impact on the Company's liquidity, net asset value and share price.

The Board does not expect there to be any significant change in the current principal risks and adequacy of the mitigating controls in place. The Directors do not envisage any change in strategy or objectives or any events that would prevent the Company from continuing to operate over that period as the Company's assets are liquid, its commitments are limited and the Company intends to continue to operate as an investment trust. Only a substantial financial crisis affecting the global economy could have an impact on this assessment.

Based on this assessment, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the next five year period.

Key Performance Indicators

In order to measure the success of the Company in meeting its objectives and to evaluate the performance of Janus Henderson, the Directors take into account the following key performance indicators:

Performance Measured against the Benchmark

The Board reviews and compares, at each meeting, the performance of the portfolio as well as the net asset value and share price for the Company and its benchmark, which is the FTSE All-Share Index Total Return.

Discount/Premium to Net Asset Value

At each Board meeting, the Board monitors the level of the Company's discount/premium to NAV and reviews the average discount/premium for the Company's relevant Association of Investment Companies ('AIC') sector (UK Equity Income). The Board considers the use of share buy-backs to enhance shareholder value where appropriate. Shares would only be purchased at a price below the prevailing NAV per share, thereby increasing the NAV of the remaining shares. The Board also considers the issuance of new shares, but only when there is unfulfilled demand, they trade at a premium to NAV, and the cost of such issuance is included in the price paid for the new shares, such that there is no detriment in terms of total return to existing shareholders. The Company publishes a NAV per share figure on a daily basis, through the official newswire of the London Stock Exchange. This figure is calculated in accordance with the AIC formula and since 1 June 2008 includes current financial year revenue items.

Performance against the Company's Peer Group

The Company is included in the AIC UK Equity Income sector. In addition to comparison against the stated benchmark, the Board also considers the performance against its AIC peer group at each Board meeting.

Ongoing Charge

The Ongoing Charge is a measure of the recurring expenses incurred by the Company expressed as a percentage of the average shareholders' funds over the year. The Board regularly reviews the Ongoing Charge and monitors all Company expenses.

The charts and tables on pages 3 and 4 show how the Company has performed against these KPIs and the Chairman's Statement and Fund Managers' Report give more information on performance.

Strategic Report: Corporate Information (continued)

Borrowings

At 30 September 2017 the Company had a committed loan facility with Scotiabank of up to £40m, which allows it to borrow as and when appropriate. Since the year end the Company has renewed this facility which expires on 27 October 2020. In the previous year the Company had a £25m loan facility with ING which was not renewed when the facility expired. The Company also has a conditional option to increase the Scotiabank facility by £20m

The maximum amount drawn down in the year under review was £50.9m (2016: £65.8m), with borrowing costs for the year totalling £299,000 (2016: £764,000). £10.0m (2016: £26.9m) of the facility was in use at the year end.

On 5 January 2017 the Company issued a £30m fixed rate 20 year senior unsecured loan notes at a final sterling coupon rate of 3.15%.

Gearing at 30 September 2017 was 6.3% (2016: 6.2%) of net asset value.

Future Developments

The future performance of the Company is dependent on international financial markets which are subject to various external factors, including political and economic conditions. It is the Board's intention that the Company will continue to pursue its stated investment objective and policy.

Corporate Responsibility

Responsible Investment, Voting and the UK Stewardship Code

The Board delegates the Company's investment management activities, including corporate governance and corporate responsibility in respect of investee companies, to Janus Henderson.

The Board retains oversight as to how duties in this area are discharged by reviewing the Responsible Investment Policy (the 'RI Policy') and receiving regular reporting on how the RI Policy has been applied in respect of the shares in its portfolio.

The Manager's RI Policy sets out its approach to corporate governance and corporate responsibility for all the companies in which it invests on behalf of its clients. This includes environmental, social and ethical issues, its approach to proxy voting and the application of the UK Stewardship Code.

The Board believes that voting at general meetings is an important aspect of corporate stewardship and a means of signalling shareholder views on Board policy, practices and performance.

Voting recommendations are guided by the best interests of the investee companies' shareholders and, depending on the nature of the resolution, the Fund Managers may give specific instructions on voting non-routine and unusual or controversial resolutions.

The RI Policy can be found on the Manager's website at **www.janushenderson.com**.

Employees, Social, Community, Human Rights and Environmental Matters

As an investment trust company, the Company's own direct environmental impact is minimal. The Company has no greenhouse gas emissions to report from its operations, nor does it have responsibility for any other emissions producing sources under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013.

The Company has no employees. The Directors are satisfied that, to the best of their knowledge, the Company's principal suppliers, listed on page 22, comply with the provisions of the UK Modern Slavery Act 2015 and maintain adequate safeguards in keeping with the provisions of the Bribery Act 2010.

Since the year end, the Board considered the recent changes made by the Criminal Finances Act 2017 which introduced a new corporate criminal offence of failing to take reasonable steps to prevent the facilitation of tax evasion. The Company maintains a zero tolerance policy towards the provision of illegal services, including the facilitation of tax evasion.

Board Diversity and Experience

The Company's affairs are overseen by a Board comprising of five non-executive Directors – one female and four males. The Directors are diverse in their experience bringing knowledge of investment markets, banking and accounting and auditing expertise to discussions regarding the Company's business. The Directors regularly consider the leadership needs and specific skills required to achieve the Company's investment objective, and are cognisant of diversity when making appointments to the Board. The Company has no employees and therefore has no further disclosures to make in respect of gender representation within the Company.

For and on behalf of the Board

Robert Robertson
Chairman
14 December 2017

Report of the Directors

The Directors present their report and the audited financial statements of the Company for the year ended 30 September 2017.

The Corporate Governance Statement, Report of the Audit Committee, the Investment Portfolio on pages 15 to 17 and the Corporate Information on pages 22 to 25 form part of the Report of the Directors.

Share Capital

The Company's share capital comprises ordinary shares with a nominal value of 25p each. The voting rights of the shares on a poll are one vote for every share held. There are no restrictions on the transfer of the Company's ordinary shares or voting rights, no shares which carry specific rights with regard to the control of the Company and no agreement which the Company is party to that affects its control following a takeover bid. To the extent that they exist, the revenue profits of the Company (including accumulated revenue reserves) are available for distribution by way of dividends to the holders of the ordinary shares. Upon a winding-up, after meeting the liabilities of the Company, the surplus assets would be distributed to the shareholders pro rata to their holding of ordinary shares. As at 30 September 2017, there were 27,018,565 ordinary shares in issue. No shares were issued during the year or in the period up to the date of this report.

The Company will seek authority from its shareholders at the 2018 AGM to renew the authorisation to allot new shares, to dis-apply pre-emption rights and to buy-back shares for cancellation or to be held in Treasury. At the AGM held in January 2017 the Directors were granted authority to buy-back 4,050,082 shares. At 30 September 2017 no shares had been bought back from this authority. The Directors have remaining authority to purchase 4,050,082 shares. This authority will expire at the conclusion of the 2018 AGM.

Holdings in the Company's Shares

There were no declarations of interests in the voting rights of the Company as at 30 September 2017 in accordance with the Disclosure, Guidance and Transparency Rules.

No changes have been notified in the period 1 October 2017 to 12 December 2017.

At 30 September 2017, 8.83% of the issued ordinary shares were held on behalf of participants in the Halifax Share Dealing products. The participants in this scheme are given the opportunity to instruct the nominee company to exercise the voting rights appertaining to their shares in respect of all General Meetings of the Company.

Fund Managers' Interests

James Henderson, Fund Manager, has a beneficial interest in 92,490 (2016: 92,490) and a non-beneficial interest in 577,565 (2016: 577,565) ordinary shares of the Company. Laura Foll, Fund Manager, has a beneficial interest in 811 ordinary shares of the Company (2016: 811).

Related Party Transactions

The Company's current related parties are its Directors and Janus Henderson. There have been no material transactions between the Company and its Directors during the year. The fees and expenses paid to Directors are set out on page 29. There were no outstanding amounts payable at the year end.

In relation to the provision of services by Janus Henderson, other than fees payable by the Company in the ordinary course of business and the provision of sales and marketing services, there have been no material transactions with Janus Henderson affecting the financial position of the Company during the year under review. More details on transactions with Janus Henderson, including amounts outstanding at the year end, are given in note 19 on page 59.

Annual General Meeting ('AGM')

The AGM will be held on Monday 29 January 2018 at 12:30p.m. at the Company's registered office. The Notice of Meeting and details of the resolutions to be put at the AGM are contained in the separate document being sent to shareholders with this report.

The Meeting will be broadcast live on the internet. If you are unable to attend the AGM in person you will be able to log on to watch the Meeting as it happens, by visiting **www.janushenderson.com/trustslive**.

Directors' Statement as to Disclosure of Information to the Auditor

Each of the Directors who were members of the Board at the date of approval of this report confirms that to the best of his or her knowledge and belief, there is no information relevant to the preparation of the Annual Report which the Company's Auditor is unaware and he or she has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's Auditor is aware of that information.

Requirement of the Listing Rules

Listing Rule 9.8.4 requires the Company to include certain information in a single identifiable section of the Annual Report or a cross reference table indicating where the information is set out. The Directors confirm that there are no disclosures to be made in this regard.

By order of the Board

Henderson Secretarial Services Limited
Corporate Secretary
14 December 2017

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and the Republic of Ireland", and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the net return or loss of the Company for that year. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Each of the Directors, who are listed on pages 20 and 21, confirms that, to the best of his/her knowledge:

- the Company's financial statements, which have been prepared in accordance with UK Accounting Standards and applicable law give a true and fair view of the assets, liabilities, financial position and profit of the Company; and
- the Strategic Report, Report of the Directors and financial statements include a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

The Directors consider that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

For and on behalf of the Board

Robert Robertson
Chairman
14 December 2017

The financial statements are published on **www.lowlandinvestment.com** which is a website maintained by Janus Henderson.

The maintenance and integrity of the website is the responsibility of the Manager. The work carried out by the Auditor does not involve consideration of these matters and, accordingly, the Auditor accepts no responsibility for any changes that may have occurred to the Annual Report since it was initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' Remuneration Report

Remuneration Policy

The Remuneration Policy sets out the principles applied in the remuneration of the Company's Directors. An ordinary resolution to approve the Remuneration Policy was last put to shareholders at the AGM on 24 January 2017 and will be put to them again at the AGM in 2020.

The Board's approach is that fees payable to the Directors should:
- reflect the time spent by them on the Company's affairs;
- reflect the responsibilities borne by them as Directors;
- be sufficient to promote the long-term success of the Company; and
- not exceed the aggregate limit of £250,000 per annum as established by the Articles of Association.

Directors are remunerated in the form of fees which are payable quarterly in arrears.

No Director is eligible to receive bonuses, pension benefits, share options or other benefits and no long-term incentive schemes are in place.

The Directors may be reimbursed for all reasonable and properly documented expenses incurred in the performance of their duties. The level of remuneration paid to each Director is reviewed annually, although such review will not necessarily result in a change to the rate.

All Directors, including any new appointments to the Board, are paid at the same rate. The Chairman of the Board and Chairman of the Audit Committee are paid a higher fee in recognition of their additional responsibilities.

The Remuneration Policy has been in place since 22 January 2014 and will remain in place unless it is amended by way of an ordinary resolution put to shareholders at a general meeting. The Remuneration Policy, irrespective of any changes, should be put to shareholders at intervals of not more than three years. The Board may amend the levels of remuneration paid to individual Directors within the parameters of the Remuneration Policy.

Shareholders' Views

Any feedback from shareholders on the fees paid to Directors would be taken into account by the Board when reviewing remuneration levels.

Letters of Appointment

All Directors are non-executive and are appointed under a letter of appointment, which is an engagement for services and not a contract for employment. The appointment may be terminated at any time by written notice with no compensation payable. The Company has no executive directors or employees.

Report on Implementation

The Directors' Remuneration Report (the 'Report') is prepared in accordance with Schedule 8 of The Large and Medium-sized Companies and Group (Accounts and Reports) Regulations 2008 as amended in August 2013 (the 'Regulations').

A resolution to approve this Report will be put to shareholders at the AGM to be held on Monday 29 January 2018.

Statement from the Chairman

As the Company has no employees and the Board is comprised entirely of non-executive Directors, the Board has not established a separate Remuneration Committee. Directors' remuneration is determined by the Board as a whole, at its discretion with an aggregate ceiling of £250,000 per annum.

Directors' fees for the year under review were £37,500 for the Chairman, £29,000 for the Chairman of the Audit Committee and £24,000 for the remaining Directors.

No changes have been made to the fees paid since they were last increased with effect from 1 October 2016.

Directors' Interests in Shares (audited)

The interests of the Directors in the ordinary shares of the Company at the beginning and end of the financial year under review are set out in the table below.

	Ordinary shares of 25p	
	30 September 2017	1 October 2016
Beneficial:		
Robert Robertson	44,225	44,225
Duncan Budge	5,000	5,000
Kevin Carter	8,000	8,000
Gaynor Coley[1]	–	n/a
Karl Sternberg	8,010	7,010
Peter Troughton[2]	n/a	22,260
Non Beneficial:		
Robert Robertson	12,000	12,000

1 Joined the Board on 1 November 2016
2 Retired from the Board on 24 January 2017

There have been no changes to any of the Directors' holdings in the period from 1 October 2017 to the date of this report.

In accordance with the Company's Articles of Association no Director is required to hold any shares of the Company by way of qualification.

Relative Importance of Spend on Pay

In order to show the relative importance of spend on pay, the table below sets out the total level of remuneration compared to the distributions paid to shareholders by way of dividends. There were no other significant distributions, payments or other uses of the Company's profit or cash flow deemed to assist in the understanding of the relative importance of spend on pay.

	2017 £	2016 £	Change £
Total remuneration paid to Directors	145,037	138,755	6,282
Ordinary dividend paid during the year	12,698,726	11,605,369	1,093,357

Directors' Remuneration Report (continued)

Directors' Fees and Expenses (audited)

The remuneration paid to the Directors who served during the years ended 30 September 2017 and 30 September 2016 was as follows:

	Year ended 30 September 2017 Total salary and fees £	Year ended 30 September 2016 Total salary and fees £	Year ended 30 September 2017 Taxable benefits £	Year ended 30 September 2016 Taxable benefits £	Year ended 30 September 2017 Total £	Year ended 30 September 2016 Total £
Robert Robertson[1]	34,808	26,000	527	611	35,335	26,611
Gaynor Coley[2]	25,395	–	432	–	25,827	–
Karl Sternberg	24,000	23,000	–	130	24,000	23,130
Kevin Carter	24,000	23,000	–	–	24,000	23,000
Duncan Budge	24,000	23,000	–	–	24,000	23,000
Peter Troughton[3]	11,875	36,000	–	–	11,875	36,000
Rupert Barclay[4]	–	7,014	–	–	–	7,014
Total	**144,078**	**138,014**	**959**	**741**	**145,037**	**138,755**

Notes:

The table above omits other columns set out in the relevant regulations because no payments of other types such as performance related pay, vesting performance related pay and pension related benefits were made

1 Chairman with effect from 24 January 2017 and highest paid Director

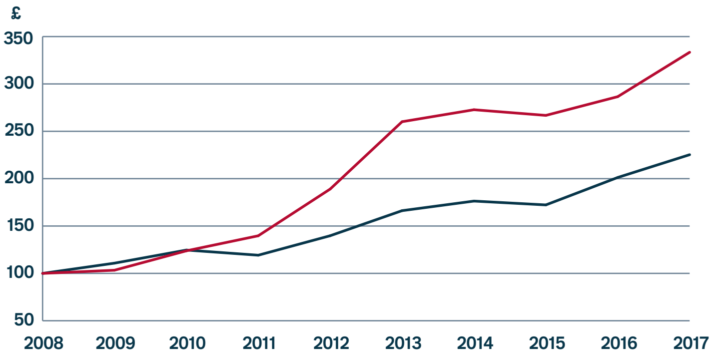
2 Appointed to the Board on 1 November 2016 and Chairman of the Audit Committee with effect from 24 January 2017

3 Retired from the Board on 24 January 2017

4 Retired from the Board on 20 January 2016

Performance

The graph below compares the mid-market price of the Company's ordinary shares over the nine year period ended 30 September 2017 with the return from the FTSE All-Share Index Total Return over the same period.



Source: Datastream

Lowland Investment Company plc share price total return, assuming the investment of £100 on 30 September 2008 and the reinvestment of all dividends (excluding dealing expenses)

FTSE All-Share Index Total Return, assuming the notional investment of £100 on 30 September 2008 and the reinvestment of all income (excluding dealing expenses)

Statement of Voting at AGM

A binding ordinary resolution adopting the Directors' Remuneration Policy was approved at the AGM held on 24 January 2017. The votes cast by proxy were as follows:

	% of votes cast
For	98.2
Against	1.2
At the Chairman's discretion	0.6
Votes withheld	28,038

A non-binding ordinary resolution adopting the Directors' Remuneration Report for the year ended 30 September 2016 was approved by shareholders at the AGM held on 24 January 2017. The votes cast by proxy were as follows:

	% of votes cast
For	98.4
Against	1.0
At the Chairman's discretion	0.6
Votes withheld	40,877

The percentage of votes in the tables above exclude votes withheld.

For and on behalf of the Board

Robert Robertson
Chairman
14 December 2017

Corporate Governance Statement

Applicable Corporate Governance Codes

The Company is required by the Listing Rules and the Disclosure Guidance and Transparency Rules issued by the FCA to disclose how it has applied the principles and complied with the provisions of the corporate governance code to which the issuer is subject. The UK Corporate Governance Code (the 'UK Code') issued by the Financial Reporting Council ('FRC') in April 2016 is applicable, along with the related Code of Corporate Governance issued by the AIC (the 'AIC Code') in July 2016 (together the 'Governance Codes').

The AIC Code addresses all of the applicable principles set out in the UK Code, as well as principles and recommendations which are of specific relevance to investment trust companies. The FRC has confirmed that by following the AIC Code, and associated AIC Guide, the boards of investment companies will meet their obligations in relation to the UK Code and the disclosure requirements of the Disclosure Guidance and Transparency Rules.

Copies of the AIC Code, the AIC Guide and the UK Code can be found on the respective organisations' websites: **www.theaic.co.uk** and **www.frc.org.uk**.

Statement of Compliance

The Board has considered the principles and recommendations of the Governance Codes and believe the Company has complied with the applicable provisions throughout the period under review.

The UK Code includes provisions relating to the role of the chief executive, executive directors' remuneration and the need for an internal audit function. For the reasons set out in the AIC Guide, and as explained in the AIC Code, the Board considers these provisions are not relevant to the position of the Company as it is an externally managed investment trust company. The Company has no executive directors, employees or internal operations and has therefore not reported further in these respects.

The Board

As at the date of this report, the Board comprises five non-executive Directors who were in office throughout the period under review with the exception of Gaynor Coley who was appointed to the Board on 1 November 2016. Biographical details for each Director are set out on pages 20 and 21.

Responsibilities of the Board

The Board is responsible for providing leadership, setting the investment objective of the Company, establishing an appropriately robust internal control framework enabling effective risk management and monitoring the performance delivered by the Company's third party service providers in meeting the objective within the control framework.

The Board meets formally at least five times a year, with additional Board or committee meetings arranged when required. The Directors have regular contact with the Fund Managers and other employees of the Manager in connection with the delivery of company secretarial, sales and marketing and other administrative services.

The Board has a formal schedule of matters specifically reserved for its decision, which includes setting strategy and providing oversight of performance against agreed measures. It approves any changes to the structure and capital arrangements for the Company, has oversight of financial reporting and assesses the effectiveness of the internal control framework. The Board approves communications with shareholders, the appointments of new directors, oversees corporate governance matters and is responsible for determining the remuneration of Directors.

Each meeting follows an agenda agreed with the Chairman and includes a review of the Company's investment performance, financial position, compliance with the investment parameters, reporting from the Depositary, a review of shareholder movements along with any sales or marketing activities undertaken and any other relevant business matters in order to ensure that control is maintained over the Company's affairs.

The Board has delegated contractually to external third-party service providers the management of the investment portfolio, the custodial services (which encompasses the safeguarding of the Company's assets by the Depositary and Custodian), the day-to-day accounting, company secretarial, administration and registration services.

Each of these contracts was entered into after full and proper consideration by the Board of the quality and cost of the services offered, including the control systems in operation in so far as they relate to the affairs of the Company. The Board, and its committees, maintain oversight of the third party service providers through regular and ad hoc reporting addressing any specific areas which the Board has requested.

The Manager ensures that the Directors receive all relevant management, regulatory and financial information. Employees of the Manager attend each Board meeting enabling the Directors to probe further on matters of concern. The Chairman is able to attend meetings of all the chairmen of the investment trust companies managed by Janus Henderson which provides a forum to discuss industry matters. The Directors have access to the advice and services of the Company Secretary through its designated representative who is responsible for ensuring that Board and committee procedures are followed and that the applicable rules and regulations are complied with. The proceedings of all Board and committee meetings are minuted, with any particular concerns raised by the Directors appropriately recorded. The Board and the Manager operate in a supportive, co-operative and open environment.

The Company has a procedure for Directors to take independent professional advice in the furtherance of their duties at the expense of the Company. In order to enable them to discharge their responsibilities, all Directors have full and timely access to relevant information.

Internal Controls

The Board has overall responsibility for the Company's system of internal control and for reviewing its effectiveness. The Board has established an ongoing process for identifying, evaluating and managing the principal risks faced by the Company.

Corporate Governance Statement (continued)

The process accords with the FRC's guidance on Risk Management, Internal Control and Related Business and Financial Reporting published in September 2014. The system was in operation throughout the year and up to the date of this report. The system is designed to meet the specific risks faced by the Company and takes account of the nature of the Company's reliance on its service providers and their internal controls. The system therefore manages rather than eliminates the risk of failure to achieve the Company's business objectives and provides reasonable, but not absolute assurance against material misstatement or loss.

The key components of the internal control framework include:

- Clearly defined investment criteria, specifying levels of authority and exposure limits. The Board reviews reports on investment performance against and compliance with the criteria at each meeting.
- Regular financial reporting which allows the Board to assess the Company's financial position. The management accounts and forecasts are reviewed by the Board at each meeting.
- Contractual agreements with the Manager and all other third party service providers. The Board reviews performance levels and adherence to relevant provisions in the agreements on a regular basis through reporting to the Board and conducts a formal evaluation of the overall level of service provided at least annually.
- The review of controls at the Manager and other third party service providers. The Board receives quarterly reporting from the Manager and Depositary, and reviews annual assurance reports on the effectiveness of the control environments at the Company's key service providers.
- Review of additional reporting provided by:
  - The Manager's Operational Risk team on the control environment in operation at the Manager and their view of the control environments in place at the third party service providers used by the Company.
  - The Manager's Internal Audit team on areas of operation which are relevant to the Company.

The Board noted the service auditors' qualification in respect of the assurance reports of Janus Henderson and HSBC Security Services Information Technology, two of the Company's third party service providers which covered controls during the reporting period. The Board is aware that the Audit Committee has sought additional clarification in respect of the exceptions which resulted in the qualifications and is satisfied that the matter has been considered in sufficient detail. In particular remedial action has been undertaken by both service providers to address the exceptions identified within the assurance reports.

The Board has reviewed the effectiveness of the Company's system of internal controls for the year ended 30 September 2017. During the course of its review the Board has not identified or been advised of any failings or weaknesses that have been determined as significant.

In addition the Audit Committee has considered the cyber-attack safeguards its third party service providers have in place at the meeting held in November 2017.

Internal Audit Function

Systems are in operation to safeguard the Company's assets and shareholders' investments, to maintain proper accounting records and to ensure that financial information used within the business, or published, is reliable. The Company's management functions are delegated to third parties and the Board monitors the controls in place with support from the Manager's internal audit department. As such the Board has determined that there is currently no need for the Company to have its own internal audit function.

Directors

Appointment, Retirement and Tenure

The Board may appoint Directors to the Board without shareholder approval. Any Director appointed during the year must stand for election by the shareholders at the next AGM in accordance with provisions of the Articles. Directors are generally expected to serve two terms of three years, which may be extended at the discretion of the Board and subject to satisfactory performance evaluation and re-election by shareholders.

All Directors retire at intervals of not more than three years and the Company's Articles stipulate that at least one third of the Directors should retire at each AGM. The AIC Code recommends that all Directors with a tenure exceeding nine years should stand for election by shareholders at each AGM.

The Articles permit shareholders to remove a Director before the end of his term by passing an ordinary resolution at a general meeting. An appointment may be terminated by either party giving written notice without compensation payable.

Independence

The independence of the Directors is determined with reference to the AIC Code and is reviewed by the Nominations Committee at least annually. The Committee considers each of the Directors other appointments and commitments, as well as their tenure of service and any connections they may have with the Manager. Following conclusion of the evaluation in September 2017, the Committee concluded that all Directors continued to be independent in character and judgement.

Induction and Ongoing Training

Newly appointed Directors are offered a bespoke induction programme which covers the legal and regulatory framework for investment trust companies and the operations of the Manager, including the compliance and risk management frameworks, accounting, sales and marketing, and other administrative services carried out by the Manager.

Corporate Governance Statement (continued)

Directors are regularly provided with information on the Company's policies, regulatory and statutory requirements affecting the Company, as well as changes to the Directors' responsibilities as they arise.

Directors are encouraged to attend external training and industry seminars, and may do so at the expense of the Company.

Directors' Insurance and Indemnification

Directors' and officers' liability insurance cover is in place which indemnifies the Directors against certain liabilities arising from the carrying out of their duties. The Company's Articles and the provisions of English law, permit a qualifying third party provision indemnity to be provided to Directors in respect of costs which they may incur relating to the defence of any proceedings brought against them arising out of their positions as Directors, in which they are acquitted or judgement is given in their favour by the Court. The Company has granted an indemnity to each Director to the extent permitted by law in respect of the liabilities that may attach to them in their capacity as Directors of the Company.

Directors' Conflicts of Interest

The Articles permit the Board to consider and, if it sees fit, to authorise situations where a Director has an interest that conflicts, or may possibly conflict, with the interests of the Company ('situational conflicts'). The Board has a formal system in place for Directors to declare situational conflicts to be considered for authorisation by those Directors who have no interest in the matter being considered.

In deciding whether to authorise a situational conflict, the non-conflicted Directors must act honestly and in good faith with a view to the best interests of the Company. The Directors may impose limits or conditions when giving the authorisation, or subsequently, if they think this is appropriate.

Any situational conflicts which are considered, and authorised, are recorded in the minutes. These are reviewed by the Nominations Committee at least annually.

Meeting Attendance

The meeting attendance of each Director is set out in the table below:

	Board	AC	MEC	NC
Robert Robertson	5	2	1	1
Duncan Budge	5	2	1	1
Kevin Carter	5	2	1	1
Gaynor Coley[1]	2	1	1	1
Karl Sternberg	5	2	1	1
Peter Troughton[2]	2	1	n/a	n/a

1 Joined the Board on 1 November 2016
2 Retired from the Board on 24 January 2017

A Committee of the Board met several times during the year to approve various items of business including the Company's senior unsecured loan notes, the half year results and amendments to the fee arrangements, renewal of the revolving credit facility with Scotiabank (Ireland) Designated Activity Company and the annual results. There was also a separate audit tender meeting that was attended by Robert Robertson and Gaynor Coley.

Performance Evaluation

The Board conducted a review of its own performance, together with that of its committees and each individual Director. The evaluation was carried out through the use of a questionnaire. The outcome concluded that the Board continued to have an appropriate balance of skills and experience and that each Director continued to make a significant contribution to the affairs of the Company.

Mr Sternberg led the performance evaluation of the Chairman, taking feedback from all Directors after completion of a questionnaire. The review of the Chairman's performance concluded that he had displayed effective leadership since assuming the Chairmanship in January 2017.

Committees of the Board

The Board has three principal committees: the Audit Committee, the Management Engagement Committee and the Nominations Committee. The terms of reference for these committees are available on the website **www.lowlandinvestment.com**.

The Board has also constituted an Insider Committee which meets when required to assist the Board in discharging its responsibilities under the Market Abuse Regulation.

Audit Committee

The Audit Committee is responsible for ensuring the integrity of the Company's financial reporting, evaluating the effectiveness of the systems of internal control and risk management and monitoring the effectiveness and objectivity of the external Auditor.

The Committee is chaired by a qualified chartered accountant and all of the independent non-executive Directors are members of the Committee. The Board is satisfied that at least one member has recent and relevant experience and the Committee as a whole has competence relevant to the sector in which the Company operates.

The Audit Committee Report can be found on pages 34 and 35.

Nominations Committee

The Nominations Committee is responsible for ensuring the Board retains an appropriate balance of skills, experience and diversity, has a formal, rigorous and transparent approach to the appointment of directors and maintains an effective framework for succession planning.

The Committee is chaired by the Chairman of the Board. All of the independent non-executive Directors are members of the Committee. In discharging its duties over the course of the year, the Committee considered:

- The composition of the Board and each of its committees, taking account of the skills, experience and knowledge of each Director and whether the diversity of these continued to contribute to the success of the Company;

Corporate Governance Statement (continued)

- The outcomes of the Board performance evaluation with a view as to whether adjustments should be made to the number of Directors or knowledge and skills represented on the Board;
- The tenure of each of the Directors, giving consideration as to whether the Board retained a sufficient balance of length of service without becoming ossified;
- The independence of the Directors taking account of the guidelines established by the AIC Code and the Directors' other commitments; the time commitment of the Directors and whether this had been sufficient over the course of the year;
- Succession planning for appointments to the Board taking account of the provisions of the Articles regarding the retirement and rotation of Directors and the tenure of the current Directors; and
- The performance and contribution of the Directors standing for re-election at the 2018 AGM.

Following completion of its reviews, the Committee concluded that no changes to the composition of the Board were required at present and that each Director continued to commit sufficient time to fulfilling their duties. Taking account of the performance of individual Directors, the Committee recommended to the Board that it should support the re-appointment of Mr Budge, Dr Carter and Mr Sternberg who are retiring by rotation in accordance with the Company's Articles of Association. Resolutions regarding these Directors re-election will be put to shareholders at the 2018 AGM.

Management Engagement Committee

The Management Engagement Committee is responsible for formally evaluating the overall performance of the Manager and other third party service providers engaged by the Company. The Committee is chaired by the Chairman of the Board. All of the independent non-executive Directors are members of the Committee.
In discharging its duties over the course of the year, the Committee considered:

- The investment performance of the Company, taking account of the benchmark and performance of competitors in the AIC UK Equity Income sector, the share price, level of discount and gearing;
- The quality and experience of the team involved in managing all aspects of the Company's business;
- The fee structures of its closed-ended competitors and other, similar sized investment trust companies;
- The key clauses of the investment agreement, how the Manager had fulfilled these and whether these continued to be appropriate; and
- The performance and fees of the Company's other third-party service providers, including the Broker, Depositary, Registrar and sales, marketing and research providers.

Following completion of its reviews, the Committee concluded that the continued appointment of the Manager remained in the best interests of the Company and the shareholders, and therefore recommended to the Board the re-appointment of Janus Henderson for a further year.

Relations with Shareholders

Shareholder relations are given high priority by the Board. The prime medium by which the Company communicates with its shareholders is through the Annual Report and half year results which aim to provide shareholders with a clear understanding of the Company's activities and financial position. This information is supplemented by the daily calculation and publication of the NAV per share and a monthly fact sheet which is available on the website. The Manager provides information on the Company and videos of the Fund Managers on the Company's website, via various social media channels and through its HGi content platform.

The Board encourages shareholders to attend and participate in the AGM. Shareholders have the opportunity to address questions to the Chairman of the Board, the Fund Managers and all Directors. A summary of the proxy votes received on the resolutions proposed is displayed at the meeting and each substantial issue is dealt with in a separate resolution. It is the intention of the Board that the Annual Report and Notice of Meeting are issued to shareholders so as to provide at least 20 working days' notice of the meeting. These documents are also available on the website.

Shareholders wishing to lodge questions in advance of the meeting, or raise issues or concerns at any time are invited to do so by writing to the Chairman at the registered office. General presentations to both shareholders and analysts follow the publication of the annual results. All meetings between the Fund Managers and shareholders are reported to the Board.

By order of the Board

Henderson Secretarial Services Limited
Corporate Secretary
14 December 2017

Report of the Audit Committee

Role and Responsibilities

The Audit Committee is responsible for ensuring the integrity of the Company's financial reporting, evaluating the effectiveness of the systems of internal control and risk management and monitoring the effectiveness and objectivity of the external Auditor.

All of the independent non-executive Directors are members of the Committee with the exception of the Chairman of the Board. The Chairman of the Board attends the Committee meetings in the ordinary course of business.

In discharging its duties over the course of the year, the Committee considered:

- A tender process which concluded in the appointment of Ernst & Young LLP for the year ended 30 September 2017;
- The Company's Annual Report and half-year financial statements, the appropriateness of the accounting policies applied and the use of the going concern statement;
- The assessment of the principal risks facing the Company and the long-term viability statement in light of these risks;
- The areas of judgement in the financial statements including the valuation of the Company's unquoted investments and performance fee calculation;
- The overall approach to paying dividends and the appropriate level of dividend to be paid in respect of the year ended 30 September 2017;
- The appointment and evaluation of the effectiveness and objectivity of the Auditor, and determining their remuneration
- Agreeing the nature and scope of the statutory audit and reviewing the Auditor's findings;
- Monitoring and evaluating the effectiveness of the Company's system of internal controls, and assessing the need for a separate internal audit function;
- The revised policy on the provision of non-audit services; and
- The whistle-blowing arrangements in place at the Manager enabling staff to raise concerns about possible improprieties in confidence.

Meetings

The Committee met twice during the year under review and invited the Auditor to attend as appropriate. The Manager's designated Financial Reporting Manager for the Company also attends meetings.

Significant Issues

In relation to the Annual Report for the year ended 30 September 2017 the following significant issues were considered by the Committee:

Significant issue	How the issue was addressed
Valuation and ownership of the Company's investments	The Directors have appointed Janus Henderson, who outsource some of the administration and accounting services to BNP Paribas Securities Services, to perform the valuation of the assets of the Company in accordance with its responsibilities under the AIFMD rules. As required under the AIFMD rules, Janus Henderson has adopted a written valuation policy, which may be modified from time to time. Actively traded investments are valued using stock exchange prices provided by third party pricing vendors. Ownership of listed investments are verified by reconciliation to the Custodian's records and the Audit Committee has received quarterly reports of the Depositary who has responsibility for overseeing operations of the Company, including verification of ownership and valuation. For more information please refer to note 1c) on page 46.
Recognition of income	Income received is accounted for in line with the Company's accounting policies (as set out in note 1e) on page 47 and is reviewed by the Committee at each meeting. The Committee also considers the income received from special dividends and the revenue forecast at each meeting.
Compliance with Section 1158 of the Corporation Tax Act 2010	The Committee regularly considers the controls in place to ensure that the regulations for ensuring investment trust status are observed at all times, receiving supporting documentation from Janus Henderson and BNP Paribas Securities Services.
Performance fee	The calculation of the performance fee, when payable, to Janus Henderson is reviewed by the Audit Committee before being approved by the Board.
Maintaining internal controls	The Committee receives regular reports on internal controls from Janus Henderson, BNP Paribas Securities Services and HSBC and its delegates and has access to the relevant personnel of Janus Henderson who have a responsibility for risk management and internal audit. The Audit Committee noted the service auditor's qualification in respect of the assurance reports of Janus Henderson and HSBC which covered controls during the reporting period. The Audit Committee has sought additional clarification in respect of the assurance reports and is satisfied that none of the exceptions noted across the assurance reports are considered to have a material impact on the Company and appropriate actions have been taken to address the issues identified at both Janus Henderson and HSBC.

Report of the Audit Committee (continued)

Policy on Non-Audit Services

The Committee reviewed and adopted a revised policy on the provision of non-audit services by the Auditor. The policy aligns with the provisions of the new regulations which became effective on 17 June 2016.

The Company's Auditor will only be considered for non-audit work where these are not prohibited by the regulations and where they do not appear to affect the independence and objectivity of the Auditor. Such services require approval in advance by the Audit Committee, or Audit Committee Chairman, following due consideration of the proposed services.

Auditors' Appointment and Audit Tendering

As a Public Interest Entity listed on the London Stock Exchange, the Company will be subject to the mandatory auditor rotation requirements of the European Union.

A tender process concluded in November 2016 and resulted in the audit being transferred from PricewaterhouseCoopers LLP to Ernst & Young LLP ('EY').

As part of the tender process, the Committee and representatives of Janus Henderson assessed EY's experience in auditing investment trusts, their approach to ensuring a high quality audit and the results of their recent FRC inspection.

The Committee discusses the audit process with the Auditor without representatives of Janus Henderson present and considers the effectiveness of the audit process after each audit. This is the first year EY has audited the Company's Annual Report.

On appointment the Committee met with EY and reviewed their assessment of independence and audit plan for the year ended 30 September 2017. During the audit, the Committee Chairman held a progress call with the audit partner.

EY attended the half year-end and year-end Audit Committee meetings to present their planning and results reports and observe the Committee's review of the financial statements and internal controls reporting by Janus Henderson. Based on our review of EY's reporting, interactions with the audit team throughout the process and our discussions with representatives of Janus Henderson, the Audit Committee is satisfied with the effectiveness of the audit provided by EY and that they are independent of the Company. The current audit partner is expected to serve until 2021.

The Audit Committee in conclusion recommended to the Board that the Annual Report, taken as a whole, was fair, balanced and understandable and provided the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Auditor's Fees

Fees paid or payable to the Auditor amounted to £22,000 plus VAT. No non-audit services by the Auditor have been provided in the year under review. Further detail can be found in note 6 on page 49.

For and on behalf of the Board

Gaynor Coley
Audit Committee Chairman
14 December 2017

Independent Auditor's Report to the members of Lowland Investment Company plc

Opinion

We have audited the financial statements of Lowland Investment Company plc for the year ended 30 September 2017 which comprise the Income Statement, the Statement of Changes in Equity, the Statement of Financial Position, the Statement of Cash Flows and the related notes 1 to 19, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the:

- financial statements give a true and fair view of the company's affairs as at 30 September 2017 and of its profit for the year then ended;
- financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to principal risks, going concern and viability statement

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

- the disclosures in the annual report set out on page 23 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation set out on page 27 in the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the Directors' statement set out on page 46 in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the Directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the Directors' explanation set out on page 24 in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Independent Auditor's Report to the members of Lowland Investment Company plc (continued)

Overview of our audit approach

Key audit matters	Incomplete or inaccurate income recognition through failure to recognise proper income entitlements or to apply the appropriate accounting treatment for recognition of income Incorrect calculation of performance fees Incorrect valuation and existence of the investment portfolio
Materiality	Overall materiality of £4.4m which represents 1% of net assets

Key audit matters

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

Risk	Our response to the risk	What we concluded to the Audit Committee
Incomplete or inaccurate income recognition through failure to recognise proper income entitlements or to apply the appropriate accounting treatment for recognition of income. The Company has reported income from its investments of £16.9m (2016: £15.9m). We focused on the recognition of revenue and its presentation in the financial statements given the importance of the total return to shareholders. Special dividends by their nature require the exercise of judgment as to whether the income should be classified as 'revenue' or 'capital'. During the year, the Company received 7 special dividends, with an aggregate value of £0.9m. Of this total, £0.6m was treated as revenue while £0.3m was treated as capital.	We obtained an understanding of BNP Paribas Securities Services' (the 'Administrator') and Janus Henderson's (the 'Manager') processes and controls for the recognition of investment income by performing walkthrough procedures, inspecting the Administrator's and Manager's internal control reports and understanding the Company's process for the oversight of revenue recognition. For a representative sample we: • agreed dividends received from the underlying financial records to an independent source and to bank statements as additional supporting evidence; • compared the exchange rates used to convert the dividend income received in foreign currencies to Sterling; We performed a review of all material special dividends received during the period and assessed the appropriateness of the accounting treatment adopted. For a further sample of investments, we checked that all dividends declared were recorded in the correct accounting period.	We noted no issues in our main income testing and also concurred with the treatment of special dividends. Based on the work performed we had no matters to report to the Audit Committee.

Independent Auditor's Report to the members of Lowland Investment Company plc (continued)

Incorrect calculation of performance fees. During the year, the Company paid £0.4m (2016: £nil) performance fees. The performance fee is calculated using the methodology set out in the Investment Management Agreement between the Company and the Manager. The calculation methodology for performance fees is given in the Strategic Report on page 19. The calculation involves a number of inputs and considerations and is performed manually by the Administrator. Incorrect calculation of this fee could have a material impact on the return generated for shareholders.	We walked through the systems and controls of the Administrator, in respect of the calculation of performance fees. We re-performed the performance fee calculations and confirmed they were performed in line with the methodology set out in the Investment Management Agreement. We validated the external inputs used in the calculation to third party data. We considered the allocation of performance fees to the capital return column of the Income Statement and confirmed it had been performed in line with the accounting policy set out in note 1(f).	Following the completion of our procedures, we concluded that the calculation of performance fees had been performed in line with the terms of the Investment Management Agreement and the fee appropriately allocated to capital. Based on the work performed we had no matters to report to the Audit Committee.
Incorrect valuation and ownership of the investment portfolio. The valuation of the portfolio is £467.5m (2016: £411.0m), of which £465.3m is attributed to level 1 investments and £2.2m is attributed to level 3 investments. The valuation of the assets held in the investment portfolio is the key driver of the Company's net asset value and investment return. Incorrect asset pricing or a failure to maintain proper legal title of assets by the Company could have a significant impact on the portfolio valuation and, therefore, the return generated for shareholders.	We obtained an understanding of the Manager's and Administrator's processes and controls for the valuation and existence of the investments by performing walkthrough procedures and inspecting their internal control reports. We compared all quoted investment holding prices at the year end to a relevant independent source. For unquoted investments, we reviewed the Manager's fair value pricing policy and checked all material inputs to the underlying support. We compared all of the foreign exchange rates used at the balance sheet date to convert the portfolio to Sterling to an independent pricing source. We agreed the number of shares held for each security to confirmations of legal title received independently from the Company's Custodian and Depositary, both subsidiaries of HSBC Bank plc.	We noted no issues in agreeing the Company's investment holdings to external confirmations and their prices to published sources. Based on the work performed we had no matters to report to the Audit Committee.

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the Company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the Company and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed.

Performing a first year audit

In preparation for our first year audit of the 30 September 2017 financial statements, we performed a number of transitional procedures. Following our selection, we undertook procedures to establish our independence of the Company. We confirmed our independence from the Company in May 2017. We used the time prior to commencing any audit work to gain an understanding of the business issues and met with the Audit Committee.

In September 2017, we reviewed the predecessor auditor's working papers and their identification and assessment of risks, judgments and potential audit and accounting issues.

Independent Auditor's Report to the members of Lowland Investment Company plc (continued)

We used the understanding that the audit team had formed to establish our audit base and assist in the formalisation of our audit strategy for the 2017 audit. This involved gaining an understanding of the Company's key processes and controls over financial reporting.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Company to be £4.4m, which is 1% of net assets. We derived our materiality calculation from a proportion of net assets as we consider that to be the most important financial metric on which shareholders judge the performance of the Company. The predecessor auditor, PricewaterhouseCoopers LLP, set their materiality at £3.8m, being 1% of net assets, for the Company's 30 September 2016 audit.

During the course of our audit, we reassessed initial materiality and found no reason to alter the basis of calculation used at year end.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Company's overall control environment, our judgment was that performance materiality was 75% of our planning materiality, namely £3.3m. We have set performance materiality at this percentage based on our prior knowledge of the control environment at the Manager and Administrator and discussion with prior auditor that indicate a lower risk of material misstatements, both corrected and uncorrected.

Given the importance of the distinction between revenue and capital for the Company we also apply a separate, lower performance materiality of £0.7m for the revenue column of the Income Statement, being 5% of the revenue return on ordinary activities before taxation.

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.2m, which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in the light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the Annual Report set out on pages 1 to 64, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

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

Independent Auditor's Report to the members of Lowland Investment Company plc (continued)

- Fair, balanced and understandable set out on page 27 – the statement given by the Directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or

- Audit Committee reporting set out on page 34 – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or

- Directors' statement of compliance with the UK Corporate Governance Code set out on page 30 – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

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

- the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

- the Strategic Report and Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or Directors' Report.

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or

- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or

- certain disclosures of Directors' remuneration specified by law are not made; or

- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the Statement of Directors' Responsibilities in respect of the Annual Report and financial statements set out on page 27, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

Independent Auditor's Report to the members of Lowland Investment Company plc (continued)

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the most significant are the Companies Act 2006, the Listing Rules, the UK Corporate Governance Code and section 1158 of the Corporation Tax Act 2010.

- We understood how Lowland Investment Company plc is complying with those frameworks through discussions with the Audit Committee and Company Secretary and review of the Company's documented policies and procedures.

- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by considering the key risks impacting the financial statements. We identified a fraud risk with respect to management override in relation to inappropriate revenue journals. We noted no issues when performing the procedures mentioned in relation to the key audit matters above.

- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved review of the reporting to the Directors with respect to the application of the documented policies and procedures and review of the financial statements to ensure compliance with the reporting requirements of the Company.

- We have reviewed that the Company's control environment is adequate for the size and operating model of such a listed investment company.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

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

Other matters we are required to address

We were appointed by the Company on 22 March 2017 to audit the financial statements for the year ending 30 September 2017 and subsequent financial periods.

The period of total uninterrupted engagement including previous renewals and reappointments is one year, covering the year ending 2017.

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

The audit opinion is consistent with the additional report to the Audit Committee.

Matthew Price (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP, Statutory Auditor
London
14 December 2017

Notes:

1. The maintenance and integrity of the Lowland Investment Company plc web site is the responsibility of the Directors; the work carried out by the auditor does not involve consideration of these matters and, accordingly, the auditor accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Income Statement

Notes		Year ended 30 September 2017 Revenue return £'000	Year ended 30 September 2017 Capital return £'000	Year ended 30 September 2017 Total £'000	Year ended 30 September 2016 Revenue return £'000	Year ended 30 September 2016 Capital return £'000	Year ended 30 September 2016 Total £'000
2	Gains on investments held at fair value through profit or loss	–	52,847	52,847	–	29,331	29,331
3	Income from investments	16,871	–	16,871	15,944	–	15,944
4	Other interest receivable and similar income	50	–	50	108	–	108
	Gross revenue and capital gains	**16,921**	**52,847**	**69,768**	**16,052**	**29,331**	**45,383**
5	Management fee	(1,920)	–	(1,920)	(1,806)	–	(1,806)
5	Performance fee	–	(416)	(416)	–	–	–
6	Other expenses	(553)	–	(553)	(472)	–	(472)
	Net return on ordinary activities before finance costs and taxation	**14,448**	**52,431**	**66,879**	**13,774**	**29,331**	**43,105**
7	Finance costs	(1,009)	–	(1,009)	(764)	–	(764)
	Net return on ordinary activities before taxation	**13,439**	**52,431**	**65,870**	**13,010**	**29,331**	**42,341**
8	Taxation on net return on ordinary activities	(186)	–	(186)	(117)	–	(117)
	Net return on ordinary activities after taxation	**13,253**	**52,431**	**65,684**	**12,893**	**29,331**	**42,224**
9	Return per ordinary share – basic and diluted	49.1p	194.1p	243.2p	47.7p	108.7p	156.4p

The total columns of this statement represent the Profit and Loss Account of the Company. The revenue return and capital return columns are supplementary to this and are prepared under guidance published by the Association of Investment Companies. All revenue and capital items in the above statement derive from continuing operations. The Company had no other comprehensive income other than those disclosed in the Income Statement. The net return is both the profit for the year and the total comprehensive income.

The notes on pages 46 to 59 form part of these financial statements.

Statement of Changes in Equity

Notes	Year ended 30 September 2017	Called up share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Other capital reserves £'000	Revenue reserve £'000	Total £'000
	At 1 October 2016	6,755	61,619	1,007	304,599	12,930	386,910
	Net return on ordinary activities after taxation	–	–	–	52,431	13,253	65,684
10	Third interim dividend (11.0p) for the year ended 30 September 2016 paid 31 October 2016	–	–	–	–	(2,972)	(2,972)
10	Final dividend (12.0p) for the year ended 30 September 2016 paid 31 January 2017	–	–	–	–	(3,242)	(3,242)
10	First interim dividend (12.0p) for the year ended 30 September 2017 paid 28 April 2017	–	–	–	–	(3,242)	(3,242)
10	Second interim dividend (12.0p) for the year ended 30 September 2017 paid 28 July 2017	–	–	–	–	(3,242)	(3,242)
	At 30 September 2017	**6,755**	**61,619**	**1,007**	**357,030**	**13,485**	**439,896**

Notes	Year ended 30 September 2016	Called up share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Other capital reserves £'000	Revenue reserve £'000	Total shareholders' funds £'000
	At 1 October 2015	6,723	59,923	1,007	275,268	11,642	354,563
	Net return on ordinary activities after taxation	–	–	–	29,331	12,893	42,224
15	Ordinary shares issued	32	1,696	–	–	–	1,728
10	Third interim dividend (10.0p) for the year ended 30 September 2015 paid 30 October 2015	–	–	–	–	(2,689)	(2,689)
10	Final dividend (11.0p) for the year ended 30 September 2015 paid 29 January 2016	–	–	–	–	(2,972)	(2,972)
10	First interim dividend (11.0p) for the year ended 30 September 2016 paid 29 April 2016	–	–	–	–	(2,972)	(2,972)
10	Second interim dividend (11.0p) for the year ended 30 September 2016 paid 29 July 2016	–	–	–	–	(2,972)	(2,972)
	At 30 September 2016	**6,755**	**61,619**	**1,007**	**304,599**	**12,930**	**386,910**

The notes on pages 46 to 59 form part of these financial statements.

Statement of Financial Position

Notes		As at 30 September 2017 £'000	As at 30 September 2016 £'000
	Fixed assets		
11	**Investments held at fair value through profit or loss**		
	Listed at market value in the United Kingdom	365,646	326,129
	Listed at market value on AIM	74,881	58,403
	Listed at market value overseas	24,743	24,384
	Unlisted	2,218	2,101
		467,488	**411,017**
	Current assets		
12	Debtors	2,061	2,129
	Cash at bank	11,362	2,178
		13,423	**4,307**
13	**Creditors: amounts falling due within one year**	(11,260)	(28,414)
	Net current assets/(liabilities)	**2,163**	**(24,107)**
	Total assets less current liabilities	**469,651**	**386,910**
13	**Creditors: amounts falling due after one year**	(29,755)	–
	Net assets	**439,896**	**386,910**
	Capital and reserves		
15	Called up share capital	6,755	6,755
	Share premium account	61,619	61,619
	Capital redemption reserve	1,007	1,007
16	Other capital reserves	357,030	304,599
	Revenue reserve	13,485	12,930
	Total shareholders' funds	**439,896**	**386,910**
17	**Net asset value per ordinary share – basic and diluted**	**1,628.1p**	**1,432.0p**

The financial statements on pages 42 to 59 were approved and authorised for issue by the Board of Directors on 14 December 2017 and signed on their behalf by:

Robert Robertson
Chairman

The notes on pages 46 to 59 form part of these financial statements.

Statement of Cash Flows

	Year ended 30 September 2017 £'000	Year ended 30 September 2016 £'000
Cash flows from operating activities		
Net return on ordinary activities before taxation	65,870	42,341
Add back: finance costs	1,009	764
Less: gains on investments held at fair value through profit or loss	(52,847)	(29,331)
Withholding tax on dividends deducted at source	(211)	(136)
Decrease/(increase) in debtors	93	(374)
Increase/(decrease) in creditors	423	(827)
Net cash inflow from operating activities	**14,337**	**12,437**
Cash flows from investing activities		
Purchase of investments	(72,559)	(67,620)
Sale of investments	68,038	102,719
Net cash (outflow)/inflow from investing activities	**(4,521)**	**35,099**
Cash flows from financing activities		
Equity dividends paid (net of refund of unclaimed distributions and reclaimed distributions)	(12,698)	(11,605)
Proceeds from issue of ordinary shares	–	1,728
Net loans repaid	(16,897)	(35,418)
Senior unsecured loan notes issued	29,755	–
Interest paid	(789)	(832)
Net cash outflow from financing activities	**(629)**	**(46,127)**
Net increase in cash and cash equivalents	9,187	1,409
Cash and cash equivalents at start of year	2,178	669
Effect of foreign exchange rates	(3)	100
Cash and cash equivalents at end of year	**11,362**	**2,178**
Comprising:		
Cash at bank	11,362	2,178
	11,362	**2,178**

Cash inflow from dividends net of taxation was £16,755,000 (2016: £15,483,000).

The notes on pages 46 to 59 form part of these financial statements.

Notes to the Financial Statements

1 Accounting Policies

a) Basis of Preparation

The company is a registered investment company as defined in section 833 of the Companies Act 2006 and is incorporated in the United Kingdom. It operates in the United Kingdom and is registered at the address on page 22.

The financial statements have been prepared in accordance with the Companies Act 2006, FRS 102 – The Financial Reporting Standard applicable in the UK and Republic of Ireland and with the Statement of Recommended Practice: Financial Statements of Investment Trust Companies and Venture Capital Trusts (the 'SORP') issued in November 2014 and updated in January 2017 with consequential amendments.

The Company has early adopted the amendments to FRS 102 in respect to the fair value hierarchy disclosures as published in March 2016.

The principal accounting policies applied in the presentation of these financial statements are set out below. These policies have been consistently applied to all the years presented.

The financial statements have been prepared under the historical cost basis except for the measurement of fair value of investments. In applying FRS 102, financial instruments have been accounted for in accordance with Section 11 and 12 of the standard. All of the Company's operations are of a continuing nature.

b) Going Concern

The assets of the Company consist of securities that are readily realisable and, accordingly, the Directors believe that the Company has adequate resources to continue in operational existence for at least twelve months from the date of approval of the financial statements. Having assessed these factors, the principal risks and other matters discussed in connections with the viability statement, the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements.

c) Investments held at Fair Value through Profit or Loss

Listed investments, including AIM stocks, are held at fair value through profit or loss and accordingly are valued at fair value, deemed to be the quoted bid price or the last trade price depending on the convention of the exchange on which the investment is quoted.

Unlisted investments have also been designated as held at fair value through profit or loss and are valued by the Directors using primary valuation techniques such as recent transactions and net assets. Where fair value cannot reliably be measured the investment will be carried at the previous reporting date value unless there is evidence that the investment has since been impaired, in which case the value will be reduced.

Changes in the fair value of investments held at fair value through profit or loss and gains and losses on disposal are recognised in the Income Statement as 'gains or losses on investments held at fair value through profit or loss'. Also included in this are transaction costs incurred on the purchase and disposal of investments. All purchases and sales are accounted for on a trade date basis.

d) Foreign Currency

The results and financial position of the Company are expressed in pounds sterling, which is the functional and presentation currency of the Company. Sterling is the functional currency because it is the currency of the primary economic environment in which the Company operates.

Transactions recorded in overseas currencies during the year are translated into sterling at the appropriate daily exchange rates. Monetary assets and liabilities and equity investments held at fair value through profit or loss which are denominated in foreign currencies at the Statement of Financial Position date are translated into sterling at the exchange rates ruling at that date.

Any gains or losses on the translation of foreign currency balances, whether realised or unrealised, are taken to the capital or to the revenue return of the Income Statement, depending on whether the gain or loss is of a capital or revenue nature.

Notes to the Financial Statements (continued)

1 Accounting Policies (continued)

e) Income

Dividends receivable on equity shares are taken to the revenue return on an ex-dividend basis except where, in the opinion of Directors, the dividend is capital in nature in which case it is taken to the 'gains on investments' in the capital return column. The ordinary element of scrip dividends received in lieu of cash dividends is recognised as revenue. Any enhancement above the cash dividend is treated as capital. Income from fixed interest debt securities and preference shares is recognised using the effective interest rate method in accordance with the SORP.

Bank interest and income from stock lending are accounted for monthly on an accruals basis and shown in the revenue return based on amounts to which the Company is entitled.

Where the Company enters into a commitment to underwrite an issue of securities in exchange for the receipt of commission, a derivative financial instrument is recognised initially at fair value. The derivative is re-measured subsequently at fair value, with the related gains and losses being reflected in the Income Statement. Net losses arising from these derivatives, where actual or expected loss from taking up the securities underwritten exceeds the commission income, are allocated to the capital return. Net gains are allocated to the revenue return.

f) Management Fees, Performance Fees, Administrative Expenses and Finance Costs

All expenses and finance costs are accounted for on an accruals basis. All administrative expenses, including the management fee and interest payable, are charged to the revenue return of the Income Statement. Any performance fees payable are allocated wholly to capital.

g) Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on the taxable profit for the year. Taxable profit differs from net profit as reported in the Income Statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using the effective rate of corporation tax for the accounting period.

In line with the recommendations of the AIC SORP, the allocation method used to calculate tax relief on expenses presented against capital returns in the supplementary information in the Income Statement is the 'marginal basis'. Under this basis, if taxable income is capable of being offset entirely by expenses presented in the revenue return column of the Income Statement, then no tax relief is transferred to the capital return column.

Deferred taxation is provided on all timing differences that have originated but not reversed by the Statement of Financial Position date. This is subject to deferred tax assets only being recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of timing differences can be deducted. Any liability to deferred tax is provided at the average rate of tax expected to apply based on tax rates and laws that have been enacted or substantively enacted at the Statement of Financial Position date. Deferred tax assets and liabilities are not discounted to reflect the time value of money.

h) Borrowings

Interest bearing bank loans and overdrafts are recorded initially at fair value, being the proceeds received, less direct issue costs. They are subsequently remeasured at amortised cost. Finance costs including interest payable, premiums on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the Income Statement using the effective interest rate method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Senior unsecured loan notes are recorded initially at proceeds received, less direct issue costs. They are subsequently remeasured at amortised cost. The issue costs will be amortised over the life of the loan notes. Finance costs, including interest payable, are accounted for on an accruals basis in the Income Statement using the effective interest rate method.

i) Dividends Payable to Shareholders

Dividends payable to shareholders are recognised in the financial statements when they are paid, or in the case of final dividends, when they are approved by shareholders. Dividends are dealt with in the Statement of Changes in Equity.

j) Issue and Repurchase of Ordinary Shares and Associated Costs

The proceeds from the issue of new ordinary shares (including those relating to the sale of shares out of Treasury) and the aggregate cost of repurchasing ordinary shares (including those to be held in Treasury) are taken directly to the share premium account and recognised in the Statement of Changes in Equity. Issue costs incurred in respect of new ordinary shares are offset against the proceeds received and recognised in the share premium account. Share issue and repurchase transactions are accounted for on a trade date basis.

Notes to the Financial Statements (continued)

1 Accounting Policies (continued)

k) Capital and Reserves

Called up share capital represents the nominal value of ordinary shares issued.

The share premium account represents the premium above nominal value received by the Company on issuing shares net of issue costs.

The revenue reserve represents accumulated revenue profits retained by the Company that have not currently been distributed to shareholders as a dividend.

The capital redemption reserve represents the nominal value of ordinary shares that have been repurchased and cancelled.

Other capital reserves are split into two components, the capital reserve arising on investments sold and the capital reserve arising on investments held. The following analyses what is accounted for in each of these components.

Capital reserve arising on investments sold

The following are accounted for in this reserve:

- gains and losses on the disposals of investments;
- realised foreign exchange differences of a capital nature;
- cost of repurchasing ordinary share capital; and
- performance fees charged to capital.

Capital reserve arising on revaluation of investments held

The following are accounted for in this reserve:

- increases and decreases in the valuation of investments held at the year end; and
- unrealised foreign exchange differences of a capital nature.

l) Distributable reserves

The Company's capital reserve arising investments sold and revenue reserve may be distributed by way of a dividend.

2 Gains on Investments held at Fair Value through Profit or Loss

	2017 £'000	2016 £'000
Gains on the sale of investments based on historical cost	27,440	23,452
Less: revaluation gains recognised in previous years	(14,713)	(14,374)
Gains on investments sold in the year based on carrying value at previous Statement of Financial Position date	**12,727**	**9,078**
Revaluation gains on investments held at 30 September	40,123	20,153
Exchange (losses)/gains	(3)	100
	52,847	**29,331**

3 Income from Investments

	2017 £'000	2016 £'000
UK dividends:		
Listed investments	13,025	12,767
Unlisted	49	48
Property income dividends	148	228
	13,222	**13,043**
Non UK dividends:		
Overseas dividend income	3,649	2,901
	3,649	**2,901**
	16,871	**15,944**

Notes to the Financial Statements (continued)

4 Other Interest Receivable and Similar Income

	2017 £'000	2016 £'000
Stock lending commission	16	44
Income from underwriting	34	64
	50	**108**

At 30 September 2017 the total value of securities on loan by the Company for stock lending purposes was £1,000 (2016: £2,830,000). The maximum aggregate value of securities on loan at any time during the year ended 30 September 2017 was £20,418,000 (2016: £25,560,000). The Company's agent holds collateral comprising FTSE 100 stocks with a collateral value of £1,000 (2016: £2,979,000) amounting to a minimum of 105% (2016: minimum 105%) of the market value of any securities on loan. Stock lending commission has been shown net of brokerage fees of £4,000 (2016: £11,000).

5 Management and Performance Fees

	2017			2016		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Management fee	1,920	–	1,920	1,806	–	1,806
Performance fee	–	416	416	–	–	–
Total fee	**1,920**	**416**	**2,336**	**1,806**	**–**	**1,806**

A description of the basis for calculating the management fee and performance fee is given in the Strategic Report on page 19. For the year ended 30 September 2017, a performance fee of £416,000 is payable (2016: £nil). This is based on the Company's 3 year average NAV total return to 30 September 2017 of 10.8% compared to the FTSE All-Share Index Total Return (plus a 10% hurdle rate) of 10.2%.

6 Other Administrative Expenses

	2017 £'000	2016 £'000
Directors' fees and expenses (see Directors' Remuneration Report on page 29)[1]	145	139
Auditor's remuneration – for audit services	22	24
AIC subscriptions	20	20
Directors' and Officers' liability insurance	10	9
Listing fees (Stock Exchange, newspapers and internet)	33	40
Safe custody and bank charges	23	21
Loan facility fees	53	26
Printing and postage	20	26
Registrar's fees	18	17
General expenses and marketing expenses payable to Janus Henderson	91	44
Depositary fees	38	36
Other expenses	37	33
Irrecoverable VAT	43	37
	553	**472**

1 All transactions with Directors, as disclosed in the Directors' Remuneration Report, are related party transactions

7 Finance Costs

	2017 £'000	2016 £'000
On bank loans and overdrafts repayable within one year	299	764
On senior unsecured loan notes	710	–
	1,009	**764**

Notes to the Financial Statements (continued)

8 Taxation on Net Return on Ordinary Activities

Analysis of Tax Charge for the Year

	2017			2016		
	Revenue return £'000	Capital return £'000	Total £'000	Revenue return £'000	Capital return £'000	Total £'000
Overseas tax suffered	223	–	223	140	–	140
Overseas tax reclaimable	(37)	–	(37)	(23)	–	(23)
Total taxation for the year	**186**	**–**	**186**	**117**	**–**	**117**

Factors Affecting the Tax Charge for the Year

	2017			2016		
	Revenue return £'000	Capital return £'000	Total £'000	Revenue return £'000	Capital return £'000	Total £'000
Net return on ordinary activities before taxation	13,439	52,431	65,870	13,010	29,331	42,341
Corporation tax at effective rate of 19.5% (2016: 20%)*	2,621	10,224	12,845	2,602	5,866	8,468
Effects of:						
Non-taxable dividends	(2,526)	–	(2,526)	(2,563)	–	(2,563)
Other non-taxable income	(711)	–	(711)	(580)	–	(580)
Overseas tax suffered	186	–	186	117	–	117
Excess expenses/non-trading deficits for the year	616	81	697	547	–	547
Movement between deferred tax accruals	–	–	–	(6)	–	(6)
Non-taxable capital gains	–	(10,306)	(10,306)	–	(5,866)	(5,866)
Total tax charge	**186**	**–**	**186**	**117**	**–**	**117**

* The Company's profit for the accounting year is taxed at an effective rate of 19.5% (2016:20%). The standard rate of corporation tax has been 19% since 1 April 2017.

No provision for deferred taxation has been made in the current or prior accounting year. The Company has not provided for deferred tax on capital gains or losses arising on the revaluation and disposal of investments as it is exempt from tax on these items because of its investment trust status. The Company has not recognised a deferred tax asset totalling £8,690,000 (2016: £9,508,000) based on a prospective corporation tax rate of 17% (2016: 20%).

The deferred tax asset arises as a result of having unutilised management expenses and unutilised non-trade loan relationship deficits. These expenses will only be utilised, to any material extent, if the Company has profits chargeable to corporation tax in the future because changes are made either to the tax treatment of the capital gains made by investments trusts or to the Company's investment profile which require them to be used.

Notes to the Financial Statements (continued)

9 Return per Ordinary Share – Basic and Diluted

The return per ordinary share is based on the net return attributable to the ordinary shares of £65,684,000 (2016: £42,224,000) and on 27,018,565 ordinary shares (2016: 26,992,028) being the weighted average number of ordinary shares in issue during the year. The return per ordinary share can be further analysed between revenue and capital, as below.

	2017 £'000	2016 £'000
Net revenue return	13,253	12,893
Net capital return	52,431	29,331
Net total return	**65,684**	**42,224**
Weighted average number of ordinary shares in issue during the year	**27,018,565**	**26,992,028**

	2017 Pence	2016 Pence
Revenue return per ordinary share	49.1	47.7
Capital return per ordinary share	194.1	108.7
Total return per ordinary share	**243.2**	**156.4**

The Company does not have any dilutive securities, therefore the basic and diluted returns per share are the same.

10 Dividends Paid and Payable on the Ordinary Shares

Dividends on ordinary shares	Record date	Payment date	2017 £'000	2016 £'000
Third interim dividend (10.0p) for the year ended 30 September 2015	9 October 2015	30 October 2015	–	2,689
Final dividend (11.0p) for the year ended 30 September 2015	8 January 2016	29 January 2016	–	2,972
First interim dividend (11.0p) for the year ended 30 September 2016	8 April 2016	29 April 2016	–	2,972
Second interim dividend (11.0p) for the year ended 30 September 2016	1 July 2016	29 July 2016	–	2,972
Third interim dividend (11.0p) for the year ended 30 September 2016	7 October 2016	31 October 2016	2,972	–
Final dividend (12.0p) for the year ended 30 September 2016	6 January 2017	31 January 2017	3,242	–
First interim dividend (12.0p) for the year ended 30 September 2017	7 April 2017	28 April 2017	3,242	–
Second interim dividend (12.0p) for the year ended 30 September 2017	30 June 2017	28 July 2017	3,242	–
			12,698	**11,605**

The third interim dividend and the final dividend for the year ended 30 September 2017 have not been included as a liability in these financial statements. The total dividends payable in respect of the financial year, which form the basis of the retention test under Section 1158 of the Corporation Tax Act 2010, are set out below.

	2017 £'000
Revenue available for distribution by way of dividends for the year	13,253
First interim dividend (12.0p) for the year ended 30 September 2017	(3,242)
Second interim dividend (12.0p) for the year ended 30 September 2017	(3,242)
Third interim dividend (12.0p) for the year ended 30 September 2017	(3,242)
Proposed final dividend (13.0p) for the year ended 30 September 2017 (based on 27,018,565 ordinary shares in issue at 12 December 2017)	(3,512)
Revenue surplus	**15**

For Section 1158 purposes the Company's undistributed revenue represents 0.1% of the income from investments.

Notes to the Financial Statements (continued)

11 Investments held at Fair Value through Profit or Loss

	2017 £'000	2016 £'000
Valuation at start of year	411,017	414,132
Investment holding gains at start of year	(91,728)	(85,949)
Cost at start of year	**319,289**	**328,183**
Additions at cost	71,659	68,520
Disposals at cost	(40,598)	(77,414)
Cost at end of year	**350,350**	**319,289**
Investment holding gains at end of year	117,138	91,728
Valuation at end of year	**467,488**	**411,017**

Included in the total investments are unlisted investments shown at the Directors fair value of £2,218,000 (2016: £2,101,000).

Purchase transaction costs for the year ended 30 September 2017 were £213,000 (2016: £332,000). These comprise mainly stamp duty and commission. Sale transaction costs for the year ended 30 September 2017 were £45,000 (2016: £81,000).

The Company has an interest of 3% or more of any class of capital in 25 (2016: 18) investee companies. At 30 September 2017, of the 25 investee companies, the following represented more than 1% of investments.

	2017 Valuation £'000	2017 % of voting rights	2016 Valuation £'000	2016 % of voting rights
Carclo	4,908	4.9	4,800	5.4
Henderson Opportunities Trust	4,786	6.3	–	–
Low & Bonar	7,909	3.0	–	–
Randall & Quilter	5,168	4.1	–	–
Renold	5,238	4.4	–	–

12 Debtors

	2017 £'000	2016 £'000
Prepayments and accrued income	2,011	2,104
Taxation recoverable	50	25
	2,061	**2,129**

13 Creditors

Amounts falling due within one year

	2017 £'000	2016 £'000
Unsecured sterling bank loans	10,000	26,897
Purchases for future settlement	–	900
Performance fee	416	–
Other creditors	844	617
	11,260	**28,414**

The Company had a three year loan facility of up to £60m with Scotiabank (Ireland) Designated Activity Company Limited that expired on 27 October 2017. The Company renewed its loan facility of up to £60m with Scotiabank (Ireland) Designated Activity Company Limited on 27 October 2017 for a further three years. At 30 September 2017 £10m was drawn down (2016: £12,008,000) of the Scotiabank facility. In the prior year, £14,889,000 of the facility with ING was drawn down.

Amounts falling due after more than one year

	2017 £'000	2016 £'000
3.15% senior unsecured loan notes 2037	29,755	–
	29,755	**–**

On 5 January 2017 the Company issued £30m (nominal) 3.15% senior unsecured loan notes due 2037, net of costs totalling £255,000. The issue costs will be amortised over the life of the notes.

The £30m senior unsecured loan notes are redeemable at par on 5 January 2037.

Notes to the Financial Statements (continued)

14 Financial Risk Management Policies and Procedures

As an investment trust, the Company invests in equities and other investments for the long-term so as to secure its investment objective and policy as stated on page 19. In pursuing its investment objective and policy, the Company is exposed to a variety of financial risks that could result in either a reduction in the Company's net assets or a reduction in the profits available for distribution by way of dividends.

These financial risks; including market risk (compromising market price risk, currency risk and interest rate risk), liquidity risk and credit and counterparty risk, and the Directors' approach to the management of these risks, are set out below and have not changed from the previous accounting period. The Board and Janus Henderson co-ordinate the Company's risk management and there are various risk management systems in place as detailed below.

- straight-through processing via a deal order and management system ("OMS") is utilised for securities, with connectivity to third-party affirmation and trade repository services.
- portfolio modelling and investment management functions (including order-raising, dealing and trade execution) are performed using one of, or a combination of, the following third-party software applications: Charles River Development OMS and/or Imagine.
- fund pricing and accounting services are outsourced to a third-party administrator (currently BNP Paribas Securities Services) which utilises HiPortfolio software.
- the IT tools to which the Janus Henderson risk, compliance and operations teams have access for independent monitoring and risk measurement purposes include:
  – Charles River Compliance module for investment restrictions monitoring;
  – OneSumX operational risk database;
  – Riskmetrics, UBS Delta, Style Research, FinAnalytica and Barra Aegis for market risk measurement;
  – Bloomberg for market data and price-checking; and
  – HiPortfolio for portfolio holdings and valuations.

These are supplemented by in-house developments: derivatives risk and compliance database ("DRAC") and counterparty exposure ("CER") reports.

14.1 Market Risk

The fair value of a financial instrument held by the Company may fluctuate due to changes in market prices. This market risk comprises market price risk (see note 14.1.1), currency risk (see note 14.1.2) and interest rate risk (see note 14.1.3). The Board reviews and agrees policies for managing these risks. Janus Henderson assesses the exposure to market risk when making each investment decision, and monitors the overall level of market risk on the whole of the investment portfolio on an ongoing basis.

14.1.1 Market Price Risk

Market price risk (i.e. changes in market prices other than those arising from interest rate risk or currency risk) may affect the fair value of listed and unlisted investments.

The Company's exposure to market price risk at 30 September 2017 is represented by its investments held on the Statement of Financial Position under the heading "Investments held at fair value through profit or loss" on page 44.

Management of the Risk

The Board manages the risks inherent in the investment portfolio by ensuring full and timely access to relevant information from Janus Henderson. The Board meets regularly and at each meeting reviews investment performance. The Board monitors Janus Henderson's compliance with the Company's objectives, and is directly responsible for investment strategy and asset allocation.

Concentration of Exposure to Market Price Risks

An analysis of the Company's investment portfolio is shown on pages 15 to 17. This shows that the majority of the investments' value is in UK listed companies. Accordingly, there is a concentration of exposure to market price risk, though it is recognised that an investment's country of domicile or of listing does not necessarily equate to its exposure to the economic conditions in that country.

Market Price Risk Sensitivity

The following table illustrates the sensitivity of the total return after taxation for the year and the net assets to an increase or decrease of 40% in the fair values of the Company's investments. This level of change is considered to be reasonably possible based on observation of market behaviour in the last few years.

Notes to the Financial Statements (continued)

14 Financial Risk Management Policies and Procedures (continued)

14.1.1 Market Price Risk (continued)

Sensitivity analysis – Market prices if prices change by 40% (2016: 40%)

	2017		2016	
	If prices go up £'000	If prices go down £'000	If prices go up £'000	If prices go down £'000
Investments at year end	467,488	467,488	411,017	411,017
Impact on income statement:				
Revenue return	(748)	748	(822)	822
Capital return	186,995	(186,995)	164,407	(164,407)
Impact on net assets and total return (excluding gearing)	**186,247**	**(186,247)**	**163,585**	**(163,585)**

14.1.2 Currency Risk

A proportion of the Company's assets, liabilities and income are denominated in currencies other than sterling (the Company's functional currency and presentational currency). As a result, movements in exchange rates may affect the sterling value of those items. As the Company's investments are predominantly in sterling denominated securities its exposure to currency risk is not considered material and no sensitivity analysis has been presented. Investments held in currencies other than sterling were £16,326,000 (2016: £12,975,000) representing 3.5% (2016: 3.2%) of the total investments of the Company.

Management of the Risk

Janus Henderson monitors the Company's exposure to foreign currencies on a daily basis and reports to the Board at each Board meeting. Janus Henderson measures the risk to the Company of the foreign currency exposure by considering the effect on the Company's net asset value and total return of a movement in the exchange rates to which the Company's assets, liabilities, income and expenses are exposed.

Investment income denominated in foreign currencies is converted into sterling on receipt. The Company does not use financial instruments to mitigate the currency exposure in the period between the time that income is included in the financial statements and its receipt.

14.1.3 Interest Rate Risk

Interest rate movements may affect:

- the fair value of investments in fixed interest securities;
- the level of income receivable from interest-bearing securities and cash at bank and on deposit; and
- the interest payable on the Company's variable rate borrowings.

Management of the Risk

The possible effects on fair value and cash flows that could arise as a result of changes in interest rates are taken into account when making investment decisions and borrowing under the loan facility. The Company, generally, does not hold significant cash balances, with short term borrowings being used when required. The Company finances part of its activities through borrowings at levels approved and monitored by the Board. Derivative contracts have not been used during the year to hedge against the exposure to interest rate risk.

Interest Rate Exposure

The Company's exposure to floating interest rates can be found on the Statement of Financial Position under the heading 'Cash at bank' and in note 13 under the heading 'Unsecured sterling bank loans'.

Interest receivable and finance costs are at the following rates:

- Interest received on cash balances, or paid on bank overdrafts, is at a margin linked to LIBOR (2016: same); and
- Interest paid on borrowings under the loan facility is at a margin over LIBOR for the type of loan. The weighted average interest rate of these is 1.2% as at 30 September 2017 (2016: 1.2%).

The Company had fixed interest rate asset exposure at 30 September 2017 on the holdings in Wadworth at £126,000 (2016: £126,000) and Virgin Money Holding at £2,105,000 (2016: nil). The Company also had fixed interest rate liability exposure through the senior unsecured loan notes (2016: nil).

Notes to the Financial Statements (continued)

14 Financial Risk Management Policies and Procedures (continued)

14.1.3 Interest Rate Risk (continued)

Interest Rate Risk Sensitivity

The Company is primarily exposed to interest rate risk through its loan facility with Scotiabank (Ireland) Designated Activity Company Limited. The sensitivity is as follows:

- Borrowings vary throughout the year as a result of the Board's borrowing policy. Cash (net of bank borrowings) at the year end was £1,362,000 (2016: net borrowings of £24,719,000) and if that level of cash was maintained for a full year, then a 200 basis points change in LIBOR (up or down) would decrease or increase net revenue and total net return on ordinary activities after taxation by approximately £27,000 (2016: £492,000).

14.2 Liquidity Risk

This is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities.

Management of the Risk

Liquidity risk is not significant as the majority of the Company's assets are investments in quoted securities that are readily realisable. The Company had unsecured sterling loan facilities totalling £60,000,000 (2016: £85,000,000) and an overdraft facility with the custodian, the extent of which is determined by the custodian on a regular basis by reference to the value of the securities held by it on behalf of the Company. The facilities are subject to regular review.

In the previous year the Company also had a £25m loan facility with ING which was not renewed when the facility expired.

The Board gives guidance to Janus Henderson as to the maximum amount of the Company's resources that should be invested in any one company. The policy is that the Company should generally remain fully invested and that short-term borrowings be used to manage short-term cash requirements.

The contractual maturities of the financial liabilities at 30 September based on the earliest date on which payment can be required are as follows:

	2017		2016	
	Due within 3 months £'000	Due between 3 months and one year £'000	Due within 3 months £'000	Due between 3 months and one year £'000
Bank loans and interest	10,247	–	26,923	–
Other creditors	1,013	–	1,491	–
	11,260	**–**	**28,414**	**–**

14.3 Credit and Counterparty Risk

The failure of the counterparty to a transaction to discharge its obligations under that transaction could result in the Company suffering a loss.

Management of the Risk

The risk is managed as follows:

- Investment transactions are carried out with a large number of brokers, whose credit standard is reviewed periodically by Janus Henderson, and limits are set on the amount that may be due from any one broker; and
- Cash at bank is held only with reputable banks with high quality external credit ratings.

The table below summarises the credit risk exposure of the Company at year end.

	2017 £'000	2016 £'000
Fixed interest securities	2,231	126
Cash	11,362	2,178
Debtors:		
– prepayments and accrued income	2,011	2,104
– taxation recoverable	50	25
	15,654	**4,433**

Notes to the Financial Statements (continued)

14 Financial Risk Management Policies and Procedures (continued)

14.4 Fair Values of Financial Assets and Financial Liabilities

Except as noted below, the financial assets and financial liabilities are either carried in the Statement of Financial Position at their fair value (investments) or the Statement of Financial Position amount is a reasonable approximation of fair value (due from brokers, dividends and interest receivable, due to brokers, accruals, cash at bank, bank overdrafts and amounts due under the loan facilities). The senior unsecured loan notes are carried in the Statement of Financial Position at amortised cost.

At 30 September 2017, the fair value of the senior unsecured loan notes was estimated to be £31,013,000 (2016: £nil). The fair value of the senior unsecured loan notes is calculated using a discount rate which reflects the yield on a UK Gilt of similar maturity plus a suitable credit spread.

The senior unsecured loan notes are categorised as level 3 in the fair value hierarchy.

14.5 Fair Value Hierarchy Disclosures

The table below analyses fair value measurements for investments held at fair value through profit or loss. These fair value measurements are categorised into different levels in the fair value hierarchy based on the valuation techniques used and are defined as follows under FRS 102:

Categorisation within the hierarchy has been determined on the basis of the lowest level of input that is significant to the fair value measurement of the relevant asset as follows:

Level 1 – valued using quoted prices in active markets for identical assets.

Level 2 – valued by reference to valuation techniques using observable inputs other than quoted prices included within Level 1.

Level 3 – valued by reference to valuation techniques using inputs that are not observed on observable market data.

Financial assets at fair value through profit or loss at 30 September 2017	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Investments	465,270	–	2,218	467,488
Total	**465,270**	**–**	**2,218**	**467,488**

Financial assets at fair value through profit or loss at 30 September 2016	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Investments	408,916	–	2,101	411,017
Total	**408,916**	**–**	**2,101**	**411,017**

There have been no transfers during the year between any of the levels.

The total carrying value of receivables, payables and other financial liabilities as stated in notes 12 and 13, is a reasonable approximation of their fair value as at the year end date based on contractual settlement amounts.

A reconciliation of movements within Level 3 is set out below:

	2017 £'000	2016 £'000
Opening balance	2,101	2,179
Total income/(loss) included in the Income Statement		
– on investments held	117	(78)
Closing balance	**2,218**	**2,101**

The Company's holding in Oxford Sciences Innovation was revalued upward during the year to take account of the increase in its net asset value per share. The Level 3 revaluation in the prior year related to Wadworth.

Notes to the Financial Statements (continued)

14 Financial Risk Management Policies and Procedures (continued)

14.6 Capital Management Policies and Procedures

The Company's capital management objectives are to ensure that it will be able to continue as a going concern and to maximise the revenue and capital return to its equity shareholders. This is achieved through an appropriate balance of equity capital and debt.

The Company's capital at 30 September 2017 comprises its equity share capital, reserves and loans that are shown in the Statement of Financial Position at a total of £479,651,000 (2016: £413,807,000).

The Board, with the assistance of Janus Henderson, monitors and reviews the board structure of the Company's capital on an ongoing basis. This review includes:

- the planned level of gearing, which takes into account the Manager's view on the market;
- the need to buy-back equity shares, either for cancellation or to hold in Treasury, which takes account of the difference between the net asset value per share and the share price (ie the level of share price discount or premium) as well as the discount of the peer group and the level of the equity market;
- the need for new issues of equity shares, including sales from Treasury; and
- the extent to which revenue in excess of that which is required to be distributed should be retained.

The Company is subject to several externally imposed capital requirements:

- borrowings under the loan facilities are not to exceed 45% of the adjusted net asset value;
- as a public company, the Company has a minimum share capital of £50,000; and
- in order to be able to pay dividends out of profits available for distribution by way of dividends, the Company has to be able to meet the capital restriction tests imposed on investment companies by company law.

The Company has complied with these requirements.

15 Called Up Share Capital

	Number of shares entitled to dividend	Total number of shares	Nominal value of shares £'000
At 30 September 2016	27,018,565	27,018,565	6,755
At 30 September 2017	**27,018,565**	**27,018,565**	**6,755**

During the year, the Company issued no ordinary shares (2016: 126,138 shares for proceeds of £1,728,000).

Notes to the Financial Statements (continued)

16 Other Capital Reserves

	Capital reserve arising on revaluation of investments held £'000	Capital reserve arising on investments sold £'000	Other capital reserves total £'000
At 1 October 2016	91,728	212,871	304,599
Transfer on disposal of investments	(14,713)	14,713	–
Net gains on investments	40,123	12,727	52,850
Performance fee	–	(416)	(416)
Exchange differences	–	(3)	(3)
At 30 September 2017	**117,138**	**239,892**	**357,030**

The capital reserve arising on revaluation of investments held at 30 September 2017 includes a gain of £834,000 (2016: £716,000) based on historical book cost, in respect of the revaluation of unlisted investments.

	Capital reserve arising on revaluation of investments held £'000	Capital reserve arising on investments sold £'000	Other capital reserves total £'000
At 1 October 2015	85,949	189,319	275,268
Transfer on disposal of investments	(14,374)	14,374	–
Net gains on investments	20,153	9,078	29,231
Exchange differences	–	100	100
At 30 September 2016	**91,728**	**212,871**	**304,599**

17 Net Asset Value per Ordinary Share

The net asset value per ordinary share of 1,628.1p (2016: 1,432.0p) is based on the net assets attributable to the ordinary shares of £439,896,000 (2016: £386,910,000) and on 27,018,565 (2016: 27,018,565) shares in issue on 30 September 2017.

The movements during the year of the assets attributable to the ordinary shares were as follows:

	2017 £'000	2016 £'000
Total net assets at 1 October	386,910	354,563
Total net return on ordinary activities after taxation	65,684	42,224
Share issue proceeds	–	1,728
Net dividends paid in the year:		
Ordinary shares	(12,698)	(11,605)
Net assets attributable to the ordinary shares at 30 September	**439,896**	**386,910**

18 Capital Commitments and Contingent Liabilities

Capital Commitments

There were no capital commitments as at 30 September 2017 (2016: £nil).

Contingent Liabilities

There were no contingent liabilities in respect of underwriting participations as at 30 September 2017 (2016: £2,500,000).

Notes to the Financial Statements (continued)

19 Transactions with the Manager

Under the terms of an agreement effective from 22 July 2014, the Company has appointed Janus Henderson to provide investment management, accounting, administrative and secretarial services. Janus Henderson has contracted with BNP Paribas Securities Services to provide accounting and administration services.

Details of the fee arrangements for these services are given in the Strategic Report on page 19. The total of the management fees paid or payable to Janus Henderson under this agreement in respect of the year ended 30 September 2017 was £1,920,000 (2016: £1,806,000). The amount outstanding at 30 September 2017 was £498,000 (2016: £458,000) The total of the performance fee paid or payable to Janus Henderson under this agreement in respect of the year ended 30 September 2017 was £416,000 (2016: £nil). The amount outstanding at 30 September 2017 was £416,000 (2016: £nil).

In addition to the above services, Janus Henderson has provided the Company with sales and marketing services. The total fees paid or payable for these services for the year ended 30 September 2017 was £91,000 (2016: £44,000), of which £22,000 was outstanding at 30 September 2017 (2016: £20,000).

Securities Financing Transactions

The fund engages in Securities Financing Transactions (as defined in Article 3 of Regulation (EU) 2015/2365, securities financing transactions include repurchase transactions, securities or commodities lending and securities or commodities borrowing, buy-sell back transactions or sell-buy back transactions and margin lending transactions). In accordance with Article 13 of the Regulation, the Company's involvement in and exposures related to securities lending for the year ended 30 September 2017 are detailed below.

Global Data

The amount of securities on loan as a proportion of total lendable assets and the Company's net assets as at 30 September are disclosed below:

Stock lending 2017			Stock lending 2016		
Market value of securities on loan £'000	% of lendable assets	% of assets under management	Market value of securities on loan £'000	% of lendable assets	% of assets under management
1	0.00	0.00	2,830	0.69	0.73

Concentration Data

The ten largest collateral issuers across all the securities financing transactions as at 30 September are disclosed below:

Issuer	2017 Market value of collateral received £'000	2016 Market value of collateral received £'000
UK Treasury	1	218
Government of France	–	2,636
Standard Chartered	–	13
Sky	–	13
BAE Systems	–	13
Royal Bank of Scotland	–	13
Vodafone	–	13
Centrica	–	13
BP	–	13
Lloyds Banking	–	13
	1	**2,958**

All collateral issuers have been included for 2017.

The top ten counterparties of each type of securities financing transactions as at 30 September are disclosed below:

Counterparty	2017 Market value of securities on loan £'000	2016 Market value of securities on loan £'000
HSBC	1	208
Nomura	–	2,503
ABN Amro	–	119
	1	**2,830**

All counterparties have been included.

Securities Financing Transactions (continued)

Aggregate Transaction Data

The following table discloses a summary of aggregate transaction data related to the collateral received from securities on loan as at 30 September:

Counterparty	Counterparty country of origin	Type	Quality	Collateral currency	Settlement basis	Custodian	Market value of collateral received £'000
Stock lending 2017							
HSBC	Hong Kong	Equity	Main Market Listing	GBP	Bilateral	HSBC	1
							1
Stock lending 2016							
Nomura	Japan	Government Debt	Investment Grade	EUR	Bilateral	HSBC	2,636
HSBC	Hong Kong	Equity	Main Market Listing	GBP	Bilateral	HSBC	218
ABN Amro	Netherlands	Equity	Main Market Listing	GBP	Bilateral	HSBC	125
							2,979

Re-use of Collateral

The Company does not engage in any re-use of collateral.

Return and Cost

The return and cost of engaging in securities lending by the Company and the securities lending agent in absolute terms and as a percentage of overall returns are disclosed below:

Total gross amount of securities lending income	Direct and indirect costs and fees deducted by securities lending agent	% return of the securities lending agent	Net securities lending income received by the Company	% return of the Company
20,000	4,000	20%	16,000	80%

2016: The gross amount of lending income was £55,000 with direct and indirect expenses deducted of £11,000.

General Shareholder Information

AIFMD Disclosures
In accordance with the Alternative Investment Fund managers Directive ('AIFMD'), information in relation to the Company's leverage (leverage is considered in terms of the Company's overall exposure to financial or synthetic gearing and includes any method by which its exposure is increased whether through borrowing of cash or securities, foreign currency holdings, leverage embedded in derivative positions or by any other means) and remuneration of Henderson Investment Funds Limited, as the Company's Alternative Investment Fund Manager ('AIFM') are required to be made available to investors. These disclosures, including those on the AIFM's remuneration policy, are contained in a separate document called 'AIFMD Disclosures' which can be found on the Company's website.

BACS
Dividends can be paid to shareholders by means of BACS (Bankers' Automated Clearing Services); mandate forms for this purpose are available from the Registrar, Computershare Investor Services PLC. Alternatively, shareholders can write to the Registrar (the address is given on page 22) to give their instructions; these must include the bank account number, the bank account title and the sort code of the bank to which payments are to be made.

Common Reporting Standard
With effect from 1 January 2016 new tax legislation under The Organisation for Economic Co-operation and Development Common Reporting Standard for Automatic Exchange of Financial Account Information was introduced. The legislation requires the Company to provide personal information to HMRC on certain investors who purchase shares in investment trusts. This information will have to be provided annually to the local tax authority of the tax residencies of a number of non-UK based certificated shareholders and corporate entities.

Equality Act
Copies of this report and other documents issued by the Company are available from the Company Secretary. If needed, copies can be made available in a variety of formats, including Braille or larger type as appropriate.

You can contact the Registrar, Computershare Investor Services PLC, which has installed textphones to allow speech and hearing impaired people who have their own textphone to contact them directly, without the need for an intermediate operator by dialling 0370 707 0005. Specially trained operators are available during normal business hours to answer queries via this service.

Alternatively, if you prefer to go through a "typetalk" operator (provided by the Royal National Institute for Deaf People) dial 18001 followed by the number you wish to dial.

ISA
The Company intends to continue to manage its affairs in order to qualify as an eligible investment for a stocks and shares ISA.

Key Investor Document
Information in relation to the Company's disclosures in accordance with the Packaged Retail and Insurance-based Investment Products ('PRIIPs') Regulation are contained in a 'Key Investor Document' which can be found on the Company's website.

Non-Mainstream Pooled Investment ('NMPI') Status
The Company currently conducts its affairs so that its ordinary shares of 25p each can be recommended by IFAs to ordinary retail investors in accordance with the FCA Rules in relation to non-mainstream investment products and intends to continue to do so for the foreseeable future. The shares are excluded from the FCA's restrictions which apply to non-mainstream investment products because they are shares in an investment trust.

Performance Details/Share Price Information
Details of the Company's share price and NAV can be found on the website. The address is **www.lowlandinvestment.com**. The Company's NAV is published daily.

Shareholder Details
Shareholders who hold their shares in certificated form can check their shareholding with the Registrar, Computershare Investor Services PLC, via **www.computershare.com**.

Please note that to gain access to your details on the Computershare site you will need the holder reference number shown on your share certificate.

Share Price Listings
The market price of the Company's ordinary shares is published daily in The Financial Times. The Financial Times also shows figures for the estimated NAV and the discount.

The market price of the Company's shares can be found in the London Stock Exchange Daily Official List.

Glossary

Alternative Investment Fund Managers Directive ('AIFMD')

Agreed by the European Parliament and the Council of the European Union and transposed into UK legislation, the AIFMD classifies certain investment vehicles, including investment companies, as Alternative Investment Funds ('AIFs') and requires them to appoint an Alternative Investment Fund Manager ('AIFM') and Depositary to manage and oversee the operations of the investment vehicle. The Board of the Company retains responsibility for strategy, operations and compliance and the Directors retain a fiduciary duty to shareholders.

Association of Investment Companies ('AIC')

The Company is a member of the AIC which is the trade body for investment companies and represents the industry in relation to various matters which impact the regulation of such entities.

Benchmark

An index against which performance is compared. For the Company this is the FTSE All-Share Index Total Return.

Custodian

The Custodian is responsible for ensuring the safe custody of the Company's assets and that all transactions in the underlying holdings are transacted in an accurate and timely manner.

Depositary

With effect from 22 July 2014 all AIFs were required to appoint a Depositary which has responsibility for overseeing the operations of the Company including safekeeping, cash monitoring and verification of ownership and valuation of the underlying holdings. The Depositary is strictly liable for the loss of any investments or other assets in its custody unless it has notified that it has discharged its liability in certain markets. The Depositary has confirmed that it has not discharged liability in relation to any of the Company's assets.

Derivative

A contract between two or more parties in relation to an underlying security. The value of a derivative will fluctuate in accordance with the value of the security and is a form of gearing as the fluctuations in value are usually greater than the fluctuations in the underlying security's value. Examples of derivatives are put and call options, swap contracts, futures and contracts for difference. Foreign exchange, interest rates and commodities may also be traded using derivative contracts. The Company did not use derivatives in the year under review.

Dividend Dates

When declared or recommended, each dividend will have three key dates applied to it. The payment date is the date on which shareholders will receive their dividend, either by BACS transfer or by receipt of a dividend cheque. The record date applied to the dividend is used as a cut-off for the Company's registrars to know which shareholders should be paid a dividend. Only shareholders on the register of members at the close of business on the record date will receive the dividend. The ex-dividend date is the business day before the record date and is the date upon which the Company's net asset value will be disclosed ex-dividend.

Investment Trusts

Investment trusts are public limited companies, listed on the London Stock Exchange, which provide shareholders with a professionally managed portfolio of investments. Investment trusts are exempt from tax on the capital gains arising on their investments subject to meeting certain criteria. Income, net of expenses and tax, is substantially distributed to shareholders. Investment trusts are also known as investment companies, although the tax legislation retains the reference to investment trusts.

Initial Public Offering ('IPO')

The first time that the stock of a private company is offered to the public.

Liquidity

In the context of the liquidity of shares in the stock market, this refers to the availability of buyers in the market for the share in question. Where the market in a particular share is described as liquid, that share will be in demand and holders wishing to sell their shares should find ready buyers. Conversely, where the market in a share is illiquid the difficulty of finding a buyer will tend to depress the price that might be negotiated for a sale.

Market Capitalisation ('Market Cap')

The market value of a company, calculated by multiplying the mid-market price per share by the number of shares in issue.

Retail Price Index

An inflationary indicator that measures the change in the cost of a fixed basket of retail goods.

Alternative Performance Measures

Dividend Yield
The annual dividend expressed as a percentage of the share price.

Gearing
Gearing means borrowing money to buy assets with the expectation that the return on investments bought will exceed the interest cost of the borrowings. The gearing percentage reflects the amount of borrowings (e.g. bank loans or overdrafts) the Company has used to invest in the market and is calculated by taking the difference between total investments (see note 11) and equity shareholders' funds (see Statement of Financial Position), dividing this by equity shareholders' funds and multiplying by 100.

Net Asset Value ('NAV') per Ordinary Share
The value of the Company's assets (e.g. investments (see note 11) and cash held (see Statement of Financial Position)) less any liabilities (e.g. bank borrowings and debt securities (see note 13)) for which the Company is responsible, divided by the number of shares in issue (see note 15). The aggregate NAV is also referred to as shareholders' funds on the Statement of Financial Position. The NAV per ordinary share is published daily.

Ongoing Charge
The ongoing charge reflects those expenses of a type which are likely to recur in the foreseeable future, whether charged to capital or revenue, and which relate to the operation of the Company as a collective fund, excluding the costs of acquisition or disposal of investments, finance costs and gains or losses arising on investments. The ongoing charge is based on actual costs incurred in the year (see notes 5 and 6) as being the best estimate of future costs, excluding and including any performance fees, in accordance with methodology prescribed by the AIC and is the annualised ongoing charge divided by the average net asset value in the period.

Premium/Discount
The amount by which the market price per share (see page 3) of an investment company is either higher (premium) or lower (discount) than the NAV per share, expressed as a percentage of the NAV per share.

Revenue Return per Ordinary Share
The revenue return per share is the revenue return profit for the year (see the Income Statement) divided by the weighted average number or ordinary shares in issue during the year.

Total Return Performance
This is the return on the share price (see page 3) or NAV (see 'NAV per Ordinary Share') taking into account both the rise and fall of share prices and the dividends and interest paid to shareholders. Any dividends received by a shareholder are assumed to have been reinvested in either additional shares (for share price total return) or the Company's assets (for NAV total return).

See page 24 for details of the Company's key performance indicators and how the Directors assess some of these Alternative Performance Measures.

Warning to Shareholders
Many companies are aware that their shareholders have received unsolicited phone calls or correspondence concerning investment matters. These are typically from overseas based 'brokers' who target UK shareholders offering to sell them what often turn out to be worthless or high risk shares in US or UK investments. They can be very persistent and extremely persuasive. Shareholders are therefore advised to be very wary of any unsolicited advice, offers to buy shares at a discount or offers of free company reports.

Please note that it is very unlikely that either the Company or the Company's Registrar, Computershare Investor Services PLC, would make unsolicited telephone calls to shareholders and that any such calls would relate only to official documentation already circulated to shareholders and never in respect of investment 'advice'.

If you are in any doubt about the veracity of an unsolicited phone call, please call the Company Secretary at the number provided on page 22.

Lowland Investment Company plc
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MANAGED BY
Janus Henderson
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